



Changing lives
across the years...



The Housing Bank...

HDFC Bank of Sri Lanka
Annual Report 2011

Story of the First Integrated Annual Report

Objective

This is our first attempt of publishing an integrated annual report, that showcases a holistic view of HDFC Bank's commitment on economic, environmental and social aspects of its operation. HDFC depends on our valued shareholders who have vested interest in us ensuring that we deliver not only positive financial returns, but also positive social, environmental and broader economic returns in the long run. We believe that our business can achieve real result and set our self apart from the competitors with embedded sustainability within our organisation. Being efficient and focused on meeting all stakeholders' long-term interest allows us to grow in a way that's aligned with our vision and mission.

On these grounds we integrated our historical annual report which focused on our historical financial performance with social accountability, which focused on our economic, environmental and social performance. This Annual Report, allows us to tell the story of HDFC's performance in a holistic way and allows stakeholders to see for them selves how we are performing on all fronts. The report also enables us to critically look at ourselves, analyze the gaps and attempt to bridge them for a more holistic approach to a sustainable business.

Reporting Period

This Annual Report attempts to offer an integrated view of the bank's operation for the period 1st January 2011 to 31st December 2011. The most recent report was published in May 2011, covering the performance of financial year 2010.

Reporting Framework and Guideline

Other than the financial statements prepared on the basis of the generally accepted accounting principles, the report has been reinforced on the guidelines of the **Global Reporting Initiative (GRI) G 3** framework and indicator protocols for economic, environmental, human rights, labour, product responsibility and societal performance. The report is also equipped with mandatory requirements of the Central Bank of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka

Stakeholder Feedback

Investor/ stakeholder Feedback form which is attached to this Report is considered as a Feedback Mechanism in addition to the continuous stakeholder engagement process conducted by the Bank.

Editorial Information

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Changing lives across the years...

From our early years, a concept of a house and home is ingrained in our mind as a place to live, play and indulge in family. Here at HDFC we nurture these ideas, building homes and in turn building dreams, lives and smiles. Since the inception, we have created not only houses but homes in which families have lived and grown; a legacy that is still carried out today. With our personalized service and eye for quality, we have rapidly become a name that is trusted and sought after for all housing related financial needs. And as we develop a nation, we are fostering another generation that trusts in what we do; a foundation upon which they have built their aspirations and we will continue to do so; to grow and change lives across years and generations.



The Housing Bank...

Annual Report 2011

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Report Parameters

Materiality

In preparation of this report all material information are analysed and disclosed. Materiality is defined in relation to the financial performance, balance sheet values and level of impact on the stakeholders' interest. Thus the report outlines economic, environmental and social performance that would substantially influence the assessment and decisions of our stakeholders.

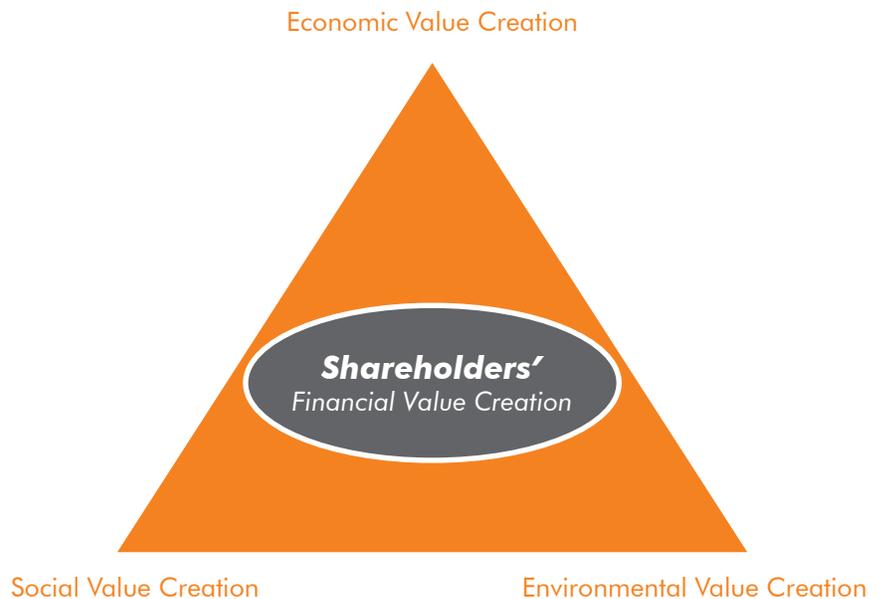
Stakeholder Inclusiveness

The Bank recognises that it is compelled to define strategic and key stakeholder groups to ensure materiality in engagement and reporting. Therefore, the shareholders, government, customers, suppliers, employees, environment and community which are recognised as key stakeholders in 2010 continued to be engaged with.

Sustainability Content

The report attempts to offer an integrated view of the company's performance from financial, economic, social and environmental facets, where stakeholders from employees to community, customers to valued business partners, shareholders to the nation at large become a part of the HDFC journey. Our primary business platform is housing and housing related finance, and we strive to drive our core business to contribute in our capacity, towards the United Nations Millennium Development Goals. The report attempts to present an integrated analysis of both positive and negative performances of the Bank in a manner, our shareholders and other important stakeholders are able to gain a comprehensive view of our policies, interactions and processes.

Our Triple Bottom Line Approach



Specific Limitation

HDFC is a service providing organisation; hence some of GRI indicators are not applicable.

Data Measurement and Standard Disclosure.

Financial information pertaining to economic, social and environmental performance has been extracted from the audited financial statements while other internal information has been obtained from the subsidiary records of the Bank.

Audit and Assurance

Financial Statements have been audited by the Auditor Generals Department. Further the Bank has obtained an independent assurance on the sustainability contents from M/S BDO Partners, Chartered Accountants, Charter House, Colombo-02 as appointed by the Board of Directors, whose assurance report is enclosed in Page 234 to 235 of this annual report.

Our Vision

To be a premier financial service institution for the purpose of enhancement of lifestyle of Sri Lankans.

Our Mission

To be a dominant player in the financial service sector by delivering innovative solutions to meet the needs of housing and construction sector with best-in-industry service excellence creating superior long-term shareholder value and contributing to economic development in Sri Lanka through an inspired team.

Our Objectives

- Customer:** to provide a caring customer service anticipating solutions required by our customers and innovatively satisfying them beyond expectations.
- Shareholders:** to optimise return on shareholders' fund.
- Organization:** to commit ourselves to the highest standards in corporate and business ethics whilst maintaining financial stability and growth.
- Employees:** to motivate, develop, recognise and reward our employees.
- Community:** to be strongly committed to contribute to the national goal of providing shelter for all.
- Industry:** setting industry benchmarks of international standards in delivering customer value throughout comprehensive product range, customer service and in all our activities.
- Ethics:** maintaining the highest ethical standards worth of a leading corporate citizen.

Values

The foundation of the success story

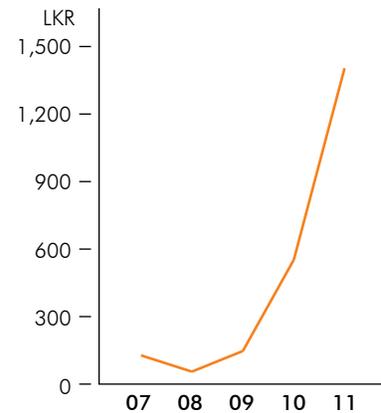
- Transparency:** being honestly and candidly accountable.
- Fairness:** stakeholders viewing as winners.
- Openness:** respecting each other and showing genuine interest.

Highlights

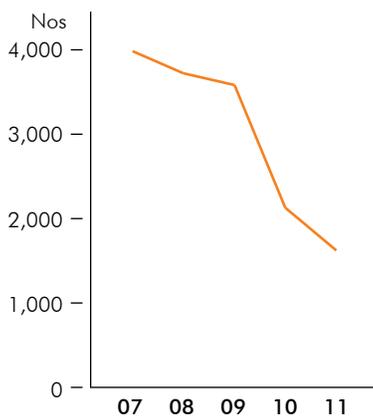
HDFC Share

	2011	2010	Change
No Shares Issued	6,471,052	6,471,052	0%
Stated Capital LKR-million	962	962	0%
No of Shareholders	1615	2118	-24%
No of Public shareholding	1,366,000	1,489,000	-8%
Percentage of public shareholding %	21.22	23.01	-8%
Market Capitalization -Year end LKR million	9,059	3,559	155%
Traded Share Volume	1,192,100	6,623,900	-82%
Average Monthly Traded Share Volume	99,342	551,992	-82%
Share Market Turnover - LKR million	1,444	1,939	-26%
Share Price high LKR	1,900	600	217%
Share Price low LKR	546	135	304%
Share Price closing LKR	1,400	550	155%
Net Assets Value per share LKR	328	286	15%
Ratio			
Earning per share (EPS)	47.85	20.91	129%
Price Earning -time	29.26	26.30	11%
Dividend Yield (%)	-	0.91	
Dividend Cover -Time	-	4.18	
Earning yield ratio	3.42	3.80	-10%

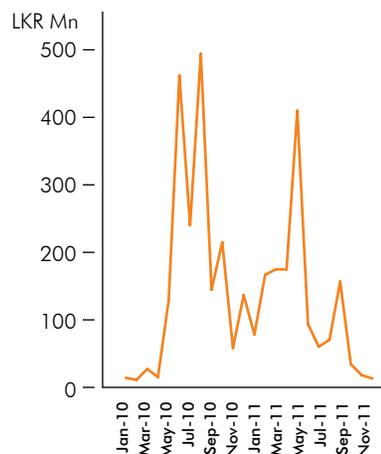
Share Price 2007 - 2011



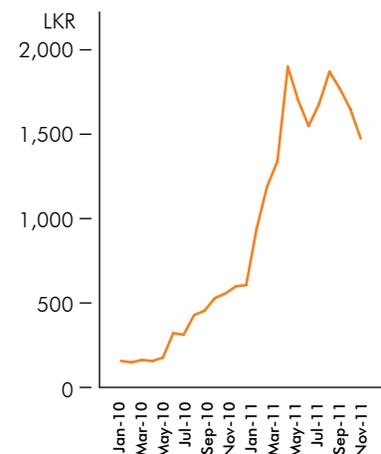
No of Shareholders



HDFC Market Turnover



HDFC Share Price



Highlights

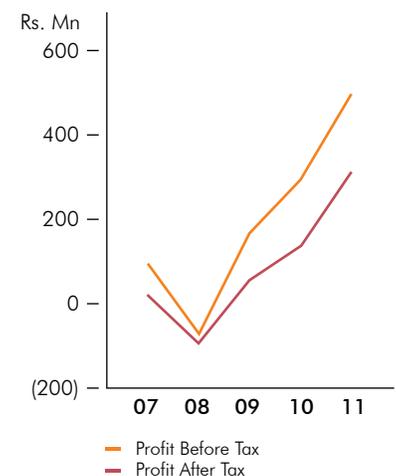
Financial

	2011 LKR.Mn	2010 LKR.Mn	Change %
Results for the year			
Income	2,374	2,250	6
Profit Before Taxation	495	291	70
Provision For Taxation	186	156	19
Profit After Taxation	310	135	130
Revenue to the Governments	189	158	19
Gross Dividends	-	32	
At the year end			
Shareholders, Fund	2,125	1,849	15
Deposits From Customers	12,336	8,526	45
Gross Loans & Advance to Customers	14,715	12,824	15
Total Assets	19,698	15,387	28
Information per Ordinary share			
Earnings (Basic) (Rs.)	47.85	20.91	129
Dividends (Rs.)	-	5.00	
Financial Ratios			
Return on Average shareholders' Fund (%)	15.58	7.58	106
Return on Average Assets (%)	1.77	0.91	94
Share Holders Equity to Total Assets (%)	10.79	12.01	(10)
Statutory Ratios			
Liquid Assets (%)	21.15	20.92	1
Capital Adequacy -			
Tier I (%) - Minimum Required 5 %	21.34%	21.09%	1
Tier II (%) - Minimum Required 10 %	21.95%	22.18%	(1)
Other Information			
Branchers	31	28	11
Employees (No Of Staff)	505	425	19
Credit Rating - Fitch Rating	BBB + Stable	BBB + Stable	0

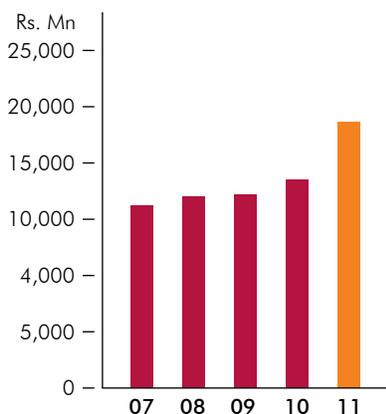
BBB + Stable

Credit Rating - Fitch Rating Lanka

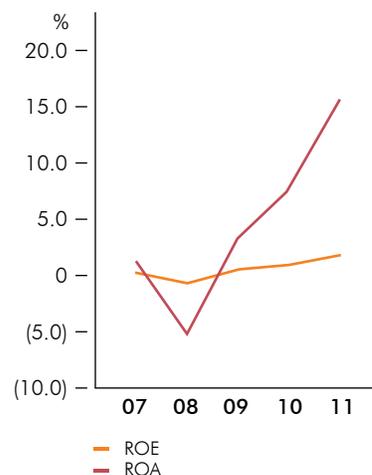
Profit Growth



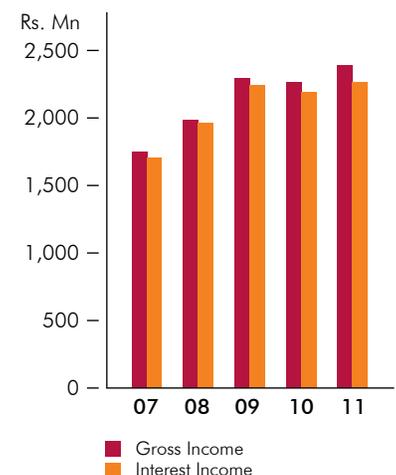
Total Assets



ROA & ROE



Income



Highlights

Operational

We granted 14,224 housing loans valued LKR 4,762 Mn compared to 10,739 facilities in 2010 worth LKR 3,069 Mn.

Our savings customer base improved from 210,000 to 261,000 giving a deposit improvement of 48%.

We enhanced customer access points from 28 branches to 31 branches, 225 ATMs to 310 ATMs and 81 mobile bankers to 100 mobile bankers, island wide.

We gave direct employment opportunities to 80 young men and women at our team increasing the total staff to 505.

We achieved 6% decline in cost per employee while reducing staff turnover by 21%

Over 20,000 peoples were financially included through mobile banking.

Achieved yearly targets of becoming a carbon neutral origination.

We invested over LKR 4.4 Mn for community sustaining compared to LKR 4.5 Mn in the last year.

Goals ahead - Medium Term

	2010-Actual	2011-Actual	2012 Budget	2013-Goal
Return on equity (%)	6.9%	15.58%	15.84%	18.5%
Return on assets	81%	1.77%	1.55%	2%
Profit After Tax (Rs Mn)	123	310	358	500
Cost to income ratio (%)	81%	81.73%	82.74%	43%
Customer deposits	7,975	12,336	16,208	17,500
Total Assets (Rs Mn)	15,927	19,698	26,426	30,000
Shareholder funds (Rs Mn)	1,809	2,125	2,412	2,700
No of branches	28	31	41	50
Staff Strength	425	505	-	500
ATM access	225	310	340	500

LKR 4,762 Mn for housing loans

LKR 4.4 Mn for community sustaining

Highlights

Our Carbon Footprint

We consumed 22% less electricity in our operations, than in 2010

656,231 Kwh

Electricity Consumption

HDFC consumed 11% less fuel in business operations compared to 2010

23,051 Ltr

Petrol & Diesel Consumption

HDFC consumed 8% higher Kgs of photocopy papers in 2011 due to increased volume of lending

2,558 Kg

Photocopying Paper Consumption

We consumed 16% higher volume of water than in 2010 due to increased no of staff

7,340 Ltr

Water Consumption

HDFC manage business travels 24% efficiently compared to 2010

207,738 Km

Own vehicle mileage

We encouraged our staff to utilise public transport more effectively to reduce emission

7.3 Mn Km

Public Transport by our staff

2011 at a glance



24th February 2011
Winner of ACCA Sustainability Awards Ceremony in Small Scale category



February 2011
Opening of Computer Training Centre in Dematagoda, Colombo



02nd March 2011
Sports Club school material donation to Buttala Sri Subodha Vidyalaya



04th April 2011
Relocation of Gampaha branch



15th May 2011
Wesak Dansala organized by HDFC Sports Club



30th May 2011
Relocation of Homagama Branch



22nd July 2011
Opening of Peliyagoda branch



17th September 2011
Island-wide Street promotion to aware the public on HDFC Products



04th October 2011
Walk by HDFC Bank staff commemoration of World Habitat Day



22nd November 2011
Launching Ceremony of HDFC Bank innovative product "HDFC Housing Fund"



7th December 2011
An event to promote financial literacy in Gunasinghepura



9th December 2011
Winning Certificate of Recognition at Annual Report Awards of ICASL



12th March 2011
HDFC Bank Annual Awards Ceremony



26th March 2011
Opening of Sri Subodha Vidyalaya, Buttala after construction of new buildings donated by HDFC



31st March 2011
Relocation of Kurunegala branch



20th June 2011
Poson Dansala organized by HDFC Ampara



June 2011
Nationalized Services Cricket Tournament – HDFC Bank Cricket team



20th July 2011
Out-bound training for Promotion Assistants, Kandalama Heritage



November 2011
Event for children organized by Mathale branch



November 2011
HDFC Bank wins NCCSL Awards for 5th time.



18th November 2011
Relocation of Mathale branch



14th December 2011
Opening ceremony of Gampola branch



26th December 2011
Running Events of the HDFC staff organized by HDFC Sports Club



30th December 2011
Opening of Kuliypitiya branch

Chairman's Statement

LKR 4.8b

To address the housing finance need of the rapidly urbanizing population and the growing middle income sector, was the priority in our strategies in 2011



It is with great pleasure that I present to you the first Integrated Annual Report of HDFC Bank for the financial year 2011, which gives you a holistic view of our performance in all financial, environmental and social footprints. I take this opportunity to thank the Board of Directors for their positive contribution in steering the Bank towards achieving its goals in 2011, on a sustainable basis.

Equitable Development

Since 2010, we have been successful in re-focusing the Bank to deliver an accelerated economic contribution inline with the Government's goal in achieving an accelerated growth, with particular emphasis on realizing an equitable development. We harnessed housing finance services, both among the sectors and geographic regions. It was also emphasized on the need to balance the activities within the principles of economic, environmental and social sustainability, the greatest challenge being faced by the developing world today. During this period we have also been successful in balancing stability and soundness of the Bank.

As a principal constituent in the housing finance industry HDFC strategically focuses on maintaining congruence between the growth of the housing industry and the demographic transition.

In accordance with my vision, Housing Finance industry is to be strategized in the directions of improving accessibility, affordability, expanding housing market, and managing the challenge of urban sheltering and poverty while underpinning broadly to the growth target of the economy

Let's Create Sustainable Values

Addressing the housing finance need of the rapidly urbanizing population and the growing middle income sector were the priorities in our strategies in 2011.

Challenges of Urbanization

Sri Lanka as a counterpart in South Asia faces the common challenges which are encountered by the constituency as the second fastest growing region in the world. As per the World Bank's recent assessment, the region's large and growing population is spurring governments to rethink their strategies on housing related activities. UN – HABITAT estimates that by 2015, an estimated 48% of the region's population, or 1.9 billion people, will live in urban centers. This development has benefited the countries from economic opportunities that the cities offered. But the wealth production of cities has not necessarily contributed to improved living conditions for the vast majority of Asia's urban. This trend will result in even more population congestion, poverty, slums which may poorly equip to meet the increasing service demands. Earning and saving capacities are not improving adequately to meet the basic needs mainly housing. It is our experience that poor environment of cities have not necessarily contributed to improve living conditions of the vast majority of urban population.

Growing urbanization is also a key contributor to climate change, as urban activities are the main source for carbon dioxide emissions. Adaptation to climate change is an essential part of the emerging strategy required to cope with and manage this global challenge.

Sri Lanka being one of the fastest growing economies in the region faces this challenge widely. Our population that estimated as 20.6 Million in 2010 is with the lowest population growth rate in the developing world. The urban sector that accounts 21.5% of the population is expected to grow upto 50% in 2020 resulting sever socioeconomic challenges. There are mounting evidence of risk posed by climate change for urban areas and the challenge of social infrastructure such as water supply, roads, transport of goods and services, ecosystem, energy provision and waste management. High-level of urbanization also induces Sri Lanka to become a country with a faster aging population in South Asia underpinning for several other social challenges.

Chairman's Statement contd.

Within this background 'urban agenda' is increasingly becoming a priority for the government, local authorities and other stakeholders. The government has taken several initiatives by investing largely in urban road network and wetland development, water supply, waste water management and clearance of underutilized lands for sustainable urban settlements.

Housing Finance as a key economic and social stabilizer

I believe that formal housing finance can play a critical role in the government effort of managing sustainability of urban expansion, income distribution and empowerment. At the macro level, housing finance generates economic growth via job creation, entrepreneurship, and economic linkages. At the individual level, it makes possible both for people to have shelter and a real asset, which might be the largest investment a family makes in a lifetime. In addition, housing finance spur expansion in financial and capital markets.

As per the World Bank, personal residences account for 75–90 percent of household wealth in emerging economies, which amounts to three to six times of their annual income. In the urban sector this is further crucial because of high cost of land and construction. In the urban sector mortgage penetration is low among the lower income groups.

Strategic Focus and Challenges

In accordance with my vision therefore, Housing Finance industry is to be strategized in the directions of improving accessibility, affordability, expanding housing market, and managing the challenge of urban sheltering and poverty while underpinning broadly to the growth target of the economy.

Sustainability

I believe that challenges of growing urbanization can be managed by promoting sustainable human settlement- better land use, building and infrastructure planning, approval and meaningful mobilization of resources. Therefore our strategies in 2011 were focused to make a positive contribution to sustainable urban expansion while improving accessibility and affordability of housing finance. Substantial improvement of access to finance is important to meet the national growth targets. In this direction HDFC strategizes generously servicing the growing less privileged urban population, to whom formal mortgage facilities are notably less accessible.

Other than in the core business, I firmly believe that in the next decade, successful business will be those that integrate sustainability into all elements of their business. Not only are we doing it at HDFC, but we are educating our customers and the communities do the same.

In this direction our integrated vision of sustainability is to be a bank with a solid financial foundation, having respect for the environment, keeping community investment at a high level and attaching importance to stakeholder relations and transparency. HDFC is committed to achieving the country's Millennium Development Goals (MDG) which can be greatly supported by our core business.

Challenges

We experience that majority of low income earning urban sector precludes from formal housing finance not merely because of less affordability for low income housing, but mainly because of less accessibility. In many instances their average daily income is better or similar to on average salary earner, but lack of income proof documents and adequate collaterals precludes them from formal housing finance.

Lack of low cost and long term matching funds is the other challenge in maintaining affordability of housing finance to this sector. As per our studies inculcation of banking and saving habits among them could contribute greatly for the prosperity of their lives through housing. During the year we aggressively expanded our mobile banking operation with primary objectives of mobilizing savings. HDFC also launched an innovative financial instrument with objectives of raising long term savings which faster catalyzes wealth for the needs of an aging population.

Our Contribution to the National Economy

Our strategies and initiatives have underpinned substantially for the growth of urban low income housing sector. In 2011, we were able to empower over 14,224 families with permanent and supportive housing finance solutions by granting the highest number of, loans and loan value. These facilities financed 12,142 new housing units and assisted 14,224 families to become home owners and over 600,000 people who have a pressing need of decent housing. Further, we assisted 428 families to uplift existing houses and finance utility facilities, house hold equipments, furniture and other lifestyle related expenses.

The highest number of loans were granted in Colombo, Gampaha, Kalutara, and Kandy districts which recorded a high rates of population density and urbanization. HDFC financed to construct 12,142 new housing units with total construction value of approximately LKR 12 Billions, in these districts. Majority of these customers are migrants from other areas of the country that are searching for affordable finance within their salaried income.

Mortgage facilities were strategically distributed among the wider and low & middle income groups in consideration of their proportionate representation in the population while paying a great effort in balancing regional and economic sector wise distribution. In

2011, HDFC granted 64% of loan facilities to low and middle income group who hardly have access to formal housing finance. Around 14% facilities were extended in the districts of Nuwara-Eliya, Matale and Badulla where the majority of the customers are from estates. HDFC Bank captured over 20,000 people in the urban sector to formal banking system through our mobile banking service. We are committed to empowering them through savings as prospective home loan customers.

Triple Bottom Lines' Performance and Stakeholder Communication

Our shareholders can take pride that HDFC recorded the highest market capitalization in 2011 since listing at the CSE. During the period under review, HDFC recorded a 130% increase in profit after tax and 28% growth in total assets. The Bank was able to reach the LKR 2000 Million core capital requirement on the deadline imposed by the Central Bank bringing more soundness to the Balance Sheet.

The number of housing loans granted rose to 14,224 compared to 10,739 in 2010. Savings fund, which was a strategic priority in 2011, achieved a remarkable growth of 48% YoY to reach the LKR 1.5 billion benchmark. Much of this growth is due to significant improvement in internal efficiencies, capacity building, stringent cost controls and efficient engagements with important stakeholders.

We continued to remain committed to expanding our geographical presence by opening three customer service centers in Peliyagoda, Gampola and Kuliyaipitiya thus increasing our branch network to 32. HDFC also maintained affordability and accessibility of our services to the masses throughout the year with great challenges.

Development of human capital was continued with new recruitments and more local and international training. We recruited 80 young men and women during the year to the permanent work force. We strategically maintained a high level of transparency, gender equality and multiethnic participation in the recruitment process. Best performers were appraised and honored at a colorful event organized for the first time in the Bank.

We continued to educate the managing of a low carbon footprint of our operation and to harness sustainability practices among the customers and the communities. The school development project which was initiated in November 2011 was completed investing LKR 1.2 Million additional funding showcasing our commitment to environmental and social accountability.

HDFC made a generous effort to inculcate sustainable practices in the core business as well as internal operation balancing economic, environmental and social interests of our important stake holders.

Chairman's Statement contd.

Our Annual Report is considered an important tool of communicating the triple bottom line performance of the Bank. We endeavor to improve reporting standards with the internationally accepted guidelines of the Global Reporting Initiatives (GRI). This year we have taken a challenge to publish an integrated Annual Report which provides a holistic view of HDFC Bank's performance to all stakeholders.

Rewards and social recognitions

These initiatives rewarded the Bank with national level recognition by the CCA Sustainability Reporting Award competition in 2010 and 2011 continuously. The Bank also achieved two awards during the year bringing together our performance and Annual Reporting.

Macroeconomic environment

All economic fundamentals have improved more positively. Despite global uncertainties, our economy has been able to sustain an 8% growth momentum gathered in 2010. Inflation has been moderate at 6% underscoring the success of rural centric development initiatives. Market interest rate registered a two year lowest and exchange rate has been maintained moderately. Above all, it is encouraging to note that the income avenues of low income segment have improved with unemployment being reduced from 8% to 5% and poverty from 15.6% to 8.9%

As per the budget 2012, the Government plans to fulfill nearly 63% of the deficit through domestic financing with non-bank borrowings. Local bank borrowings have been budgeted to reduce substantially with a view of reducing pressure prevailing on the banking system currently with the heavy growth in credit demand. With these strategies it is likely that the economy would be able to maintain moderate interest rates, which is inevitable to achieve the set growth targets.

With the 2012 budget, government has further encouraged the financial industry to gear SME sector by advising to setup dedicated branches. This will encourage the banking system to improve their commitment towards the country's SME sector which has been a key driving force in the economy.

With the positive outlook of the economy, the Government expects a healthy inflow of capital in terms of Foreign Direct Investments (FDIs).

Supported by these developments, Sri Lanka is geared to achieve a stable growth forecast in 2012 and , thus creating a promising future for the housing market in Sri Lanka in the medium term.

Gazing into the future

Our main focus for 2012 will be of sourcing low cost matching funds in terms of savings and investments. We

plan penetrating into wider rural base in order to grow both savings and lending portfolio. Our future strategy therefore will be to strengthen long term funding through savings and investment which are mainly focused for housing finance and retirements of wider base of the population. We will be maintaining our commitment to capture the non-inclusive financial sector and empowering them through innovative investment products and by improving accessibility to formal housing finance.

HDFC plans to widen the short term loan portfolio as a strategic approach of managing maturity risk. In this scenario we will be focusing more into lifestyle development loans and goal collateralized loans which have increasing potential among the growing middle income families.

At the same time we will focus to penetrate into new markets by opening Islamic Housing Finance windows which has increasing market potential in the Eastern Province. HDFC shall strengthen the branch network, adding new customer centers and improving ATM accessibility throughout the island lucratively.

Acknowledgement

I would like to extend my sincere appreciation to His Excellency the President and Minister of Finance Mahinda Rajapakse for his support and vision which has taken Sri Lanka to

new heights, Secretary to the Treasury, Dr. P. B. Jayasundare, the Governor of the Central Bank of Sri Lanka, Mr. Ajith Nivard Cabraal and their able staff and other regulators for their guidance and assistance extended to us through this financial year.

I also wish to express my sincere appreciation to my fellow Directors for their continuous and consistent support, encouragements, inputs and guidance.

I also take this opportunity to thank, the Acting General Manager/CEO, Corporate and Executive Management and all other members of the staff for their dedicated service.

Finally I wish to extend my deep appreciation to our valued shareholders, customers and business partners for the confidence and trust placed in us.



Mrs. Siromi. Wickramasinghe
Chairman,
HDFC Bank of Sri Lanka.

CEO/General Manager's Review

LKR 310m

This remarkable performance was achieved in the milieu of a favorable economic environment which prevailed in the country in 2011.



In our journey of 26 years, HDFC Bank has played a pivotal role in the growth of the housing finance market in Sri Lanka. We have provided shelter to the homeless, enhanced the lifestyle of Sri Lankans and made a significant contribution to the development process of our nation.

In our quest for continuous improvement we embarked on newer strategies to cater to the vast needs of the people in our rapidly growing country. These initiatives enabled us to achieve outstanding results in the recently concluded financial year. I wish to share with you a synopsis of our performance for the year 2011.

Commendable Performance

The bank recorded an outstanding increase of 70 percent in net profit before tax which amounted to Rs 495 million and a post tax profit of Rs 310 million as against Rs 135 million the previous year, an increase of 130 percent. The consequent Return on Assets (ROA) which measures how profitable a company's assets are in generating revenue, increase from 0.91 percent to 1.8 percent in 2011 while Return on Equity (ROE) which measures the amount of net income returned as a percentage of shareholders equity rose from 7.58 percent to 15.88 percent in the year under review. Maintaining this momentum the deposit base grew by a staggering 45 per cent to Rs 12 billion

“In our quest for continuous improvement we embarked on newer strategies to cater to the vast needs of the people in our rapidly growing country.”

while shareholders funds swelled by 15 percent year on year. The asset base grew by 28 percent to Rs.20 billion, with the loan portfolio increasing by 15 per cent to Rs 15 billion.

This remarkable performance was achieved in the milieu of a favorable economic environment which prevailed in the country in 2011.

Economic Overview

Bucking a global turndown, Sri Lanka achieved a GDP growth rate of 8.4 per cent in the third quarter of 2011 and emerged fourth best in the world. Having recorded a GDP growth rate of over 8.0 per cent for two consecutive years, Sri Lanka has become one of the fastest growing nations in the globe. Demonstrating the resilience and strength in an environment of globally heightened risk, this remarkable performance was supported by the continued development efforts aimed at improving economic and social infrastructure of the nation.

All sectors of the economy contributed towards the growth momentum with the industry sector in the lead followed by the services sector. Several key development projects got off the ground including the building of three highways; the Southern Expressway Project, the Colombo - Katunayake Expressway and the Colombo Outer Circular Road Project. Inflation steadied at mid-single digit level with annual average rate of inflation recording 6.7 per cent. In contrast to most economies in the region which tightened their monetary policy stance, the local policy rates changed little during the year with repurchase rate recording 7 percent and the reverse repurchase rate as 8.50 percent end December 2011.

External trade remained strong with both exports and imports expanding recording, 51.6 percent of GDP, up from 44 percent in 2010. .

Our Contribution to the Nation

The mortgage lending market of our country also swelled by leaps and bounds in the past three years, at rates hovering around 30 percent. However the housing needs remain significantly larger than effective demand, because of poor access to housing finance for middle-income groups as well as high housing costs for lower-middle-income groups. In this backdrop, delivering immeasurable benefits to a growing number of families we disbursed over Rs.5 billion worth of housing loans mainly to the low and middle income segment of our county to set up over 15,000 houses during the year. I am delighted to mention that 858 families in the East and 177 families in the North were granted housing loans to the tune of Rs.232 million and Rs.38 million respectively.

HDFC Team

The overall success of HDFC, largely would not have been possible without the contributions of its employees, robust processes and a culture of discipline for excellence. Our team of employees who continue to serve our customers with passion and commitment are our greatest asset. During the year we recruited 80 men and women to our carder from all provinces of the country. In order to maintain, improve and expand their professional skills whilst staying ahead of competition many training opportunities were made available throughout the year. The staff loan facility was also doubled in the year under review, to reward and motivate our employees further.

CEO/General Manager's Review contd.

Deposits and Savings

A well planned cluster of fixed deposit schemes are made available to our customers to enjoy equitable returns with a high degree of safety. As mentioned earlier our deposit base recorded an year on year increase of 45 percent, consequent to the excess funds in the market which were channeled to the bank, stability in the interest rate and the numerous deposit mobilization campaigns carried out by us with the voluntary participation of our employees during the year.

Additionally, we continued to play an imperative role in educating and encouraging people about the importance of saving and integrating the self employed to the formal banking sector. People who have never saved were given the opportunity to experience the earnings potential of their monies. In this context our Palm Top banking technology continued to facilitate the delivery of an effective door-to-door solution, bringing us closer to our customers.

Cutting Edge Information Technology

With the aim of enhancing accessibility and providing greater convenience to the customers, we introduced the internet banking service during the year. Customers are now able to check their balances and transaction details, transfer money, inquire rates and statements etc. from the comfort of their offices or homes without having to visit a brick and mortar branch. It also provides customers access to banking 24 hours a day, 7 days a week anywhere in the world, at any time from the convenience of a secured web based portal.

In order to facilitate easy transfer of funds we implemented the 'SLIPS' system (Sri Lanka Interbank Payment System) which is an online interbank electronic fund transfer system. This facility enables our customers to transfer funds between customer accounts and also effect loan repayments with speed and convenience.

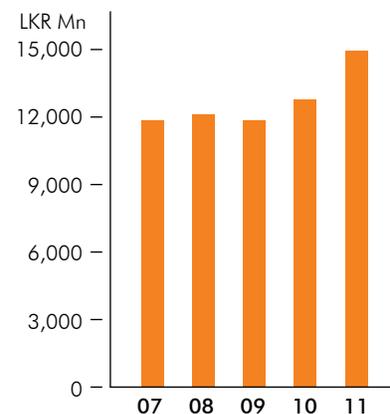
In January 2012 we have made plans to implement 'iSwitch' - an ATM Switch and Monitoring System by Interblocks. The new applications enable us to be at the forefront in overall banking operations with quick and innovative products and maintain a healthy customer service relationship. We are able to offer our customers a wide array of new services, through the ATM network island wide. We intend to avail our facilities to customers from almost any ATM through the linkage of Sampath Bank network has with other banks in the future.

New Products

During the year we launched a 'Group Housing Fund in November 2011 enabling depositors to earn a higher rate of return. This fund which also acts as a retirement fund is long term in nature permitting the depositor to withdraw funds only after reaching the age of 55 years. The minimum initial investment can begin with Rs. 500 and the subsequent investments can be any amount and made at any time. The interest rate offered is equal to 75 per cent of the lowest lending rate of our housing loans, thus ensuring the highest return above the average market rate to the depositors. Another novel feature of this financial product is that it enables customers to form their own

group funds. The prime focus of the fund is to provide a favorable service to low and middle income segments that constitutes approximately 70 percent of the population, who frequently face difficulties in obtaining loans and other financial services. Further, members of this fund will be given access to housing finance without any collaterals and credit documents.

Growth of Loan Portfolio



Mismatch

HDFC being a long term lender is exposed to the interest rate risk when the long term advances are met with short term funds. Most of our lendings are long term, while borrowings are short term. During the year we implemented further measures to address this inherent risk by amending the HDFC Act in November 2011 enabling us to diversify the loan portfolio with short tenure housing loans. As a result we introduced The 'Group Housing Fund' which was also launched as a deposit scheme with longer tenure.

In recognition of our ability to contain interest rate risk by re-pricing its existing loans, despite a sizeable interest-rate mismatch between its assets and liabilities, Fitch Ratings affirmed the National Long Term rating at 'BBB+(lka)' in 2011.

Expanding the Business Channels

We amplified our branch network by opening up three branches and customer service centers in Gampola, paliyagoda and Kuliypitiya increasing the total to 31 during 2011. We also engaged in image building and refurbishing our branch network to create a customer friendly ambiance and improve the customer service offered by us. In this regard some of our branches which were not in customer convenient locations were relocated during the year.

Development of Sustainability Practices

Today the whole world is fighting against the negative consequences of unsustainable development such as climate change, increasing prevalence of natural disasters, scarcity of resources and loss of biodiversity. As a responsible corporate citizen, HDFC strongly believes that current pricing should take adequate consideration of these externalities, without transferring them to future generations and do our utmost to achieve an equitable development in our country through housing finance.

Sustainability to HDFC means promoting housing development finance in an equitable and sustainable milieu, where the interests of our stakeholders are fulfilled both in a

social and an environmental context. At HDFC, we believe, the pursuit of sustainability poses both a challenge and an opportunity for the Bank. To take advantage of this opportunity, we must craft new business strategies, processes, products and practices that integrate our heightened awareness of environment concerns and social well being. We emphasize that sustainable construction, built on strong principles and best practices must be inculcated into construction of housing, while ensuring equality and affordability remains as core objectives.

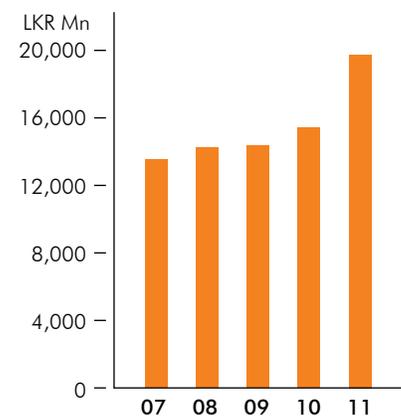
We emphasis to manage our carbon footprint also encourage our staff and customers to follow sustainable housing and living practices.

HDFC Accolades

We continue to improve our annual reporting frame work in line with internationally recognized gridline of Global Reporting Initiative (GRI) displaying holistic picture of our economic , environmental and social performance. This year we have taken the challenge of publishing an integrated annual report. HDFC Bank won the prestigious award for sustainability reporting, second consecutive year in 2011 as the winner of small scale category. With this accolade, HDFC joins the ranks of companies around the globe who all work on a common mission of increasing accountability of responsiveness to stakeholders which is a great leap forward by a government institution dedicated to empower citizens towards socio-economic development of Sri Lanka. Further, HDFC was also presented a

merit award at the National Business Excellence Award by NCCSL and the certificate of compliance at the Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka.

Growth of Total Assets



Outlook

In the year ahead we intend to disburse Rs 8 billion worth of housing loans to approximately 25000 families. Since we have sufficient equity capital, we intend to increase our long term fund base in the upcoming year. Our fund requirement for the ensuing year is Rs.6 billion, of which we strategize to raise Rs.4 billion from long term borrowings and the balance Rs.2 billion from deposits.

In order to enhance the customer service offered by we will launch the SMS banking facility in the ensuing year, creating an even more efficient service to our customers, by taking convenience of banking to every person's fingertips, 24 hours a day, 365 days of the year.

CEO/General Manager's Review contd.

Further we will launch two main products namely, the 'Ran Naya' loan scheme and 'Life Style' loan scheme which are short term loan products with tenure of less than 3 years. 'Ran Naya' loans enable lower and middle income customers to obtain loans against their gold collateral for urgent housing requirements. We will mainly focus on growing the short term market (1-3 months) initially, by offering competitive interest rates and promoting the product through business developments officers. 'Lifestyle loans' would offer financial facilities to meet lifestyle needs of customers such as purchasing furniture, electrical goods etc. The products will be offered by reputed suppliers to employees of identified companies in the form of group sales.

We are also strategizing to enhance our presence by opening new branches and business extension centers island wide. In order to assist the development process in the North and East two branches will open in Jaffna and Kalmunai in the upcoming year. We plan to recruit 50 business promotion trainees to execute our mobile banking service island wide. Further we intend to increase the number of dwellings in the rural areas and promote the habit of saving among the SME sector and make them partners in the development process of our nation.

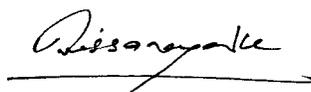
We will also strengthen our competitiveness through technological enhancements and aim to achieve higher standards in corporate governance, risk management, customer service and investor relations. As in the past years, we would also implement effective and newer

strategies to reduce the maturity mismatch of the Bank. The numerous social responsibility activities carried out by us in diverse segments of the society will remain a focal point in the ensuing year.

Acknowledgement

As we enter our 26th year of operations, I offer my deep appreciation to the Chairperson and the members of the Board for their continuous guidance and support. I specially thank Mr S Amarasekera former GM/CEO of HDFC Bank for his valuable contribution to the Bank. I acknowledge with gratitude the dedication, commitment and tireless pursuits of the management team and staff which has been instrumental in HDFC recording laudable results. I also offer my appreciation to the shareholders and customers for the loyalty and confidence placed in us over the years.

Given the country's stable macroeconomic environment and the government's commitment towards maintaining a high growth path, there is a vibrant era unfolding before HDFC. In this scenario, as the only specialized housing finance bank in the country, we will remain committed to our primary mandate of providing housing finance to the masses, achieving sustainable development and value creation, while playing a dynamic role in the development process of our nation.



S. Dissanayaka
CEO/General Manager (Acting)
HDFC Bank of Sri Lanka.

Organizational Profile

“Towards an ethical and responsible
corporate brand”

Corporate Information

Name and Address:

HDFC Bank of Sri Lanka.
(Housing Development Finance Corporation Bank of Sri Lanka).

Registered and Head Office:

Address: P.O. Box 2085, Sir Chittampalam A Gardiner Mawatha, Colombo 02.
Telephone: 2356800, 2446241, 2446239, 2447354, 2451462
Fax: 2446392, 2356829, 2356827, 2432190
Web Site: www.hdfc.lk
E-mail: hdfc@sltnet.lk

Legal Form:

A licensed specialized bank under the provisions of Housing Development Finance Corporation, Act No. 07 of 1997, amended by Act No. 15 of 2003 and No. 45 of 2011.

Stock Market Listing:

The ordinary shares of the Bank are listed in the Colombo Stock Exchange (CSE)

Board of Directors:

Mrs. S.N. Wickramasinghe (Chairman)
Mr. W.J.L.U. Wijayaweera
Mrs. K.W.P. Dayarathne
Mrs. C. Wijayawardhana
Mr. S.A.J. Samaraweera
Mr. W.D.R.D. Goonaratne
Mr. A.M. Chandrasagara
Mr. W.D.K. Jayawardene
Mr. A.J. Aloysius

Company Secretary:

Mrs. Dharshani De Silva
Attorney - at - Law & Notary Public,
Company Secretary,
Commissioner of Oaths.
Tel. 2423362
E-mail secretary@hdfc.lk

Registrars:

SSP Corporate Services (Pvt.) Limited
Address: 101, Inner Flower Road,
Colombo 03.

Telephone: 2573894
Fax: 2573609
E-Mail: sspsec@sltnet.lk

Year of Incorporation as a Building Society:

1984

Auditors:

Auditor General – Department of Auditor General
Torrington Square, Colombo 07.

Credit Rating:

The Bank has been assigned BBB+(lka) by Fitch Ratings Lanka Ltd

Bankers:

Bank of Ceylon

Corporate Branch, Echelon Square, Colombo 01.

Sampath Bank

No.110, Sir James Pieris Mawatha, Colombo 02.

People's Bank

No. 75, Sir Chittampalam A Gardiner Mawatha, Colombo 02.

Commercial Bank of Ceylon Limited

Commercial House, Union Place Branch, Colombo 02.

Pan Asia Banking Corporation Ltd,

Colombo Road, Gampaha

Corporate Management

Mr. S. Dissanayake – GM (Acting)
Mr. D.V. Pathirana – AGM (Finance & Planning)
Mr. W.M.A. Bandara - AGM (Information Technology)
Mr. A.J. Athukorala – Chief Internal Auditor
Mr. M.Y. Piyasena – AGM (Recovery)
Mr. L. Edirisinghe – Chief Manager (HR & Admin)
Mrs. W.W.D.S.C. Perera - Chief Manager (Legal)

Mrs. H.S.Gunathilaka - Chief Manager (Business Development & Marketing)
Mr. C.R.P. Balasooriya - Chief Manager (Treasury)

Board Sub Committee Board Integrated Risk Management Committee

Mrs. S.N. Wickramasinghe (Chairman of the Committee)
Mrs. K.W.P. Dayarathne
Mr. A.M. Chandrasagara

Board Nomination Committee

Mrs. S.N. Wickramasinghe (Chairman of the Committee)
Mr. W.J.L.U. Wijayaweera
Mrs. K.W.P. Dayarathne

Board Audit Committee

Mr. A.M. Chandrasagara (Chairman of the Committee)
Mrs. C. Wijayawardhana
Mr. W.D.R.D. Goonaratne
Mr. W.D.K. Jayawardene

Board Recovery Sub Committee

Mrs. S.N. Wickramasinghe (Chairman of the Committee)
Mr. W.J.L.U. Wijayaweera
Mrs. K.W.P. Dayarathne
Mr. S.A.J. Samaraweera
Mr. W.D.R.D. Goonaratne

Board Human Resource/ Remuneration Committee

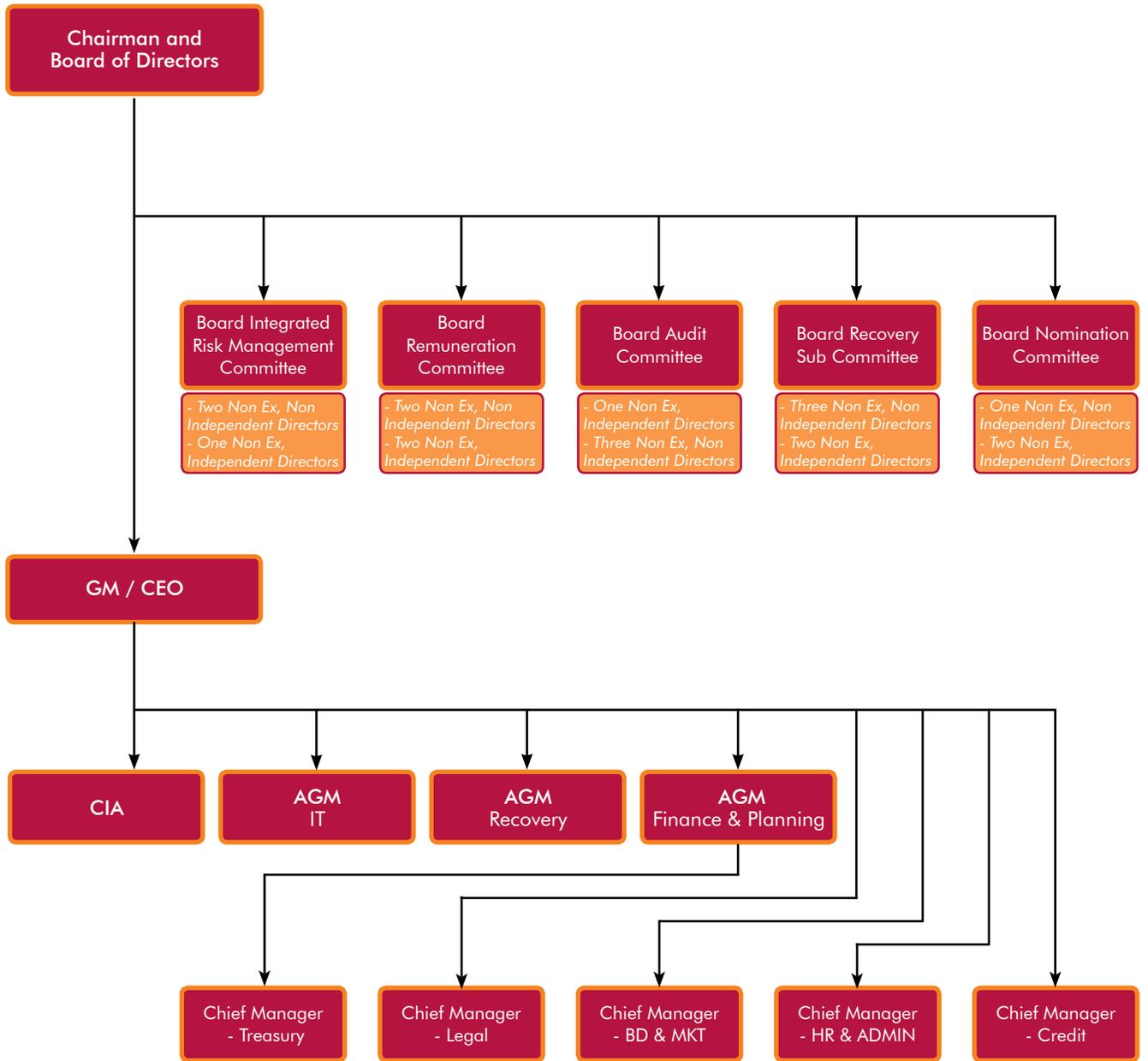
Mrs. S.N. Wickramasinghe (Chairman of the Committee)
Mr. W.J.L.U. Wijayaweera
Mrs. K.W.P. Dayarathne
Mr. W.D.R.D. Goonaratne

Investor Information

Mr. D. Vidana Pathirana
AGM (Finance & Planning)
T. P. 2356800, 2446241, 2446239.
D/L 4717864, Fax 2356829
E-mail - agmfinance@hdfc.lk

Organizational Structure

Organizational Structure



Board of Directors





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Mrs. S. N. Wickramasinghe

Chairman (Non – Executive, Non-Independent Director)

Mr. W. J. L. U. Wijayaweera

(Non – Executive, Independent Director)

Mrs. K. W. P. Dayarathne

(Non – Executive, Independent Director)

Mrs. C. Wijayawardhana

(Non – Executive, Independent Director)

Mr. W. D. R. D. Goonaratne

(Non – Executive, Non-Independent Director)

Mr. S. A. J. Samaraweera

(Non – Executive, Non Independent Director)

Mr. W. D. K. Jayawardena

(Non – Executive, Non Independent Director)

Mr. A. J. Aloysius

(Non – Executive, Non Independent Director)

Mr. A. M. Chandrasagara

(Non – Executive, Non Independent Director)



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Profile of the Board of Directors

S. N. Wickramasinghe

Chairman (Non – Executive, Non-Independent Director)

Mrs. Siromi Wickramasinghe was appointed as the Chairman of HDFC Bank in May 2010.

She held many senior positions in financial institutions including the post of DGM, Hatton National Bank PLC, GM /CEO, Lankaputhra Development Bank, Director Commercial Bank of Ceylon PLC, and Director Sri Lanka Banks' Association (Guarantee) Ltd.

She was also a Commission Member of the Securities and Exchange Commission of Sri Lanka (SEC) and the Chairman of Ceybank Asset Management (Pvt.) Ltd an Associate Company of Bank of Ceylon.

She is an Attorney at Law of the Supreme Court of Sri Lanka and Commissioner of Oaths, and is a Fellow of the Chartered Management Institute U.K.

W. J. L. U. Wijayaweera

(Non – Executive, Independent Director)

Mr. Upali Wijayaweera was appointed as a Director of the HDFC Bank in June 2006 and is also functioning as the Secretary to the Ministry of Labour and Labour Relations. He is the Chairman of National Institute of Occupational safety and Health, Srama Vasana Fund and National Institute of Labour Studies. He has been posted to the Sri Lanka Administrative Service in 1984. He has joined the Department of Labour in 1985 and has held several important posts; Assistant Commissioner of Labour, Senior Assistant Commissioner of Labour, Deputy Commissioner of

Labour, Commissioner of Labour, Commissioner General of Labour. In 1997, he was posted as the Counsellor in the Sri Lankan Embassy in the State of Kuwait followed by the posting in the Sri Lankan Embassy in the Kingdom of Saudi Arabia as the Counsellor in 1999. In year 2000 he was appointed as the Commissioner of Labour Standards. He was also a Director of National Child protection Authority. He holds a B.Com (special) Degree from the University of Kelaniya and is a PGD in Public Administration from SLIDA (Sri Lanka).

K. W. P. Dayarathne

(Non – Executive, Independent Director)

Mrs. Dayarathne was appointed as a Director of the HDFC Bank in June 2009 and also functions as the Additional Secretary to the Ministry of Construction, Engineering Services, Housing and Common Amenities. She is in the Sri Lanka Administrative Service Special Grade and began her career as an Assistant Controller of the Department of Immigration and Emigration in 1985. She has served as an Assistant Director of the Department of Social Service, Assistant Commissioner and a Deputy Commissioner of the Department of Poor Relief, Deputy Commissioner of the Samurdhi Commissioner's Department, Deputy Director of the Ministry of Youth Affairs, Senior Assistant Secretary of the Ministry of Housing Development and Senior Assistant Secretary of the Ministry of Housing and Construction. She holds a B.Sc Public Administration (special) Degree from the University of Sri Jayewardenepura, Master in Public Management, PGD in Public Administration in SLIDA (Sri Lanka) and

PGD in Social Development from the University of Massy in New Zealand.

C. Wijayawardhana

(Non – Executive, Independent Director)

Mrs. Chandanie Wijayawardhana holds a Bachelor of Arts (Hons.) Degree from the University of Ruhuna (1992) and Master of Arts in Development Studies from the Institute of Social Studies, the Netherlands (2000). She was appointed as a Director of the HDFC Bank in June 2010. Currently she is a Director in the Department of National Planning of the Ministry of Finance & Planning. She joined the Sri Lanka Planning Service as an Assistant Director in 1994 and has previously worked at the Department of National Planning for 10 years and at the Department of National Budget for 6 years. In addition to her duties at the Department of National Planning, she represents the Treasury on the Director Boards of National Housing Development Authority and Condominium Management Authority. She was a Director of State Mortgage and Investment Bank.

W. D. R. D. Goonaratne

(Non – Executive, Non-Independent Director)

Mr. Raja Goonaratne was appointed as a Director of the HDFC Bank in June 2010, and is an elected director of HDFC representing the National Housing Development Authority, the major shareholder of the Bank. He is a senior lecturer in law in the academic staff of the Department of Legal Studies, Faculty of Humanities and Social Sciences of the Open University of Sri Lanka. At present, he works as the National Housing Commissioner. He is academically qualified with LL.B (Hon) Colombo, LL. M (Monash)

Australia, and Diploma in Forensic Medicine and also he is professionally qualified as an Attorney-at-Law of the Supreme Court of Sri Lanka. He is also a member of the Board of the National Housing Development Authority.

S. A. J. Samaraweera

(Non – Executive, Non Independent Director)

Mr. Jayantha Samaraweera was appointed as a Director of the HDFC Bank in June 2010. Currently he is the Chairman of National Housing Development Authority, Board Director of Tea, Rubber & Coconut Estates Control of Fragmentation Board, Urban Settlement Development Authority and Urban Development Authority.

He was a member of Parliament of the Democratic Socialist Republic of Sri Lanka during the years 2004 – 2010. In 1999 he was elected to the Western Provincial Council as a member.

Mr. Samaraweera holds a Diploma in Journalism from the University of Sri Jayawardenapura, Sri Lanka.

W. D. K. Jayawardena

(Non – Executive, Non Independent Director)

Mr. Kapila Jayawardena was appointed as a Director of HDFC in May 2011. At present, he serves as the Group Managing Director/CEO of LOLC since June 2007. He holds a MBA in Financial Management; is an Associate of the Institute of Cost and Executive Accountants and was awarded Fellowship of the Institute of Bankers (IBSL) in 2006. He has varied experience in the fields of Banking Operations, Audit, Relationship Management, Corporate Finance, Corporate Banking, Investment

Banking and Treasury Management. Mr. Jayawardena was appointed as the Chairman of the Sri Lanka Banks' Association (SLBA) in 2003/04 and served as President of the American Chamber of Commerce in Sri Lanka in 2006/2007. He served as a Director of Lanka Clear, National Institute of Business Management (NIBM) and The Institute of Bankers (IBSL).

Mr. Jayawardena was a key member of the inaugural sovereign rating and sovereign debt team for Sri Lanka. He was presented with the prestigious Combined Support Group Award by the US Navy for services rendered after the Tsunami in 2005.

Mr. Jayawardena has over 27 years' experience in all areas of banking, out of which nine years was in the capacity of CEO/Country Head Citi Bank Sri Lanka and the Maldives. He was the first Sri Lankan to be appointed as a Senior Credit Officer (SCO) by Citi Bank in Sri Lanka. During his leadership, Citi Bank Sri Lanka was the first foreign Bank to obtain an AAA rating.

Mr. Jayawardena is the Chairman of LOLC Insurance Company Ltd., LOLC Securities Ltd. and LOLC Motors Ltd and LOLC Leisure. He is also on the Boards of Lanka ORIX Finance Company Ltd., LOLC Micro Credit Ltd., LOLC Eco Solutions Ltd., Commercial Leasing Company Ltd. and United Dendro Energy (Pvt) Ltd., which are subsidiaries of the LOLC Group.

Mr. Jayawardena was nominated by the Government of Sri Lanka to serve on the Board of Directors of the United States - Sri Lanka Fulbright Commission in July 2010 and was also appointed to

the Council of the National Chamber of Commerce of Sri Lanka on 27 January 2011.

A. J. Aloysius

(Non – Executive, Non Independent Director)

Mr. Arjun Aloysius holds a B.Sc in Finance from Bond University of Australia. He started his career as a Senior Consultant in the Free Lanka Group.

Currently Mr. Arjun Aloysius is a Director of Perpetual Capital (Pvt) Ltd and the Chief Executive Officer of Perpetual Asset Management (Pvt) Ltd. He is heading the Free Lanka Group Investment arm.

A. M. Chandrasagara

(Non – Executive, Non Independent Director)

Mr. A. M. Chandrasagara was appointed as a Director of HDFC Bank in June 2010 and functions as the Chairman of the Board Audit Committee. He is also a Director of Credit Information Bureau of Sri Lanka and City Finance Corporation Ltd. He has 40 years of experience in the People's Bank in the fields of General Banking, Accounting, Finance, Inspection and Internal Auditing. He is a Fellow of the Institute of Bankers of Sri Lanka (FIBSL) and an Associate Member of the Institute of Chartered Accountants of Sri Lanka (ACASL). He holds a Diploma in Information Systems, Security, Control and Audit, conducted by the Institute of Chartered Accounts of Sri Lanka and a Diploma in Accountancy.

Corporate Management



Mr. S. Dissanayake

Acting CEO/GM

Mr. S. Dissanayake is an Associate Member of the Institute of Chartered Accountants of Sri Lanka (ICASL). He holds a Bachelor of Science (Business Administration) special degree, from the University of Sri Jayawardenepura. He counts more than 25 years experience in the field of accounting and finance in organizations where public and private sector. He had been the head of the Finance section of the state sector institutions for several years. He joined HDFC in 1995 as Assistant General Manager (Finance) and had been the head of the Finance since the assumption of the portfolio as Deputy General Manager (Finance) for over 11 years. In addition to being the Head of Finance he oversaw the duties of the Chief Operations Officer for two years. The Credit Division, Recovery Division, Administration division and Branch Operations had been under his supervision for several years. Presently he is the Acting CEO /GM of the Bank.



D. Vidana Pathirana

Assistant General Manager (Finance & Planning)

Mr. D.Vidana Pathirana is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA), a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka (FCMA), a Fellow Member of the Institute of Certified Professional Managers of Sri Lanka (FCPM) He holds a Bachelor of Science Degree (Specialised in Public Administration) from the University of Sri Jayawardanapura, and MBA Specialised in Sustainability in Business Management. He has over 25 years experience in the fields of Auditing, Accounting, Financial Management, Management Accounting, Banking, Projects and Investment Promotion both in Sri Lanka and overseas. He is currently responsible for Finance and Planning Department of the Bank.



W. M. A. Bandara

Assistant General Manager - Information Technology

Mr. W.M.A. Bandara is the Assistant General Manager- Information Technology of the HDFC Bank. He holds a Bachelor of Science Degree from the University of Colombo followed by a Post Graduate Diploma in Information Technology from University of Stirling, Scotland. He has over 20 years of experience as an IT professional with over 5 years experience in senior managerial capacity. He has extensive experience in installing, configuring and maintaining a wide range of UNIX based system, specialised in configuring and maintaining Informix Database, Network administrative activities and Project Management. He has attended key training course relevant IT industry at international organizations such as CICC-Japan and IBM-Malaysia. He had also worked in NEC Corporation in Japan for one year.



A. J. Atukorala

Chief Internal Auditor

Possessing over 25 years of executive experience Mr. Atukorala is having an exposure to both Private and Public sector banks. His academic/ professional qualifications include the Associate membership of Chartered Institute of Management Accountants (UK), BSc Degree from University of Colombo and Diploma in Computer Systems Design awarded by the National Institute of Business Management, Sri Lanka. Also he is awarded with the titles of 'Certified Information Systems Auditor', 'Certified Information Security Manager' by the Information Systems Audit & Control Association (ISACA), USA and currently he is the Secretary of ISACA Sri Lanka Chapter.

M. Y. Piyasena

Assistant General Manager (Recoveries)

Mr. M.Y. Piyasena holds a Bachelor of Science (Business Administration) Special Degree with second upper merit division from University of Sri Jayawardenapura in 1981. He has over 29 years experience in the field of Auditing, Financial Management and Loan Recoveries. He joined HDFC in 1998 as a Chief Internal Auditor and has been heading as a Chief Internal Auditor up to 2004. Presently, he is heading the Loan Recoveries Department in the capacity of Assistant General Manager (Recoveries)



L. Edirisinghe

Chief Manager - HR & Administration

Mr. Leslie Edirisinghe holds a B Sc Special Degree in Business Administration at the University of Sri Jayawardenapura and has obtained a National Diploma in Human Resource Management of the Institute of Personnel Management of Sri Lanka. He is also an Associate Member of the Institute of Personnel Management of Sri Lanka (AMIPM) and his main forte lies in Human Resource Management and Training and Development. He has over two decades of professional career experience in Human Resource Management and Training and Development in both public and private sectors, locally and overseas.



W. W. D. S. C. Perera

Chief Manager - Legal

Ms. Sudishna Perera is an Attorney-At-Law by profession. She began her career at HDFC Bank as a Legal Officer in 1992 and was promoted to the post of Manager Legal, in 2001. She counts over 20 years of professional experience in the field of law, specializing in housing finance, banking and litigation. She has participated in numerous Law conferences and training programs on leadership, banking, and banking law both locally and overseas. Presently she heads the Legal division and is responsible for all the legal functions of the Bank.



H.S. Gunathilake

Chief Manager (Business Development & Marketing)

Mrs. Himali Gunathilake is the Chief Manager (Business Development and Marketing) of The HDFC Bank. She holds a Bachelor of Arts Degree from the University of Peradeniya followed by a Post Graduate Diploma in Urban Management from the Institute of Housing Studies (presently integrated with Erasmus University), The Netherlands. She also holds a Master of Business Administration Degree from the University of Sri Jayawardenapura. She counts over 30 years experience in the field of housing both in public and private sector and she has extensively participated for training programmes in housing locally and overseas. She joined HDFC in 1991 and currently responsible for Business Development and Marketing of the Bank



Mr. C.R.P. Balasooriya

Chief Manager - Treasury

Mr. Balasooriya is a MAAT member of the Institute of Associated Accounting Technicians of Sri Lanka and completed final part one examination conducted by the Institute of Chartered Accountants of Sri Lanka. He holds a Bachelor of commerce (Special) Degree from the University of Sri Jayawardenapura, he has over two decades of professional career experience in merchant & Specialized Banking sector. He is currently responsible for treasury management functions of the bank.



Senior Management



Mr. H.A. Anura
Senior Manager - Finance

Ms. K.T.D.D. De Silva
Bank/Board Secretary

Ms. W.N.D. Botheju
Senior Manager - Accounts Control

Mrs. R.R. Gunawardena
Senior Manager - Credit

Mr. A.M. Neelachandra
Senior Manager - IT

Mr. K. R. M. A. Bandara
Compliance Officer

Mr. Kasun de Silva
Senior Manager - IT (Operation, Technical Support and System Security)



Managers

Regional Managers

Mr. R.M.Sugathapala
Area Manager – Uva

Ms. R.R.Gunawardena
Area Manager – Western

Mr. K.Wijesiri
Area Manager – North Western

Mr. N.C.Ranjith
Area Manager - Southern

Mr. H.M.Thilakerathne
Area Manager - Central

Managers

Mr. P.S. Pitawela
Manager-Administration

Mrs. L. Gunathilake
Manager- Recovery Control (Performing Loans)

Ms. L. A. S. C .Ariyaratna
Manager –Recovery Control (Guarantor Loans)

Ms. M.U.S.De Costa
Manager – Operations

Mr. W.M. Chandrasena
Manager-Valuation

Mr. M.S. Mohamad Rila
Manager (Technical & Premises Maintenance)

Ms. C.P.K. Hewage
Manager (HR)

Mr. I. Nishantha
Risk Officer

Ms. G. L. Pandigama
Manager - Property

Ms.L.D.S.H. Liyanage
Senior Executive - Payments

Mrs.M.A.H.C. Manthiratna
Manager - IT

Mrs. M.N. Sumanaratna
Manager - IT

Mr. G.D.K.H. Perera
Manager- Mobile Banking

Ms. K.H.D. Priyanka
Manager – Public Relations & Publicity

Branch Managers

Ms. M.G.D.P. Senevirathne
Ampara

Mr. P.A. Seneviratna
Anuradhapura

Mr. U.B.G.P. Balasooriya
Awissawella

Mr. K.D. Ruwansiri
Badulla

Mr. T. Kandiah
Batticaloa

Mr. H.M.U. Samaraweera
Chilaw

Mr. N.M. Jayawardena
Colombo

Mr. W.B. Rajasinghe
Embilipitiya

Mr. M.L.R.Kumara
Galle

Mr. T.B. Karunabandu
Gampaha

Mr. U.P.A.M.S. Passaperuma
Gampola

Mr. W. Gunasinghe
Homagama

Ms. D.T.A. Jayasinghe
Horana

Mr. E.D.D. Sampath
Hyde Park

Mr. R.A.J.N. Ranasinghe
Ja-Ela

Mr. D.K.P. De Silva
Kalutara

Ms. N.A.A.N.S. Nissanka
Kandy

Mr. B.W.M.C. Kumarasiri
Kegalle

Mr. W.D.K. Senewirathne
Kurunegala

Mr. S.H.K. Gamage
Kuliyapitiya

Mr. I.K. Dawatanga
Matale

Ms. K.W.Y. Indira
Matara

Mr. K.M.S.W. Bandara
Monaragala

Mr. J.A.L.K. Jayalath
Nugegoda

Mr. L.S.B. Ratnayake
Nuwara-Eliya

Mr. S.C. Amarakoon
Peliyagoda

Mr. A. I. Kiriella
Piliyandala

Mr. S.M.S.K. Bandara
Ratnapura

Mr. G.W.A.N. Kalinda
Tangalle

Mr. A.M.U.S.B. Attanayake
Trincomalee

Mr. G. Satkunabalan
Vauniya

Mr. S. Sritharan
Jaffna

Incorporation and Legal Background

Corporate Objective and Incorporation

HDFC was incorporated by the Government of Sri Lanka with primary objective of providing housing finance credit facilities and ancillary services within the scope of operation enacted by the Act. The corporation was originally established as a Building Society in 1984 and converted to a Public Corporation under the provision of Housing Development Finance Corporation Act No 07 of 1997 and obtained the status of a Licensed Specialized Bank (LSB) in 2003, under the Housing Development Finance Corporation amended Act No. 15 of 2003 and No 45 of 2011. The ordinary shares of the Bank was listed at the Colombo Stock Exchange (CSE) in 2005.

HDFC marked its 27th year in 2011 since incorporation as a Building Society and eight milestone as a licensed specialized bank. Year 2011 also marked the completion of 6th years since listing at the Colombo Stock Exchange.

Governance Framework

HDFC Bank of Sri Lanka is to comply directly with the constitutional boundaries under the provisions of the HDFC Act and Finance Act and also regulatory boundaries of the Central Bank of Sri Lanka and listing rules of the Colombo Stock Exchange (CSE). Further HDFC Bank is under the purview of the Ministry of Finance and Planning. The Board of Directors of the Bank is to take necessary measures to maintain an effective relationship with the aforesaid regulatory authorities.

The Bank also adopts the code of best practices of corporate governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and CSE. Please refer the section of the Corporate Governance of this report for more information on our governance structure and level of compliance Page 151 to 184.

Composition of the Board of Directors.

The Board of Directors of the Bank consists independent, non independent and non-executive directors as mandated by the Central Bank of Sri Lanka representing various governmental institutions and ministries such as the Ministry of Construction Common Amenities and Housings, Ministry of Finance and Planning, Department of Labour and the National Housing Authority. Two directors could be from the public investors.

Corporate milestones	
1984	Incorporated as a Building Society.
2000	Converted to a public corporation.
2001	Commenced totally integrated Housing Finance approach
2003	Obtained the status of a Licensed Specialized Bank.
2004	1st Mortgage Securitization in country
2004	Winner – NCCSL Business Excellence Award – Financial Service Sector.
2005	Listed at Colombo Stock Exchange.
2005	Winner- NCCSL Business Excellence Award – Financial Service Sector.
2006	Runner up- NCCSL Business Excellence Award – Financial Service Sector.
2007	HDFC ranked as 14th best brand among the 20 largest state enterprises.
2010	Runner up- NCCSL Business Excellence Award – Financial Service Sector.
2010	Winner- ACCA Sustainability Reporting Award 2010- Small Scale Category.
2010	Winner- ACCA Sustainability Reporting Award 2010- First time entry group.
2010	Winner – Golden Maco Award 2010.
2011	Achieved LKR 2,000 Million capital requirement
2011	Reached LKR 20 Billion balance sheet.
2011	Merit winner - NCCSL Business Excellence Award 2011– Financial Service Sector
2011	Winner of a certificate of recognition for the Annual Report 2010, from the Institute of Chartered Accountants of Sri Lanka.
2011	Winner- ACCA Sustainability Reporting Award 2011- Small Scale Category.

Our Shareholders

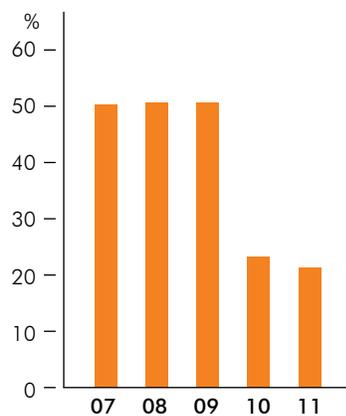
Government's Shareholding.

The Government of Sri Lanka holds approximately 51% shares of HDFC, largely through the National Housing Development Authority (NHDA) 49.73% , Urban Development Authority 0.46% and Common Amenities Board 0.46%

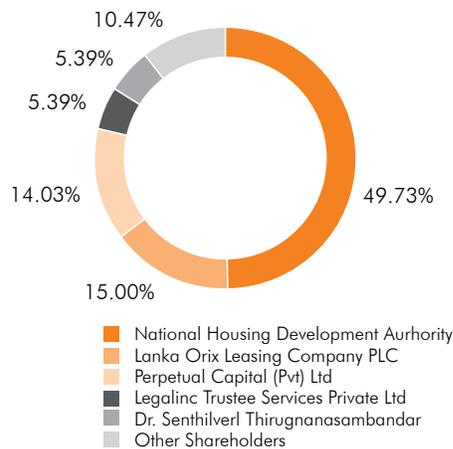
Five largest Shareholders.

Five largest institutional shareholders hold 90.80% of shares of the Bank, namely NHDA 49.73% , Lanka Orix Leasing Company PLC (LOLC) 15 %t , Perpetual Capital (Pvt) Ltd 14.03 per cent of the shareholding as at 31st December 2011. We are also proud to be the first state bank in Sri Lanka to have instituted an Employee Share Ownership Programme, which divested 5.39% of the Bank's ownership to the staff as tabulated in the five largest shareholder list given below.

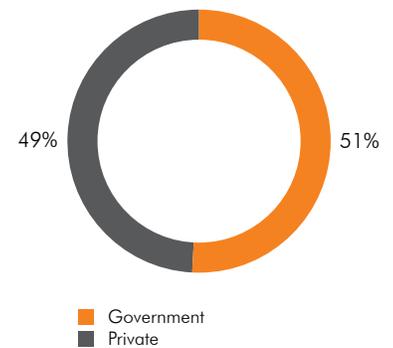
Public Shareholding
As per the rule 6.7 of CSE



Five Largest Shareholders



Public & Private Shareholding



Five Largest Shareholders	2011		2010	
	No of Shares	%	No of Shares	%
National Housing Development Authority	3,218,000	49.73%	3,218,000	49.73%
Lanka Orix Leasing Company PLC	970,774	15.00%	853,769	13.19%
Perpetual Capital (Pvt) Ltd	908,000	14.03%	908,000	14.03%
Legalinc Trustee Services Private Ltd	348,552	5.39%	348,522	5.39%
Seylan Bank/Mr. Jayantha Dewage	0	0.00%	79,700	1.23%
Dr. Senthilverl Thirugnanasambandar	348,552	5.39%	0	0.00%
Total held by largest five shareholders	5,793,848	89.53%	5,407,991	83.57%
Other Shareholders	677,204	10.47%	1,063,061	16.43%
Total Shares	6,471,052	100.00%	6,471,052	100.00%

Business Overview

Growth and Recognition

Over the last 27 years HDFC has achieved a steady growth in assets shareholders' funds and profitability while sustaining internal processes, capacities and strength. Bank also has gained wider brand recognition as a responsible housing finance provider, particularly in the low and middle income market.

During the year HDFC Bank reached the milestone of almost LKR 20 billion assets base, LKR 15 billion loan book and 500 staff strength. Whilst achieving substantial improvement in financial performance and growth the Bank was also able to win prestigious social awards as tabulated in the corporate milestones. HDFC was able to record a immense improvement in the volume and value of its market share in the low and middle income housing finance market and also savings and deposit markets with innovative products and services.

Our Values and Business Philosophy

With our achievements over the years, we believe that our corporation has taken robust steps ahead with the direction of the strategic vision and mission to be the premier financial service institution for the purpose of enhancement of lifestyles of Sri Lanka and to be a dominant player in the financial service sector by delivering innovative solutions to meet the needs of housing.

We are committed to create long term values to our shareholders while balancing economic, environmental and social foot prints for the long term prosperity of the mankind. HDFC, in our daily operation we respect our values; transparency, fairness and

openness, and also pay respects to economic, environmental and social rights of our stakeholders. We pay particular emphasis to be complied with regulatory requirements and locally and internationally accepted industry standards and norms and social codes of ethics.

Corporate Engagement and Communication.

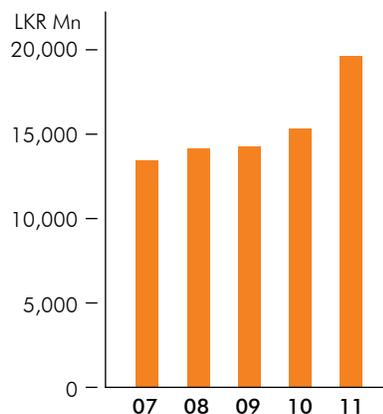
We are committed to engage with goals and important topics of our crucial stakeholders and continuously endeavor to improve and strengthen the engagement and communication process. Other than the routine communication, HDFC quantifies and communicates its performance towards the economic, environmental and social interest of the major stakeholders groups, through the Annual Report prepared in compliance with the globally accepted guidelines of triple bottom lines reporting issued by Global Reporting Initiative (GRI).

Our Size and Operational Strength

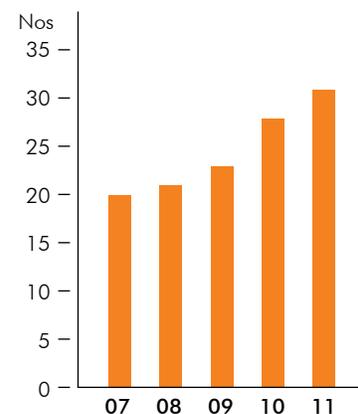
As at 31st December 2011, our total assets LKR 20 Billion and Shareholders' fund is recorded as LKR 2 Billion. We have the most youngest team of staff of 505 people and 31 dedicated branches and customer service outlets.

	2011	2010	2009
Income – LKR M	2,374	2,250	2,269
Total Assets – LKR M	19,698	15,374	14,306
Shareholders funds – LKR M	2,125	1,849	1,721
Deposits- LKR M	12,336	8,526	6,115
Other Liabilities – LKR M	5,236	5,012	6,465
Value of loans granted – LKR M	4,762	3,065	1,404
No of Loans granted	14,224	10,739	5,997
No of Employees	505	425	364
No of Branches	31	28	26
No of ATM Access	301	225	10
Market Capitalization - Closing LKR	9,059	3,548	948

Total Assets



Branch Network



Our Market and the Market Share

Strategic Distribution of Service.

Over the years HDFC Bank has strategically distributed its loan portfolio proportionately among the different income segments of the population. Over 70% of the loan portfolio has been distributed to the Low and Middle income group, that represents 60% to 70% of the population. The movements of the average size of loans as tabulated in Table-1, warrant our commitment to this segment of the population and Table-2 showcases how we have responded to the demographic transition needs of the country. More information on our market performance is given under Economic and Customer Value Creation; Page 80 to 93 and page 116 to 126 of this report respectively.

Table-1

Average Size of loans	
Year	LKR-M
2006	0.225
2007	0.240
2008	0.255
2009	0.235
2010	0.285
2011	0.330

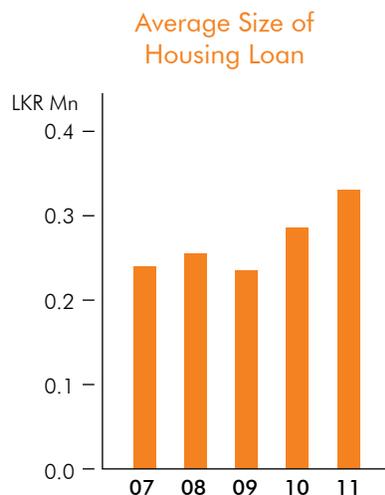
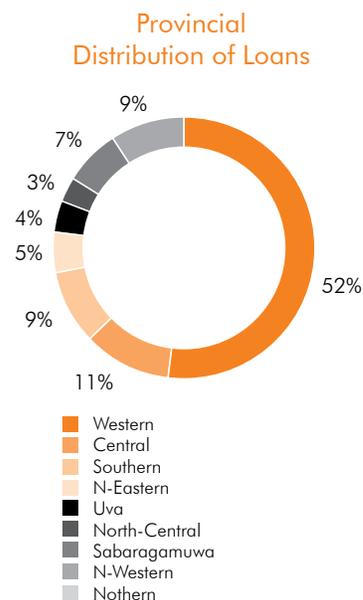


Table -2

Geographical Distribution of the Loan Book LKR-M

Province	2011	%	2010	%
Western	2,467	52	1,566	51
Central	507	11	372	12
Southern	412	9	252	8
Eastern	258	5	92	3
Uva	182	4	132	4
North Central	125	3	107	3
Sabaragamuwa	354	7	200	7
North Western	434	9	329	11
Northern	23	0	18	1
Total	4,762	100	3,069	100



Market Share

We cater annually to approximately 2 - 3% of the total housing finance market and 25% - 30% of the Low and Middle income housing finance market in the country. Based on the CBSL information, HDFC holds 0.47% share of the Banking Industry's assets and 2.71% of the Licensed Specialized Banking (LSB) sector's assets as at 31st December 2011.

EPF Housing Loan Market

HDFC Bank is one of the two organizations which have been permitted by the EPF department of the Central Bank to grant housing loans against EPF Balances of customers.

Main Brands of Products and Services



Kedella

Home loan scheme for low and middle income families on primary mortgage of the property



Situ Sevana

Hassle free customised home loan with value added services on preparation of loan documents, focused for Wider Income Group exceeding Rs. 1million (with Tax relief).



Sirisara Home Loan, Home improvement loan

A 'home loan' scheme for the existing customers on the remortgage of the property to purchase home accessories, home improvement, landscaping, curtaining etc.



Thilina Home Loan

A mortgage loan for the parent / guardian of the Thilina Minor Account holder and up to 4 times of the balance in the Thilina savings Account on concessionary rates of interest.



Thilina Rekawarana

It's a uniquely designed investment plan to guarantee children's future financial security. Parents/ Guardians are offered several optional monthly deposit plans and the Bank agrees to give a guaranteed sum to the child upon reaching the age of 18 years.



HDFC Housing Fund Scheme

It is an investment plan which enables people to accumulate wealth, for the golden years of their lives.

Shrama Udana

Hassle free home loan for EPF members against EPF balance , HDFC provides a superior service by giving within one day.



Guru Sevana

A customised loan scheme for government, teachers on personal guarantee and repayable in 5 Years.



Prathilaba

A regular savings account with special benefits and cash withdrawals can be made 4 times a month and the same interest will be calculated. Customers can access their accounts 24 x 7 x 365 days of the year through more than 200 ATMs.



Dhana Nidhana

HDFC 'Dhana Nidhana' Pass-through Investment Certificate is a long term investment plan spanning 7 – 14 years with a guaranteed return on investment at maturity.



Arumbu

Arumbu is a specially designed investment plan for Tamil speaking community of the country and offers same benefits as Thilina Rekawarana.



Āshcharya

Ascharya investment Certificates which was introduced in November 2010 availing an opportunity for every Sri Lankan to be a partner in making 'Sri Lanka the emerging wonder in Asia' while assuring a better future for themselves.



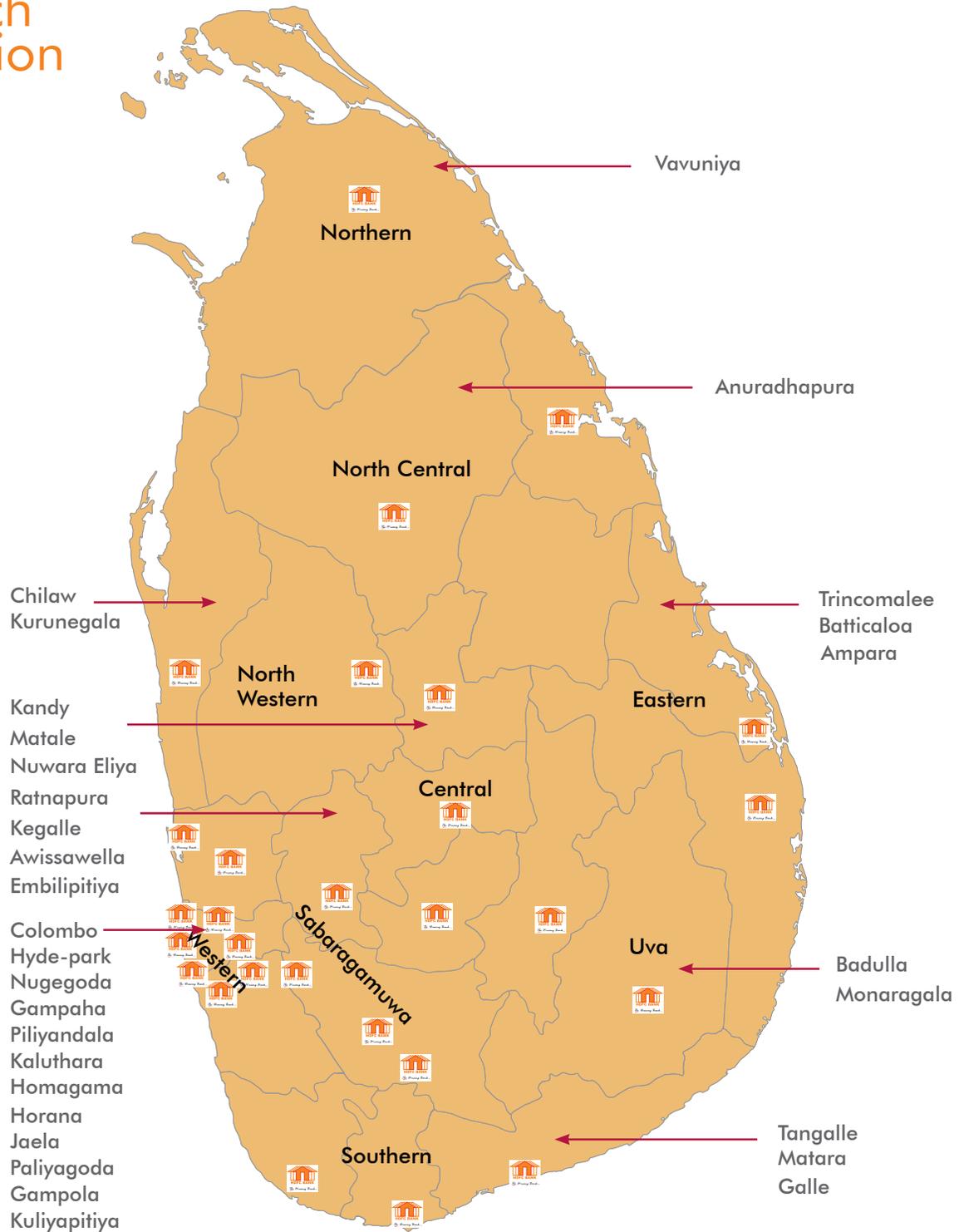
Vishrama Udana

A fixed deposit scheme earning above market interest, focused exclusively for Senior Citizens for over 55 years of age.



Our Operational landscape

Branch Location



Branch Addresses

Colombo

P.O. Box 2085
Sir Chittampalam A Gardiner
Mawatha, Colombo 2.

Nugegoda

1st Floor Railway Station
Nugegoda

Hyde Park Corner

No. 63, Hyde Park Corner
Colombo 02

Kandy

NHDA Building
Yatinuwara Veediya Kandy

Kegalle

1st Floor, Royal Shopping Complex
Main Street, Kegalle

Matale

26 1/1, City Plaza Building,
Main Street, Matale

Kalutara

13, Gnanodaya Mw
Kalutara South

Gampaha

101/1, Colombo Road
Gampaha

Matara

9, HGPM Building
Kotuwegoda, Matara

Galle

No 4, Sri Dewamiththa Mawatha
Galle

Batticaloa

58/1.Baily Road,
Batticaloa

Trincomalee

N.C. Road
Trincomalee

Badulla

71 / 1 LG, New Passara Road
Badulla

Chilaw

2nd Floor, Sky Line Building
Colombo Road, Chilaw

Ratnapura

No. 51 1/1
Main Street, Ratnapura

Tangalle

150,
Matara road, Tangalle

Ja-Ela

No 38/1, Old Negambo Road,
Main Street, Ja' Ela

Kurunegala

No 12/B,
1st Floor
Dambulla Road
Kurunegala

Anuradhapura

No 396/14 , Court Place
Bandaranayaka Mawatha
Anuradhapura

Vavuniya

No. 68, Station Road
Vavuniya

Monaragala

No 310/A, Kachcheriya Junction
Wellavaya Road,
Monaragala

Homagama

No 94, 1st Floor, High-level Road,
Homagama

Nuwara - Eliya

No.72, Park Road
Nuwara - Eliya

Ampara

Uhana Road Ampara

Avissawella

90/B, 1st Floor,
Yatiantota Road, Avissawella

Horana

No.231, Panadura Road,
Horana

Piliyandala

No.21,Vidyala Mawatha,
Piliyandala

Embilipitiya

No. 93 B, Malwatta Building
New Town Road, Embilipitiya

Paliyagoda

1st floor, shop no.03, RMU
06,Paliyagoda fish market, Paliyagoda.

Gampola

134, Kandy Rd, Gampola.

Kuliyapitiya

No/20 A, Parakrama Mw., Kuliyapitiya.

Corporate Brand, Social Awards and Recognition

Our Goals.

Over the years HDFC Bank has gained a strong social license as the affordable housing loan provider to the masses and traditionally our medium of advertising was customer social communication. Our goal is to improve our self and establish as the most responsible corporate citizen that contribute to the socio - economic development of the country through housing finance. In the recent years , HDFC has won several social awards in recognition of overall excellence in business, economic, environmental and social performances, social communication and Annual Reporting.

Awards Received

In the year of 2011, we received the following awards.

1. ACCA Sustainability Reporting Award 2011- Winner Small Scale Category on economic, environmental and social performance reporting- internationally recognized most prestige awards in the fields of sustainability reporting.
2. Annual Report Award of the Institute of Chartered Accountants of Sri Lanka – Certificate of Recognition - Banking Sector 2011.
3. National Chamber of Commerce of Sri Lanka (NCCSL), Business Excellence Award 2011 – Merit award on business excellence, Financial Service Sector.



Our Commitment to External Initiatives

Commitment to External Codes, Principles and Initiatives

An organization cannot achieve a sustainable growth by mere compliance with statutory requirements and internal policies; it should also respect externally developed social charters, principles, and other initiatives. On this direction, HDFC voluntarily adheres to principles, standards and codes of conduct of the banking and housing finance industries, standards of the national and international institutions. HDFC always complies with external initiatives which measure social commitment and responsibility, including labor, health, safety, and environmental aspects. HDFC also recognizes the Sri Lankan and International Accounting and Financial Reporting Standards, Guidelines of Global Reporting Initiatives (GRI), Universal Declaration of Human Rights (UDHR), Standards and initiatives of the Ministry of Finance, Ministry of Housing Construction and Common Amenities, Urban Development Authority, Local Authorities, Road Development Authority (RDA) and The Central Environment Authority etc. HDFC is also mindful of its responsibility towards the Achievement of the Millennium Development Goals of Sri Lanka by the year 2015. These standards, initiatives and principles are used as points of reference in preparing the internal policies, codes of conduct and operational targets of the Bank.

Associations with Important Organizations

Companies that constantly interact with society produce opportunities. We actively participate, contribute and share our knowledge with a number of organizations and initiatives, a selection of which is shown below:

Social Associations

Central Bank of Sri Lanka
Colombo Stock Exchange
General Treasury/ The Ministry of Finance and Planning.
The Ministry of Construction, Housing and Common Amenities
National Housing Development Authority
Institute of Bankers of Sri Lanka
Condominium Management Authority
Institute of Chartered Accountants of Sri Lanka
Association of Professional Bankers of Sri Lanka
Asia Pacific Union of Housing Finance
Association of Development Finance Institutions Asia Pacific.
The National Chamber of Commerce
Ceylon Chamber of Commerce
Federation of Chambers of Commerce
Fitch Rating Lanka Ltd
Credit Information Bureau
Urban Development Authority
UN Habitat Sri Lanka

Our Risk Management and Precautionary Approach

We believe that aligning sustainability practices with business strategies is an important precaution to manage economic, social and environmental risk of the organization. HDFC applies the precautionary principles mainly from two directions:

- * Compliance Review with the applicable laws and regulatory requirements
- * Operational Policies and Procedures

Compliance Review with Applicable Laws and Regulations:

A specially appointed compliance officer reviews operational compliance with the HDFC Act under which HDFC Bank is established. HDFC also adheres to the requirements of the Finance Act, directions issued by the Central Bank of Sri Lanka (CBSL), Listing Rules of the Colombo Stock Exchange (CSE), and the code of best governance practices issued jointly by the CSE and the Institute of Chartered Accountants of Sri Lanka. Level of compliance is periodically reported to the relevant regulatory authorities and to the stakeholders through the annual report.

Operational Policies and Procedures:

The Bank regularly develops reviews and adheres to operational policies and procedures in the day to day operations. These policies are developed on the basis of past experience and in line with the industry and environmental standards with the prime objectives of managing Operational Risk, Market Risk, Environmental and Social Risk, which influence the growth and sustainability of the Bank. The policies are formulated by the senior management/ management committees and approved by the Board of Directors, and reviewed in conjunction with current developments. During the year 2011, Sustainability Policy, Investment Policy, Treasury Policy, Information Security Policy were newly approved and the human resources, staff promotion and credit policies were reviewed.

Regulatory Supervision

Bank Supervision Department of the Central Bank yearly conducts a Supervisory Audit to assure regulatory and statutory compliances which guides the bank to update the operation in line with industry standards and Normans Compliance Departments of the Bank strives to assure adherence to new and existing regulatory directions.

Our precautionary approach is detailed discussed under Risk Management Section of this report page; 138 to 150.

Financial & Operational Review

“ Despite very complex environment our attributable profit was higher than 2010 and we continue to improve core capital ratio ”

Financial & Operational Review

Overview

The following discussion and analysis should be read in conjunction with the audited financial statements and related notes included in this report. Since inception, financial statements of HDFC bank have been audited by the Department of Auditor General.

Macro Economic Environment

Housing and housing finance industry largely depends on locally and globally sourced raw materials and funding, hence is inherently sensitive to global and domestic macroeconomic environment and changes in related policies. Thus in the process of evaluating the financial performance, we analyze the existing and projected economic outlook and variables such as inflation, interest and fiscal policies etc.

Regional Economic Analysis

The world economy is expected to record an approximate growth of 4 percent as per the IMF world economic outlook report, October 2011. Economic recovery continued to strengthen worldwide but the strong growth in emerging and developing countries anchored the global economic growth while advanced economies reflected a slow recovery. Emerging Asia continued its steady growth in 2011 at around 7.5 percent. Despite this moderation, strong domestic demand and intraregional trade are likely to sustain the region's growth momentum in 2012 (Asian Development Outlook 2011). Developing Asia is expecting higher price levels in 2012 in tandem with the robust economic recovery. The regional economies are expected to effect a very positive influence on the Sri Lankan economy in the medium term.

Domestic Economy

The Sri Lankan economy achieved an impressive growth of 8 per cent in 2011, and recorded a growth of over 8 percent for two consecutive years for the first time in the history. From 2003 to 2008, the country has clocked an impressive average annual GDP growth of 6.3 percent. According to the Central Bank of Sri Lanka (CBSL), this is attributable to the strong performance in industry and service sectors as agricultural sector experienced a setback due to adverse weather conditions at the beginning of the year. The GDP growth rate was triggered by the growth in key sectors of the economy. The industry sector recorded a remarkable growth of 10.3 percent, compared to 8 percent in 2010, with improved performance in mining and quarrying, manufacturing, gas, electricity, water, and construction sectors. The services sector recorded a growth of 9.1 percent in the first half of 2011, compared

to the previous comparable period, supported by higher contribution from domestic and foreign trade, transportation, tourism and financial services.

Inflation and Fiscal Policies Interest Rate

The continued absence of significant upward demand management policies, improved domestic supply conditions and supportive fiscal policies enabled inflation to be maintained at subdued levels of 6 percent in 2011. The favorable outlook for inflation enabled the Central Bank to ease its monetary policy stance by reducing the repurchase rate and the reverse repurchase rate, from 7.5 percent and 9.0 percent to 7.0 percent and 8.5 percent respectively in January 2011. The surplus liquidity in the market remained high in the first half of the year. However, the increase in statutory

130%

Profit After Tax YOY

+28%

Total Assets YOY

+17%

Loan & Advances YOY

reserve ratio from 7 percent to 8 percent in May and higher credit growth resulted in the decline in liquidity which in turn increased the market rates slightly in the latter part of the year, which continued up to the fourth quarter of the year. However, the overall fiscal situation improved significantly as reflected in the rise in Government revenue supported by the recovery of international trade and expansion in domestic economic activities.

Financial Sector Performance

Performance of the banking industry was very progressive in 2011, underpinned by enhanced political stability, improved investor confidence and a stable macroeconomic performance. According to the CBSL, the soundness of financial institutions in terms of capital, liquidity, profitability and asset quality improved. The regulatory and prudential framework of the financial sector was further strengthened by the CBSL. Financial system was more liquid mainly due to the decline in the interest rates in many market segments which was largely driven by increased capital inflows, with the easing of monetary policy and moderate inflationary pressure.

In this favorable market conditions HDFC Bank was able to achieve an overall improvement in financial performance and growth in the Balance Sheet in 2011, as reflected by profitability, assets growth, capital adequacy, liquidity and quality of assets.

Operating Income and Profitability

Operating Summary LKR –Mn 2006 – 2011						
Year	2011	2010	2009	2008	2007	2006
Interest Income	2,249	2,164	2,216	1,941	1,695	1,203
Interest Expense	-1,354	-1,339	-1,582	-1,602	-1,246	-699
Net Interest Income	895	825	634	339	449	504
Non Interest Income	125	85	52	33	45	82
Net Income	1,020	910	686	372	494	586
Non Interest Expense	524	619	518	439	401	277
Operating Profit Before Tax	496	291	168	-67	93	309
Profit After Tax	310	135	56	-92	21	172

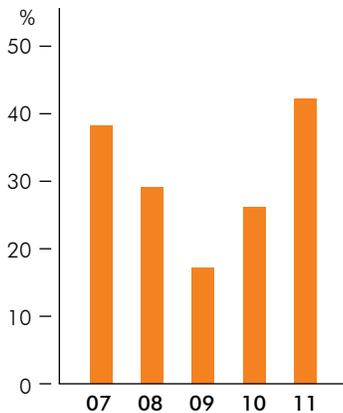
Interest Income and Margin

During the year, the Bank recorded a marginal increase of 4 percent in interest income. The rise in interest income was not in tandem with the increase in the loan portfolio due to the overall decline in interest rates charged for loans while a large percentage of new loans granted were made in the latter part of the year. However, the favorable finance market condition enabled the Bank to improve its gross interest margin from 38 percent to 40 percent during the year. Meanwhile, the Bank changed the composition of its fund base by increasing savings deposits which contributed to the further reduction in the interest expenses following the macroeconomic condition of the country, which was healthy favoring the banking industry.

HDFC was able to maintain a higher gross interest margin despite the backward revision of loan interest, on several occasions during the year in adherence to the Government housing policies. Negative effects of the backwards revision on interest margin was partly offset by accelerated lending, increase in savings, general decline in the cost of funds by the year end.

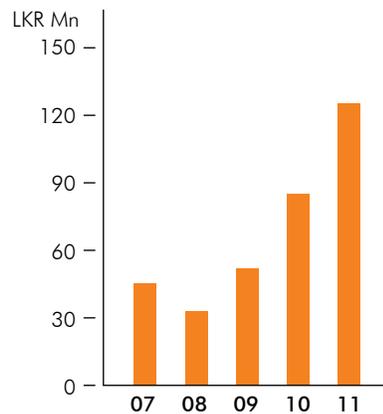
Financial & Operational Review *contd.*

Net Interest Margin

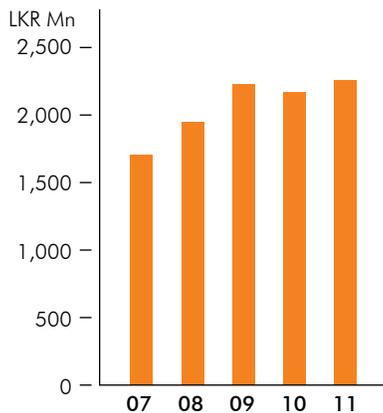


fees etc, consequent to the substantial increase in the number of loans granted during 2011 compared to 2010. The Bank has approved 14,224 loans in 2011, compared to 10,739 loans in 2010. However a decline of LKR 25 million was recorded from the capital gains earned in 2011 from the disposal of unit trusts.

Non Interest Income



Interest Income



Non Interest Income

HDFC recorded a non interest income of LKR 125 million in 2011 against LKR 85 million in 2010. The increase is attributed to LKR 48 million earned by the Bank through the disposal of motor vehicles and a land at Wellawatta. Non interest income also escalated due to the increase in the loan processing fee, valuation, fees, technical and legal

Operational Expenses

The overall operating expenses for the year, other than the loan loss provision, increased by 16 percent due to the rise in staff costs, premises equipment and establishment expenses. Staff cost rose mainly due to new recruitments while establishment and operating costs increased due to opening of three new branches and the refurbishment and relocation of existing branches and some of the divisions of the head office in 2011.

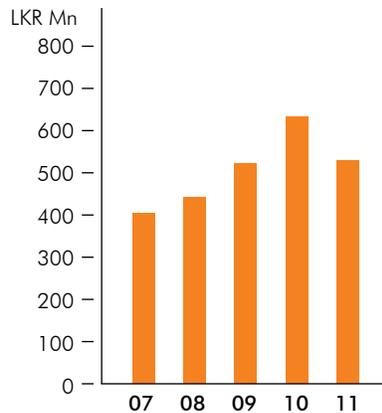
Non Interest Expenses LKR –Mn

	2011	2010
Personal Cost	302	271
Provision for Staff Retirement Benefits	42	43
Premises & Establishment Cost	132	102
Operating Expenses	126	96
Provision for Loan Losses	-78	107
Total	524	619

Loan Loss Provision

During the year Bank earned a net gain of LKR 78 Million from the reversal of loan loss provision made in 2010, in respect of loans that has been extended to HDFC Real Estate Development (Pvt) Ltd and as a result of revision of general loan loss provision from 1 percent to 0.5 percent as per the new CBSL direction.

Operating Expenses

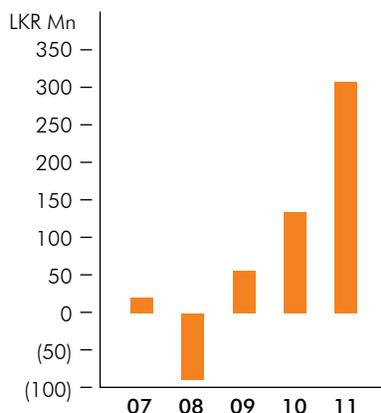


Profitability

Profit after Tax

The Bank recorded a post tax profit of LKR 310 million with a remarkable year on year increase of 130 percent compared to 2010. This result was consequent to the sharp decline in the cost of funds and accelerated lending that took place in the second half of the year as reflected by the improved gross interest margin of 40 percent, as against 38 percent in 2011.

Net Profit



Return on Assets (ROA) and Equity (ROE)

Enhanced investment, loan portfolio, savings and assets management strategies resulted in the considerable improvement in profits which rose from LKR 135 million in 2010 to LKR 310 million in 2011 highlighting an YOY growth of 128 percent and a 1.77 percent return on average assets compared to 0.91 percent in 2010. This increase in profitability resulted in the rise in return on shareholders' fund which escalated from 7.55 percent in 2010 to 15.58 percent in 2011, but was yet below the market average of 19.7 percent. However, the long-term sustainability of the improved ROA depends on our ability to manage the maturity mismatch in assets and liabilities and the fairly high cost to income ratio compared to the industry average, which are our strategic priorities in 2012 - 2013.

Liquidity Position

Capital Adequacy

HDFC maintains a capital adequacy ratio, well above the required level in accordance with the directions of the CBSL, largely due to the low risk weight assigned to our housing finance portfolio. Tier 1 ratio was 21.34 percent and Tier 11 ratio was 21.95 percent whereas required minimum levels are 5 percent and 10 percent respectively. The comparative figures in 2010, were 21.09 percent and 22.18 percent respectively.

Statutory Liquid Assets Ratio (SLAR)

The liquidity position was remained stable. Throughout the year HDFC maintained a healthy liquidity ratio above the statutory requirement of 20 percent. Liquid assets are maintained as deposits at commercial banks and investments in treasury bills and treasury bonds.

Key Performance Indicators - Profitability and Liquidity

Profitability - Ratio %	2011	2010	2009	2008
Net Interest Margin	5.2	6	4.8	1.9
Pre Tax Profit/Total Assets	2.5	1.89	1.2	-1.5
Net Income/Equity	15.58	7.3	3.3	-5.4
Net Income/Total Assets	1.77	0.9	0.4	-0.7
Net Interest Rev/Total Assets	5.0	5.0	4.4	2.4
Capital Adequacy				
Equity/Total Assets	10.8	12.1	12.0	11.9
Equity/Loans	14.6	14.8	14.4	14.0
Capital/Risk-Tier-1	21.3	21.1	13.1	22.0
Capital/Risk-Total	21.9	22.2	18.86	23.1
Liquid Assets/Total Deposits	21.1	13.2	13.2	9.4

Financial & Operational Review contd.

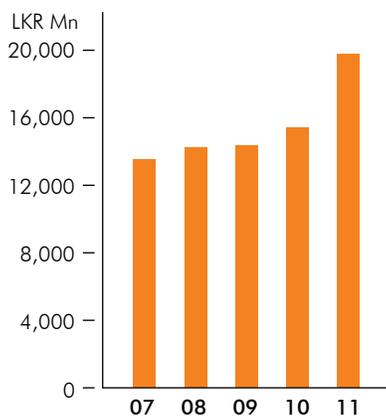
Growth and Stability Balance Sheet LKR-Mn

Asset	2011	2010	2009	2008	2007	2006
Cash at hand and with CBSL	528	406	163	224	671	150
Investment	3431	1,512	1,246	867	608	201
Loans & Advances	14,594	12,510	11,912	12,148	11,869	10,133
Other	1,144	959	980	941	333	220
Total	19,697	15,387	14,301	14,180	13,481	10,704
Liabilities						
Deposits	12,336	8,526	6,114	4,975	4,934	2,501
Borrowings	3,556	3,634	5,150	6,641	6,092	5,206
Other	1,680	1,379	1,315	867	665	1,197
Shareholder Funds	2,125	1,848	1,721	1,697	1,790	1,800
Total	19,697	15,387	14,300	14,180	13,481	10,704

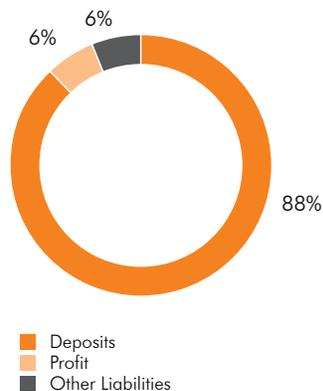
Total Assets Growth

HDFC's total assets value increased by 28 percent to LKR 19,697 million compared to LKR 15,387 million in 2010, whereas in the industry average was 19 percent. The asset growth was mainly driven by the loan portfolio and investments. During the year, 88 percent of the total assets growth was financed from market deposits and 6 percent from the retained profits.

Growth of Total Assets



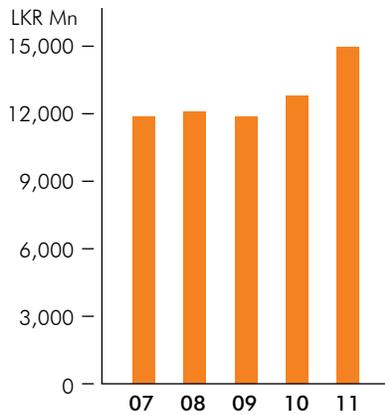
Source of Financing
Net Assets Growth



Housing Finance Portfolio

During the year under review, HDFC recorded a robust 17 percent growth in the housing loan portfolio, which was however below the industry growth rate of 32 percent. This was against the 8 percent growth experienced in 2010. The significant increase in lending amounting to 4,762 million against LKR 3,069 million in 2010 is reached, following the high targets given to the branches at the latter part of the year and the aggressive promotional strategies. The loan portfolio is strategically diversified against the collaterals, such as property mortgage, EPF balances, personal guarantees and cash backed securities etc, ensuring the quality of the main income generating asset base.

Growth of Loan Portfolio



Investments

During the year, the Bank strategically increased the investment portfolio to expand the income from non interest bearing sources and was able to record an impressive growth of 126 percent in investments, mainly driven by the investment of liquid assets maintained for liquidity management. Investments are maintained in the form of Government securities, commercial papers and other bank deposits.

Deposits

The deposit base of the bank, that constituted 56 percent of the total liabilities in 2010, reached to LKR 12,336 million at the end of 2011 increasing the composition to 63 percent, which was a strategic priority. The recorded net increase during the year was LKR 3,810 million, which was a robust growth of 45 percent, as against the industry average of 19 percent. Out of the deposit base, the savings fund which constituted 13 percent recorded a 48 percent growth during the year. The balance 87 percent of the deposit base was term deposits which increased by 44 percent to reach LKR 10,791 million at the end of 2011.

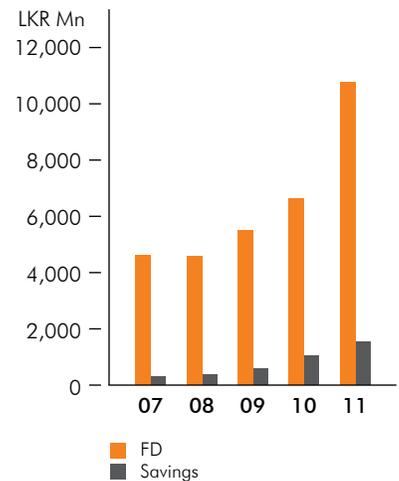


Branch Relocation - Kurunegala



Branch Relocation - Gampaha

Growth Fixed Deposits & Savings

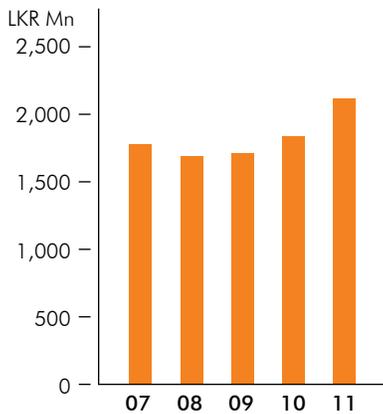


Financial & Operational Review contd.

Shareholders' Funds

Shareholders fund grew by 15 percent YOY in 2011, due to the increase in retained profits during the year. The fund base grew from LKR 1,848 million to LKR 2,125 million, achieving the minimum core capital requirement of LKR 2,000 million as directed by the CBSL.

Shareholders' Fund



Banking Industry and HDFC

Banking Industry

As per the CBSL, the banking sector has accounted for over 52 per cent of the total assets of the financial system. There were 24 Licensed Commercial Banks (LCBs) and 9 Licensed Specialized Banks (LSBs) including HDFC. The banking sector had remained stable in 2011 and the key indicators of financial soundness were maintained healthy levels. The total asset base of the sector increased from LKR 3,500 billion in 2010 to LKR 4,200 billion in 2011. During the first

nine months of 2011, 86 new outlets were added, increasing the total number of banking outlets in the island to nearly 6,000.

HDFC Market Share

As per the CBSL statistics, HDFC's market share in terms of total assets in the banking sector increased from 0.45 percent in 2010 to 0.47 percent in 2011 while the market share in the LSBs market amounted to 2.71 percent.

Composition of Assets

The housing loan portfolio which is the main income generating asset of HDFC represents 74 percent of the total assets as against 61 percent in the industry. The major players in the industry maintained a high percentage of short and medium term investments with above average returns. In the case of HDFC, the available investment opportunities are restricted due to statutory limitations enforced by the Act. However we succeeded in enhancing the investment portfolio within the statutory boundaries, recording 17 percent in 2011 as against 10 percent in 2010.

Composition of Assets - 31st December 2011

	Industry	HDFC
Loan & Advances	61%	74%
Investment	25%	17%
Other	14%	8%
As per CBSL records		

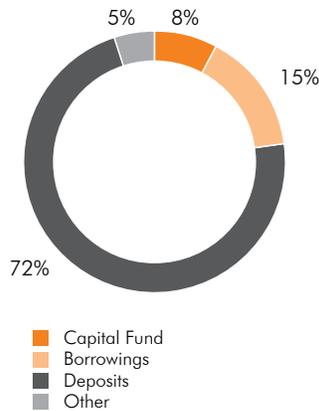
Composition of Liabilities

HDFC maintains a healthy capital fund ratio of 11 percent compared to the industry average of 9 percent. HDFC also maintains a high percentage of borrowings as a strategy of managing the maturity gap and has the capacity to increase borrowings due to the healthy capital adequacy ratio. However, as shown in the following table, deposits have continued to be the main source of funding in the banking sector accounting for 72 percent of total liabilities. HDFC has sourced 63 percent of its liabilities from time and savings deposits. Meanwhile, in terms of types of deposits, time deposits has accounted for a substantial portion of the total deposit based in the industry, whereas at HDFC 87 percent of deposits were represented by time deposits. We strategically strive to reduce this proportion to 75 percent by the year 2012 and also increase the composition of the savings fund substantially.

Composition of Liability - 31st December 2011

	Industry	HDFC
Capital Fund	8%	12%
Borrowings	15%	18%
Deposits	72%	63%
Other	5%	7%
Source: CBSL		

Composition of Liabilities - Industry

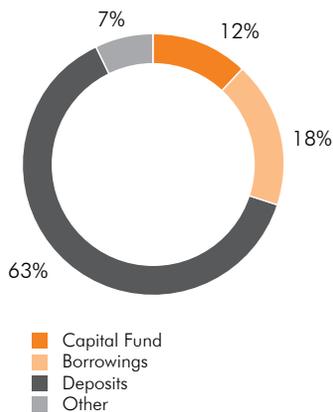


and investment during the year. Investments in the industry include investments, interest earning assets including those in subsidiaries and associate companies, whereas investment at HDFC include investment in Government securities and commercial papers. Meanwhile, investment in short-term income generating assets and property, plant and equipments has increased by 4.5 percent as against the negative growth of 126 percent in the industry.

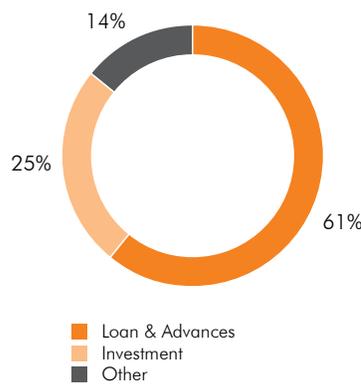
Assets & Liability Growth - 2011

	Industry	HDFC
Total Assets	19%	28%
Loan & Advances	32%	18%
Investment	-2%	126%
Deposit	19%	45%
Borrowings	23%	-2%
Capital Fund	25%	15%

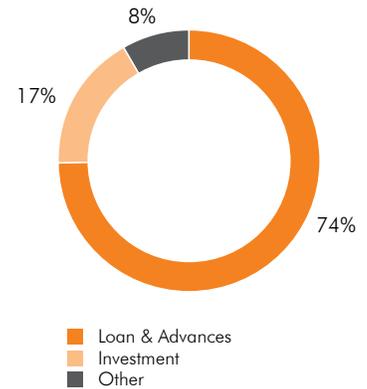
Composition of Liabilities - HDFC



Composition of Assets - Industry



Composition of Assets - HDFC



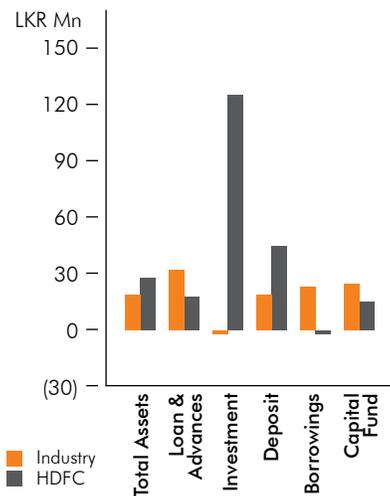
Assets and Liability Growth

The total assets based of the banking sector recorded an year on year growth of 19 percent in 2011 compared to the higher growth rate of 28 percent recorded by HDFC. The higher growth of HDFC is largely attributable to the significant improvement in lending

Savings and time deposits, continued to be the main source of funding in the banking sector accounting for 72 percent of total liabilities. During the year 2011 HDFC recorded an impressive 45 percent growth in deposits as against the industry average 19 percent. Deposits growth at HDFC is mainly attributable to the increase in savings which recorded an impressive growth of 48 percent in 2011. Although the industry has recorded a healthy 25 percent growth in capital funds, HDFC was able to maintain a growth 15 percent. Over the period, HDFC has been able to reduce borrowings substantially to record a negative YOY growth of -2 percent whereas the industry's dependence on borrowed fund has increased by 23 percent. Declined borrowings and increase of capital funds at HDFC has entirely been funded by the increased time deposits, savings and profits.

Financial & Operational Review contd.

Assets & Liability Growth



Soundness Indicators Industry and HDFC

As per the CBSL statistics, financial soundness review indicators of the banking industry and HDFC as at December 2011 are tabulated in the following table for comparative information. HDFC Bank's tier 1 and total capital adequacy ratios are comfortably above the regulatory minimum of 5 percent and 10 percent respectively. This is due to the Bank's relatively high capital fund and the low risk-weights assigned to housing loans backed by mortgages over residential properties and EPF balances.

Bank's gross non-performing loans (NPL) ratio in total loan portfolio is fairly higher than the industry average and is largely attributable to the weak economic environment during the early part of the year. The Bank's total gross NPL ratio is 22.3 percent, due to the high level of non-performing loans granted against EPF balance. This in turn is consequent to willful defaulters who use the loan products as a mechanism for drawing down their provident fund balance prematurely while the arrears is reimbursed by the Central Bank. Although the NPL ratio stood at a high 22 percent, the NPL ratio excluding EPF-backed loans (as they are reimbursable) clocked in at 11.62 percent as at 31st December 2011.

HDFC maintains a statutory liquid assets ratio comfortably above the minimum requirement of 20 percent. In general, a surplus liquidity position was recorded in the market except in the latter part of the year. As per the CBSL reports, an analysis of the composition of the liquid assets of banks as at September 2011 indicated that a substantial percent of the liquid assets comprised of investments in treasury bonds, treasury bills and Government securities and investment in Sri Lanka Development Bonds. In these circumstances, the overall liquidity ratio of the banking industry was well above the stipulated minimum requirement.

New Directions During 2011

The growing complexity and interconnectedness of systems, financial products and information technology solutions led Central Bank to issue several new directions to strengthen the management process of operational risk and corporate governance for Licensed Specialized Banks. HDFC has promptly complied with these directions and the level of compliance is reported under the corporate governance section of the annual report.

Challenges in Maintaining Industry Standards

HDFC is the only bank in the LSBs sector and its scope of operation is restricted to housing finance. Thus opportunities available to other banks in the sector in maintain growth, profitability and risk are not equally available to HDFC. With these inherent restrictions, managing HDFC to the industry norms is a challenge. Comparison of HDFC performance with the LSB sector is realistic only with reasonable adjustments to sector averages.

Key performance Indicators – Stability and Soundness

Comparison - HDFC and Industry	Industry				HDFC		Statutory Minimum
	2008	2009	2010	2011	2010	2011	
Capital Adequacy Ratio – Tier 1 Capital Ratio	12.5	14.1	14.3	13.1	20.7	21.3	5
Capital Adequacy Ratio – Total Capital	14.5	16.1	16.2	14.5	21.8	21.9	10
Gross NPL as a % Total Loans	6.3	8.5	5.4	3.8	21.9	22.30 *	
Return on Assets -Before Tax	1.9	1.8	2.7	2.4	2.7	2.8	
Return on Equity	13.4	11.8	22.2	19.7	14.6	15.6	
Cost to income Ratio	79.8	78.1	71.9	73.9	82.3	82.4	
Efficiency Ratio	55.6	56.3	47.4	51.9	62.8	67.4	
Liquidity Ratio	28.3	35.3	31.2	26.9	20.9	21.1	20

* Gross NPL ratio excluding EPF is 11.62%. Industry information is based on CBSL reports.

Operational targets and Achievements

Strategic Priorities

Accelerating growth of lending, deposit mobilization, management of non-performing loans (NPL), IT developments, mobile banking, HR development, capacity building, risk management and inculcating sustainability practices were the strategic priorities in 2011.

Strategic Priority and Achievements

Priority	2008	2009	2010	Actual 2011	Budget 2011	Variance 2011
New Loans Value LKR Mn	1,418	1,404	3,069	4,762	4500	262
No of Loans During the Year	5,559	5,977	10,739	14,224	15,000	(776)
Deposits Balance LKR Mn	4,975	6,114	7,703	12,336	14,034	(1,698)
NPL Value LKR Mn	2,501	2,743	2,840	3,281	796	(2,485)
Gross NPL ratio %	22	23	22	22	5	(17)
No of Mobile Customers	5,630	38,289	59,689	65,743	65,000	743

Lending Targets

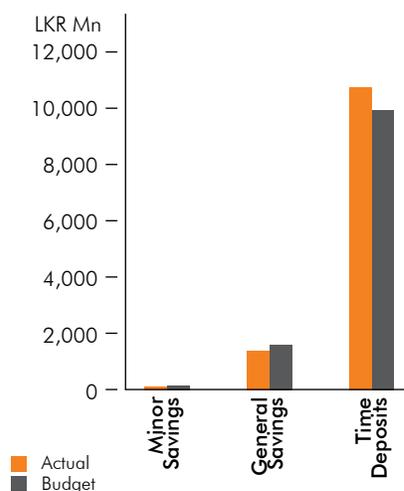
With the objective of achieving strategic growth target, profitability and efficiency enhancement, HDFC budgeted to grant loans with a value exceeding 150 percent of the loan granted in year 2010. Favorable macroeconomic, political and low interest environment created a conducive environment enabling HDFC to exceed the budgeted loan value of LKR 4,500 million, while achieving 95 percent of the target number of loans, recording the highest number of loans in the recent past. Newly structured system of regional managers contributed substantially to achieving the operational targets including loans.

The security of the portfolio mix was enhanced by granting loans against property mortgages, EPF balances, cash margins and guarantor schemes. A high percentage of loans granted by the estate sector and in the North Central Provinces were against EPF balance due to the problem of ownership of properties. Majority of loans granted for house repairs, up grading and to purchase furniture were also granted against the EPF balance. The provincial average size of loans are as follows.

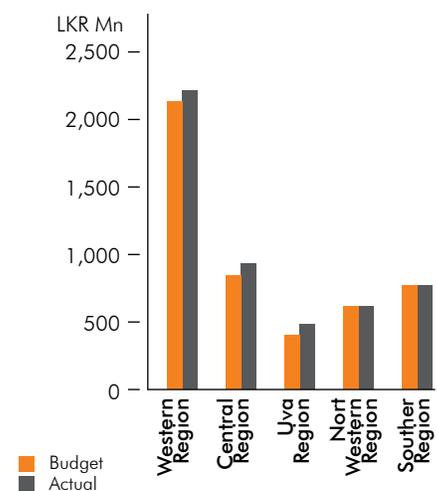
Average size of Loans – LKR

	2011	2010
Western	430,000	350,000
Central	180,000	190,000
Southern	350,000	320,000
N-Eastern	280,000	200,000
Uva	220,000	210,000
North-Central	260,000	210,000
Sabaragamuwa	260,000	240,000
N-Western	520,000	340,000
Bank	330,000	290,000

Budgeted Performance - Deposits Mobilization



Budgeted and Actual Performance - Region



Financial & Operational Review *contd.*

Deposits Mobilization Targets

Long term, low cost risk pooled fund base is essential for sustainable growth of the Bank and to address the challenges of maturity mismatch and the interest margin.

HDFC commenced an aggressive deposit promotion drive in 2007 and during the year 2011 the Bank achieved a growth of 48 percent in the savings fund due to the branch wise promotional strategies followed particularly through the mobile banking operations (Palm Top). Over the same period minor savings has grown by 97 percent. Although the growth in deposits outperformed the industry average, it was below the target for the year by LKR 272 million.

Deposits Growth

	2008	2009	2010	2011	Budget 2011	Variance
Minor Savings LKR Mn	20.4	39.3	77.5	137	159	(22)
General Savings LKR Mn	347.8	652.3	964.5	1,407	1,608	(201)
Total savings LKR Mn	368.1	691.6	1,042.0	1,544	1,767	(223)
Time Deposits LKR Mn	4,607.7	5,423.1	6,660.9	10,791	10,000	291
Total Deposits LKR Mn	4,975.9	6,114..7	7,702.9	12,336	14,034	(1,198)

NPL Management

During the year, Bank recorded a adverse growth in non performing loans from LKR 2,840 millions in 31 December 2010 to LKR 3,281 millions as at end of December 2011. This is mainly due to the revision in the CBSL directions in the categorizing of non performing loans. It should be noted that NPLs from EPF loans accounted for a bulk which were backed by the EPF contributions of the borrowers. During the year, the Bank recorded a negative growth in NPL management with gross NPL increasing from 21.61 percent to 22.30 percent and net NPL ratio from 21.01 percent to 21.48 percent thus weakening the asset quality. NPL ratio, excluding EPF deteriorated from 9 percent in 2010 to 10.23 percent as at 31st December 2011 which is much higher than the industry average of 3.8 percent. However, the Bank's NPL ratio is also reflective of HDFC's target market which is the low and middle income customers. Meanwhile, HDFC's loan loss provisioning levels remained low compared to the industry, as all NPLs are backed by home mortgages. Further, the Bank is not required to provide for non-performing EPF loans as they are backed by the Central Bank. Going forward, HDFC expects to improve the NPL ratio to 6 percent in 2012, underpinned by the Bank's concerted recovery efforts, quality of loans and newly appointed system of regional managers.

Future Focus

Accelerate Lending

As the only fully fledged housing finance bank, in the country, HDFC plays a vital role in the post conflict development scenario through providing affordable housing finance. HDFC strategizes to extend over LKR 9,000 million home loans to target 25,000 borrowers in 2012, given that a positive macroeconomic environment would exist in the ensuing year.

Amendment to HDFC Act and Risk management

HDFC Act was amended in the latter part of the year to enhance the diversity of the loan portfolio with more short tenure loans, while the Bank has already launched deposit schemes with longer tenure, to manage the maturity mismatch. Thus the financial outlook will be more progressive and defined to a considerable degree in 2012.

Our Business Strategy, risk, opportunities and challenges

“ With courage and passion for the benefit of
our shareholders, economy, customers, staff
and the community ”

Commitment Towards a Sustainable Development

Millennium Development Goals (MDGs)

Access to safe and healthy shelter is essential to a person's physical, psychological, social and economic well-being. The right to adequate housing is a basic human right and is emphasized in the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights. Decent housing assists in several dimensions to improve physical quality of life and economic growth of a country as measured and communicated by the Millennium Development Goals (MDGs). HDFC Bank being a prominent housing development finance partner can play a vital role in realizing these goals. The country is marching towards achieving most of MDGs by year 2015. HDFC recognizes this national responsibility and is fully committed assisting in its capacity in reaching Millennium Development Goals, through promoting inclusive housing finance.

Responsible Banking

Corporate Responsibility at HDFC is therefore focused in managing the core operation of the Bank in a manner which deliver sustainable value creation in economic, environmental and social fronts and thereby seizing economic opportunities that ensures the Bank's continued growth and stability maximizing shareholders' wealth while delivering HDFC's overriding objective of expanding national housing stock and home ownership

In this context, our strategic approach on sustainability is strategized in four main directions; **Acting as a social and economic stabilizer, Improving accessibility to housing finance , Managing ecological footprint and Role model of a good corporate citizen.**

Acting as a Social and Economic Stabilizer

HDFC Bank's primary business objective is assisting people to own a decent house by providing affordable housing finance, the foundation upon which our economic and social sustainability ethos has been constructed. Housing not only provides physical shelter but also has significant impact on the lives of the dwellers in terms of skill enhancement, education, health, income generation, security, self confidence and human dignity. In a social context it reduces domestic violence and addresses many other social issues.

Housing is also a key driver of a country 's economy. As per an international assessment, it is estimated that six hundred industries are linked to housing. One Rupee invested in housing creates Rupee five to seven impact in other economic sectors. Therefore broadly, housing development finance plays a crucial role in boosting economic growth and reducing poverty, improving living conditions and empowering low and middle income groups.

Improving Accessibility to Housing Finance.

Access to adequate housing has become a key issue for a considerable share of the Sri Lanka's population. Economic growth has contributed to a significant increase in the size of the middle class , where changing culture and shrinking household size have fueled the need for decent housing even further. But household savings has been inadequate to finance housing for many. Formal housing finance is less accessible for many due to lack of formal employment, regular income, collaterals and formal credit histories. HDFC Bank being a fully fledged housing finance provider , is committed to serve this sector which represents 60 - 70% of the population.

Managing Ecological Footprint.

Housing begins with construction which involves the input of a large amount of capital, energy, water, other natural resources and making of substantial amounts of solid and liquid waste. It permeates an adverse impact on the environment and prevalent eco-systems if resources are not managed properly.

At HDFC we believe that sustainable housing practices could mitigate the negative impact of housing on the environment while delivering long lasting economic and social benefits. Hence we strive to promote a culture where the end result of our operation must be the fruition of sustainable construction, which delivers long lasting economic, environmental and social benefits to our stakeholders



Role Model of a Good Corporate Citizen.

We believe that sustainability should be a core focus of our business. At the same time, we want to be a role model of an economically stable, ecologically responsible and socially fair corporate citizen. Therefore, we strive to ensure that our business fundamentals are within the industry norms and standards, and follows generally accepted codes of best practices and respect sustainability principles and practices related to human rights, labour, the environment and anti-corruption which leads to long-term value creation, that can simultaneously benefit the corporate and the societies at large

Sustainability Development Directives Policy Directives

In consideration of the above sustainability strategic focus, the Board of Directors has approved a policy framework which guides the sustainability ethos of HDFC Bank. The policy emphasizes that HDFC is to conduct business in a best possible way that demonstrates our commitment to continued improvement and the advancement of sustainable development practices and engagement with all our stakeholders, in an open and straightforward manner to balance HDFC Bank's corporate objectives with their interest

Sustainability Fillers

HDFC's sustainability line of actions emphasizes mainly on the following six fillers.

- Transparency.
- Employee development,
- Dynamism and resources efficiency,
- Strengthen stakeholder engagements,
- Stakeholder communication,
- Sustainability Governance and Accounting,

HDFC Bank is committed to use the above six Pillars as points of reference, in the process of formulating business strategies, internal policies and procedures, and also for assessing the institutional progress in meetings its objectives.

Sustainability integration

The Bank is committed to implement an integrated sustainability management approach that combines sustainability and business strategies in the best possible way. As disclosed in 2010, HDFC's strategic focus for 2010 - 2013 covers the following 7 key areas to which we will continue to gear our sustainability development process.

- Economic prosperity- accelerated growth of the Bank with more focus on socio economic development to improve quality of life of our people.
- Resource efficiency- cut costs and save global resources.
- Emission Control- promote and focus on strategies, products, services and relationships that transit to a low carbon society
- Going mainstream - making sustainability a core dialog of the staff and customers
- People & places - working together to support our community
- Solid foundations - sustainable business practices through governance & risk management
- Speaking out - advocating on behalf of sustainable business practices and continuous communication with key stakeholders

Commitment Towards a Sustainable Development contd.

Sustainability Development Fillers

Transparency.	Employee Development	Dynamism And Resource Efficiency
<p>Our stakeholders urge to know; what do we do? how do we do? Therefore HDFC acknowledges, that by having an open and straight forward dialogs with critical stakeholder groups will create a competitive environment that improve resource efficiency, performance, recognition and will inevitably increases profits. Transparency is an open culture that reduces uncertainty, stress and promotes employee involvement with regard to innovation and creative processes. It enhances reaching out to the community that creates a much broader team, and provides evaluation measures from all angles of a corporate behaviour.</p>	<p>HDFC acknowledge that, the employees are the most important resource and therefore, is the strongest asset to the organization. Staff is the concrete foundation of the Bank and to be thoroughly analyzed and evaluated to tap into their true motivations and desires. We recognise that for HDFC to reach its potential, employees must work towards improvement rather than perfection. In this regard , HDFC is to create a competitive environment with set targets, evaluates and rewards star performers, fosters a creative learning process and provides training, decent work environment through worklife balancing and respects their rights. HDFC also creates a workplace with a supportive culture in which our sustainability efforts are regularly discussed, and opportunities for improvement are sought out, shared and implemented when possible.</p>	<p>HDFC believes that it should adapt to the rapidly changing environment by being prepared to be dynamic and implements new creative ideas to gain competitive advantages. New solutions and improving products and processes can ultimately reduce costs and increase profits. in an economic context, efficient and sustainable utilization of natural resources should be of paramount importance in our operation.</p>
Strengthening Stakeholders' Relations	Stakeholder Engagement And Communication	Sustainability Governance And Accounting
<p>HDFC Bank recognizes that statutory and financial obligations and equitable partnership as the basic principles used in the process of identifying the stakeholders with whom the Bank is to maintain regular engagement. The prime stakeholder, the Bank is statutorily obliged to engage with, is the government; who is the founder of the Bank by an Act of Parliament and the major shareholder. The secondary priority of the Bank is in its financial and statutory obligation to the shareholders / investors who ensures the existence of the Bank. HDFC also maintains an equitable partnership with the other stakeholders who directly and indirectly interact and are influenced by the bank's operations.</p> <p>Accordingly HDFC recognizes the government of Sri Lanka, shareholders/investors, customers, employees, suppliers, environment and community as the critical stakeholder groups with whom it should maintain an open and straight forward communication based on the stakeholder communication policy.</p>	<p>Our engagement strategies and communication policy is focused to fulfill the following stakeholders' topics and expectations.</p> <p>Shareholders - Sustainable growth and enhance shareholder value and protect and facilitate their rights and ensure fairness and transparency Government - Improve quality of life of people through enhancing National Housing Stock and homeownership and harness economic prosperity Environment - Promote Sustainable Housing and manage carbon footprint. Employees - Secured and rewarding career and healthy work life balance. Customers - Provide home financial solutions that customers require in a convenient manner and improve their satisfaction. Suppliers - Ensure right and fairness Community - Long lasting relationship</p>	<p>HDFC shall voluntarily adopts the Sustainability Reporting guidelines of Global Reporting Initiatives (GRI) for reporting on its sustainability activities and report shall be made available to the public via the corporate website and the Annual Reports.</p>

Sustainability Governance

Our Corporate Governance structure is discussed in detail under the Corporate Governance section of this annual report. HDFC recognizes that in-house sustainability as well as the sustainability in general should be a core determinant of the housing finance operation. For this purpose, the Bank has appointed Sustainability and CSR Steering Committees, comprising of Board nominated members from the Corporate and Senior Management. These committees create a forum to discuss the importance of aligning business strategies with sustainability development practices.

The committee is also responsible for policy development, planning, steering and controlling all sustainability activities and reporting to the Board. The Board along with the committees and senior management reviews the performance and compliance periodically. Bank also appoints executive/operational committees, project wise where necessary to implement sustainability related activities and CSR projects.

Sustainability Steering Committee
CEO/General Manager
DGM (Finance)
AGM (Business Development & Marketing)
Manger (Business Development & Marketing.)
One member from Internal Audit
Manager Human Resource.
One representative from Trade Union.

Commitment Towards a Sustainable Development *contd.*

Progress of integrating sustainability practices

	Focused Area	Level of satisfaction in integrating	Comment
1	Economic prosperity - accelerated growth of the Bank with more focus on socio economic development to improve quality of life of our people.	Good	We continually endeavour to improve our service in a best possible way to large number of customers in all provinces , with particular attention to low and middle income group to improve quality of life through housing finance
2	Resource efficiency - cut costs and save global resources.	Good	We annually develop internal indexes to monitor efficiency in utilization of natural resources such as electricity, water , paper and fuel
3	Emission Control - promote and focus on strategies, products, services and relationships that transit to a low carbon society	Fairly Good	We have identified and quantified our carbon footprint; natural sources consumed directly by the operation and indirectly by our staff.
4	Going mainstream - making sustainability a core dialog of the staff and customers	Not satisfied	Sustainability has become a part of the agenda within the corporate and senior management but, yet to be promoted down the line.
5	People & places - working together to support our community	Fairly Good	50% of the staff has understood the importance of community and social participation to the bank and recorded high level of voluntary participation
6	Solid foundations - sustainable business practices through governance & risk management	Good	Risk management and governance is regularly improved in line with the industry and with the developments in the applicable external codes and best practices.
7	Speaking out - advocating on behalf of sustainable business practices and continuous communication with key stakeholders	Good	We continually endeavour to strengthen our engagement and communication with our stakeholders. In this focus we have achieved immense development which is showcased by the awards that HDFC won at the ACCA Sustainability Reporting Awards 2010 and 2011

Stakeholder Group, their key topics and our commitments to engage with.

Stakeholder Group and key topics		Our Commitment (Communication Policy)
Stakeholder	Topics	
Shareholders	Sustainable growth and enhance shareholder value	<ul style="list-style-type: none"> Managing business to deliver consistent growth and satisfactory return Implementing an efficient risk management, internal control system and good governance practices Complying with all statutory and regulatory requirements
	Protect and facilitate the rights and ensure fairness and transparency	<ul style="list-style-type: none"> Ensuring adequate and timely communication Providing a balanced, comprehensible assessment of the state of affairs of the Bank, its performance, and prospects.
Government	Improve quality of life of people through enhancing national housing stock and homeownership	<ul style="list-style-type: none"> Assisting people to construct, own, and upgrade homes or meet ancillary needs by providing affordable housing finance under the power vested by the Act and in conjunction with the national housing policy, with particular focus on the low and middle income groups and promotion of equitable human settlement.
	Economic prosperity	<ul style="list-style-type: none"> Maximizing , direct value creation to the economy Assisting to minimize development disparities through promoting equal access to housing finance and resource mobilization - sector and regional basis and through enabling employment generation Contributing to economic empowerment through inculcating banking habits, financial literacy and inclusion Contributing to the government’s special development initiatives -national and regional, through promoting housing finance and inculcating Banking habits
Environment	Promote Sustainable Housing	<ul style="list-style-type: none"> Promoting compliance with environmental and development regulations Promoting the importance of sustainable housing and living – resource efficient affordable construction and maintenance
	Manage Carbon footprint	<ul style="list-style-type: none"> Minimizing emission from direct business and staff transport Saving electricity, fuel and water. Reducing paper consumption and thereby saving trees, bio-system and climate



Mobile Banking Customers



Mobile Banking Customers



Mobile Banking Customers

Commitment Towards a Sustainable Development *contd.*

Stakeholder Group, their key topics and our commitments to engage with *contd.*

Stakeholder Group and Key Topics		Our Commitment (Communication Policy)
Stakeholders	Goal	
Employees	Rewarding career and job security	<ul style="list-style-type: none"> ● Maintaining an efficient staff performance through performance reviews, remunerations, benefits, rewards, recognition and regular surveys on staff satisfaction ● Maintaining smooth relationships through open and honest dialogue between employees, trade union and management and respecting human rights ● Maximizing capacity through encouraging further education, conducting training and development, providing job enrichment and career progression opportunities ● Maintaining diversity and providing equal opportunity
	Healthy work life balance	<ul style="list-style-type: none"> ● Maintaining a balance between personal and professional life by ensuring health and safety, encouraging extracurricular and recreational activities
Customers	Provide viable financial solution to satisfy housing needs in a convenient manner	<ul style="list-style-type: none"> ● Maintaining affordability of our service to masses with special focus on low and middle income groups ● Extending flexible and customized solutions collating customers need, level and pattern of income and available collaterals ● Enhancing accessibility to our services equally to all segments in the society in all districts and provinces
	Satisfaction	<ul style="list-style-type: none"> ● Continuous improvement of the quality of our services and processes with proven technology and innovations to delight our customers ● Regular assessment of customer satisfaction and follow up
Suppliers	Ensure rights and fairness	<ul style="list-style-type: none"> ● Implementation of a procurement procedure with internal controls and make decisions based on market information in an transparent and fair manner for all qualified and registered suppliers ● Ensuring and respecting their rights through timely payments and long lasting relationships
Community	Long lasting relationship	<ul style="list-style-type: none"> ● Striving to improve quality of life by facilitating accessibility to clean water and healthcare ● Supporting needy children in education and sports ● Interacting with community organizations to improve the well being of the people ● Providing assistance in the event of natural disasters ● Empowering through inculcating banking habits and proliferating savings



Sport Club



Cricket Team



Ladies Cricket Team

Our regular stakeholder engagement process and frequency of communication

Process and frequency of engagement	
Shareholders	<ul style="list-style-type: none"> During the year 2011, Bank published the Annual Report 2010 and four quarterly reports pertaining to the operation of 2011. The Annual Report was distributed to all shareholders with an adequate notice for the Annual General Meeting of 2011. Bank's Audited Financial Statements for the year ended 31st December 2011 has been made available to CSE within time frame. Financial Calendar 2011. - Annual Report Published in April 2011 1st Quarter Financial Statement published on 27th May 2011 2nd Quarter Financial Statement published on 25th August 2011 3rd Quarter Financial Statement published on 22nd November 2011 4th Quarter Financial Statement published on 29th February 2012 Quarterly accounts were published in news papers in three languages. These reports are also published through the corporate websites. www.hdfc.lk Shareholders are also can receive information from one-to-one meetings with and proposed proposals to the officer dedicated to that purpose and in annual general meetings. Our regular press releases review the Bank's annual and quarterly financial performances.
Government	<ul style="list-style-type: none"> As the founder and the principal shareholder we recognize our accountability to the Government. Annual Financial Statements together with the Annual Reports are presented to the Ministry of Finance & Planning and to the Parliament on yearly basis, in three languages. Annual Reports is submitted to the Parliament in three languages. Monthly and quarterly progress reports are submitted to Public Enterprises Department of the Ministry of Finance regularly. HDFC also submits monthly and quarterly reports to the Central Bank on its operational performance, statutory and regulator compliance. Annual Reports, Quarterly Accounts and also important policies could be browsed at our website on www.hdfc.lk.
Environment	<ul style="list-style-type: none"> Habitat day walk is organized as an important event of communicating HDFC's environmental and community participating polices and promote importance of sustainable housing and living. Bank's annual /sustainability report is considered as the most important communication process of our environmental, social and economic responsibilities.
Employees	<ul style="list-style-type: none"> Annual staff satisfaction survey is one of the important staff engagement process of HDFC Bank to assess employee grievances and challenges. Annual appraisal/review is one of the important communication channel available to the employees of all grade and category, to communicate their proposals. Annual sport and cultural events are collective mechanism of communicating important topics to the Management. The exercise of signing collective agreement is critical engagement process which take place in three year circle
Customers & Suppliers	<ul style="list-style-type: none"> Annual customer satisfaction survey is conducted as an important engagement process to assess customers' interest. The survey was conducted in October to December using a sample of 4,000 customers. Customer suggestion and complaints boxes are in place in all branches and each floor at the head office. Branch wise programs are conducted to meet customers. Programs conducted to promote financial literacy were important forums of customer interaction. Annual supplier registration process is the most important supplier interaction.
Community	<ul style="list-style-type: none"> Annual CSR project conducted by the sport club is an another important community interaction with high degree of staff volunteer contribution. Regular savings promotion programs conducted by branches are effective social engagement of harnessing financial literacy and inclusion.

Commitment Towards a Sustainable Development contd.

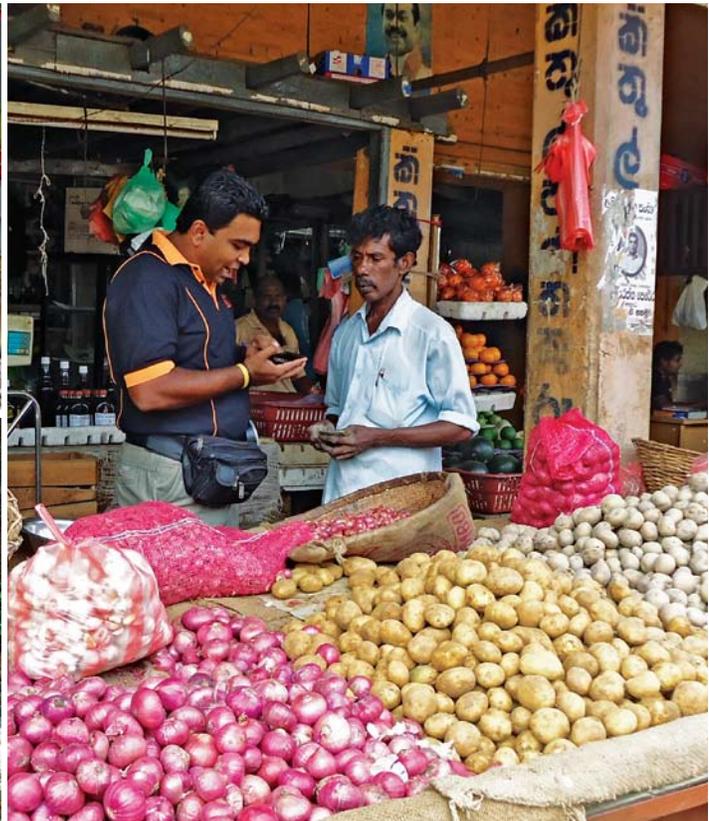
Our Challenges, Opportunities and Risk in Management of Triple Bottom Lines

Triple Bottom Line	Challenges	Opportunities	Risk
Economic	<ul style="list-style-type: none"> ● Inflationary shocks on the cost of construction materials and finance market pressures on the affordability of housing and housing finance . challenge the economic and financial bottom lines. ● Lack of low cost matching funds to support the increasing demand of housing finance. ● Regulatory framework does not complimentary the expected pace envisage for the growth of the housing finance market. ● Need of improvement in governance in the process of assuring construction quality and sustainability , since residential mortgages form the largest and longest financial assets class in the economy. ● Housing finance invariably has to be long term to maintain affordability. But long term projection of economic aspect is a challenge. ● Possible change of regulations and fiscal policies in the long run. ● High competition from the big players with more capacities and financial resources. ● Highly restricted scope of operation of the Bank, by the Act of incorporation precludes assets and liability diversification which expose to a high degree of concentration risk. 	<ul style="list-style-type: none"> ● Ever increasing market. According to the Ministry of Housing, existing housing backlog is around 650,000 which annually increases with natural demand. ● Housing finance creates multiple positive economic impacts in other sectors to boost the economic growth. ● Creates long term financial assets with ever increasing values, fixed cash flows and averagely low risk weighted. ● Large market potential in the North and East after the war situation ● Large business potential for visionary entrepreneurs ● High potential for FDI inflows to the housing industry which could boost the demand for end buyer housing finance 	<ul style="list-style-type: none"> ● High level of Assets and Liability mismatch exposes to liquidity risk. ● High risk of interest rate mismatch ● Risk on financial assets quality and reliability. ● Lack of long term fixed cost finances also increases the vulnerability of the financial and economic bottom lines. ● Credit Risk due to possible change of fiscal policies

Triple Bottom Line	Challenges	Opportunities	Risk
Environment	<ul style="list-style-type: none"> ● Increasing legislation and public policies in sourcing of construction materials such as sands , bricks , metals , cements etc, challenge the housing and housing finance industry. ● Managing the objective of maximizing business return whilst conforming to growing pressure of adopting sustainability driven management practices. ● Advising customers to incorporate sustainability aspects in house designing and construction is a challenge, because most of the rural houses are self built with own supplied timber, sand and metals etc. ● Climate change could affect loan repayment cash flows of the borrowers ● Initial cost of incorporating sustainability practices in house construction and office management is costly; solar system etc. 	<ul style="list-style-type: none"> ● Improving brand recognition by integrating and reporting on sustainability in the daily management operation. ● Opens doors to source local and international ethical finance . ● Increasing demand for green loan products and services. ● Improve productivity and save cost on electricity, transport, stationary and enhances competitiveness. 	<ul style="list-style-type: none"> ● High credit risk on granting loans to customers with agriculture based income due to climate change. ● Risk of environmental degradation due to increasing consumption of unrenueable resources. ● Climate change could create health problems and supply of foods which are more fundamental than payment for housing.

Commitment Towards a Sustainable Development *contd.*

Triple Bottom Line	Challenges	Opportunities	Risk
Society	<ul style="list-style-type: none"> Continuous maintenance in affordability of our service to the society is challenge, in the changing macro environment. Social interaction also costly and challenge full in the competitive market dominated by big players Increasing business climate would increase opportunities for possible corruption. 	<ul style="list-style-type: none"> Socio – economic challenges faced by the society gives us opportunities to formulate successful business strategies that could maximize return whilst addressing the social challenge. Regular engagement with the society enhances long term business opportunities Easily promotes the brand equity. 	<ul style="list-style-type: none"> Credit risk due to lack of financial literacy. Unfocused publicity could damage the brand value



Empowering through mobile banking

Stakeholder Engagements

Triple Bottom Line	Stakeholder Group	Engagements
Economy	Shareholders	Financial Value Creation/Review
	Government	Economic Value Creation
Environment	Environment	Environmental Value Creation
Social	Employee	Social Value Creation - Employee
	Customer & Supplier	Social Value Creation - Customer & Supplier
	Community	Social Value Creation - Community

“ Sustainable housing adds values to your family, society, environment and economy at large ”

Our Engagements on Special Issues of Public Interest in 2011

Interested Stakeholders	Special Issue	Our engagement
Shareholder Regulators Customers Employees,	<p><u>Permission to carryout businesses enumerated Schedule 1V of the Banking Act</u> As a Licensed Specialized Bank , HDFC Was not permitted to carry out business enumerated in Schedule 1V of the Banking Act. Amendment to this restriction was a major concern of our shareholders , regulators and employees, with the view of enhancing the statutory scope of operation in order to improve profitability, operational efficiency, risk management and facilitate maintaining of industry norms.</p> <p><u>Subdivision of Ordinary shares of the Bank</u> Split of nominal value of ordinary shares from LKR 100/- to LKR 10/- was approved by the parliament on 21st November 2011</p>	<p>As per the amendment Act No 45 of 2011, HDFC Bank is permitted to carry out banking businesses listed under the schedule 1V of the Banking Act within the primary objective of housing finance</p> <p>With the above amendment, the Bank was also permitted to split the LKR 100/- ordinary share of the bank in to LKR 10/- and as 31st December 2011.</p>
Government	<p>Ministry of Construction, Engineering Services, Housing and CommOn Amenities</p> <p>Facilitating for expansion of national housing stock and sustaining of existing housing condition and improving housing finance accessibility were the key interest of the Ministry in 2011.</p> <p>Active participation for implementation of Janasevana low income housing program was a major concern</p> <p>Ministry of Finance and Planning</p> <p>Expansion of housing finance market was a main concern of the Ministry to meet expected growth target and socio-economic development as measured by the Millennium Development Goals.</p> <p>Contribution to minimize regional development disparities was another concern discussed in many forums.</p>	<p>We provided 14,224 number of loans for various housing related purposes recording a YOY increased of 32%.</p> <p>We assisted 12,142 families to construct new houses recording YOY increased of 35%</p> <p>We captured 20,177 customers for banking to improve financial accessibility</p> <p>We approved LKR 38million worth of facilities for 123 customers during the year under the Janasevana program at a special rate of 10% per annum</p> <p>We Granted LKR 4,672 million worth of housing loans recording YOY increase of 55%</p> <p>We granted 60% of facilities out of Western Province compared to 58% in 2010</p>
Employee	<p>With the expansion of the operation of the Bank adequate staffing with language skills was a major concern of the management to meet performance targets and risk management etc.</p>	<p>Bank recruited 80 banking assistants from different ethnic groups.</p>

Triple Bottom Line

Management's Strategic Priorities 2010 -2013 and Achievements in 2011

Triple Bottom Lines		Strategic Actions	YOY Position	
	Strategic Priorities		2011	2010
Shareholders	Profitability.	Return on Assets ratio (ROA) – YOY increased by	95%	132%
		Return on Equity ratio (ROE) – YOY increased by	106%	131%
		Profit after Tax – YOY increased by	130%	139%
	Risk management.	Non Performing Loan Ratio (NPL)	Stagnant	Reduced
		Maturity Gap Improved	Reduced	Reduced
	Market capitalization	Dependence on 10 largest depositors – deteriorated to	67%	47%
		Statutory Liquid Assets Ratio (SLAR) - YOY improved to	21%	20.9%
		Capital Adequacy Ratio - YOY improved to	21.3%	21%
	Share price - YOY increased by	155%	272%	
Government	Accelerate lending – more housing and economic activities	Economic Value Addition – YOY increased by	6%	-1%
		Amount Paid to the Government as Tax – YOY increased by	22%	38%
		No of loans - YOY increased by	32%	79%
		Loan value - YOY increased by	52%	118%
	Minimize regional development disparities	No of house construction loans – YOY increased by	35%	73%
		No of Indirect employment opportunities –YOY increased by	28%	112%
		No of direct employment – YOY increased by	19%	17%
	Promoting financial inclusion and empowerment	No of loan granted out of western province – YOY increased by	36%	7%
		No of loan granted in the North and East – YOY increased by	196%	-
		No of financially included customers through Mobil Banking - YOY – increased by	49%	238%
Agricultural sector housing	No of Agricultural sector Loans- YOY increased by	59%	239%	
	Value of Agricultural sector Loans – YOY increased by	60%	-	
Environment	Minimize fuel consumption	Fuel consumption per LKR 1Million loan approved - Improved	-38%	-55%
		Fuel consumed per loan approved – YOY change -improved	-33%	-45%
	Minimize electricity consumption	Average staff travel index – YOY change (improved)	-32%	-41%
		Electricity per Sq:ft occupied - units	8	13
		Electricity per head – YOY change	-35%	-4%
	Reduce paper consumption	Paper consumption per LKR 1Million loan approved – YOY change	-29%	-18%

Triple Bottom Line Management's Strategic Priorities 2010 - 2013 and Achievements in 2011 *contd.*

Triple Bottom Lines		Strategic Actions	YOY Position		
	Strategic Priorities		2011	2010	
Social Responsibility	Employee	Strengthening	Total staff – YOY increased by	19%	18%
			Total emoluments – YOY increased by	11%	14%
		Capacity maximizing	Total training hours – YOY increased by	96%	147%
			Training hours per head, – YOY increased by	50%	100%
		Satisfaction	Staff turnover index – YOY change improved	8%	45%
			Overall satisfaction index – YOY change	-8%	29%
	Customer	Enhancing customer reach	No of branches /customer centers – YOY increased by	11%	8%
			No of Mobil Bankers increased from 81 to 100 - Growth	23%	35%
			No of ATM access facility from 225 to 310 ATMs - Growth	38%	1945%
		Enhance customer base	No of total loan customers – YOY increased by 14,224 - Growth	11%	9%
			No. of total deposits customers – YOY increased by	24%	7%
		Satisfaction	Loan portfolio – YOY increased by	15%	8%
	Customer Satisfaction Index – YOY Change (deteriorated)		-3%	51%	
	Community	Promoting education, clean water, health care, financial inclusion and infrastructure	Investment on promoting social participation – Donation etc	26%	-
			Investment on promoting Education	5%	-
			Investment on promoting financial inclusion	-34%	-

Financial Value Creation

Shareholders

A Significant Recovery in Our Share Price

Our Approach

Our shareholders have provided the startup capital and the entrepreneurship to initiate HDFC as a legal entity to carryout banking business. Therefore, the first priority of the Bank in its financial and statutory obligation is to the shareholders / investors who ensure the existence of the Bank. The investment commitment displayed continually by our shareholders has always added impetus to our corporate objective of providing affordable housing finance.

Accordingly, we strive to balance corporate objectives and shareholder interests ensuring constant growth and stability through financial value creation and wealth maximizing through market capitalization, while promoting fairness and transparency. We have responded to the social, economic and environmental issues inherent in our business to ensure a stable growth.

While creating wealth for our shareholders remains a priority in the triple bottom line reporting concept, we also remain cognizant that by creating a sustainable organization that's driven on the three platforms of economic, social and environmental sustainability, our shareholders in turn will be proud to claim ownership in a respected entity steeped in values, ethics and principles.

Share capital

	2011	2010
Stated Capital- LKR	962,092,936	962,092,936
No of Shares	6,471,052	6,471,052
No of Shareholders	1,615	2,118
Voting Rights	1 Vote per Share	1 Vote per Share
Class of Shares	Ordinary Shares	Ordinary Shares

91%

Institutional Share Holding

1,615

No of Shareholders
(Previous year 2,118)

90%

Top Five Shareholding

Rs 1,900

Highest Share Price in the History

Strategic priorities 2011

- Enhance Statutory Support
- Market Capitalization
- Credit Rating
- Brand Building

Financial Value Creation Shareholders *contd.*

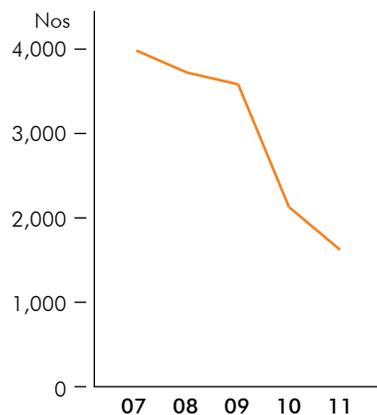
Shareholding Structure

No of Shareholders

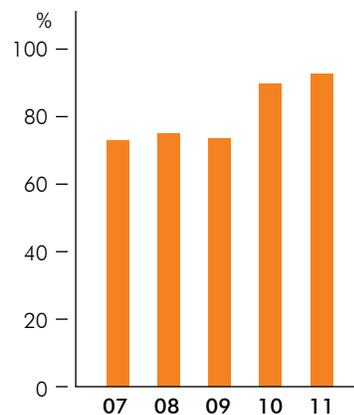
Year	Shareholders	Holding of 20 largest shareholders	Public Shareholding
2006	4,411	71.86%	49.19%
2007	3,972	72.69%	49.90%
2008	3,710	74.75%	50.25%
2009	3,572	73.54%	50.21%
2010	2,118	89.50%	23.01%
2011	1,615	92.60%	21.22%

Number of shareholders which was recorded as 4,411 in 2006 has declined drastically to 1,615 as at 31st December 2011, as a result of consolidating shares in the hand of limited number of shareholders. Over the same period percentage of shares held by the 20 largest shareholders has increased from 71.86 percent to 92.60 percent, reflecting the confidence placed by strategic investors in the Bank. The list of 20 largest shareholders is given in page No 231 of this annual report. Meanwhile, the 5 largest shareholders hold 90 percent of the shares of the Bank as at the end of 2011, showcasing the strategic long-term interest.

No of Shareholders



% of Shares Held by 20 Largest Shareholders



Shareholders' Structural Information

Structural Data	2011		2010		2009	
No of Shares	6,471,052		6,471,052		6,471,052	
Government Shareholding	3,300,221	51%	3,300,221	51%	3,300,221	51%
Private Shareholding	3,170,831	49%	3,170,831	49%	3,170,831	49%
Institutional Shareholding	5,875,938	91%	5,815,746	90%	4,808,803	74%
Individual Shareholding	595,114	9%	655,276	10%	1,662,219	26%
No of Institutional Shareholders	96	6%	117	6%	160	4%
No of Individual Shareholders	1,519	94%	2,001	94%	3,412	99.91%
No of Shares Held by Residents	6,462,851	99.91%	6,463,151	99.88%	6,451,721	0.09%
No of Shares Held by Non-Residents	8,201	0.09%	7,901	0.12%	19,301	0.29%
No of Resident Shareholders	1,602	99%	2,103		3,556	
No of Non-Resident Shareholders	13	1%	15		16	
Holding of 5 Largest Shareholders	5,793,848	89.53%	5,407,991	83.57%	3,726,522	57.59%
Holding of 20 Largest Shareholders	5,991,977	92.60%	5,584,991	90.37%	3,726,522	57.59%

Public Shareholding

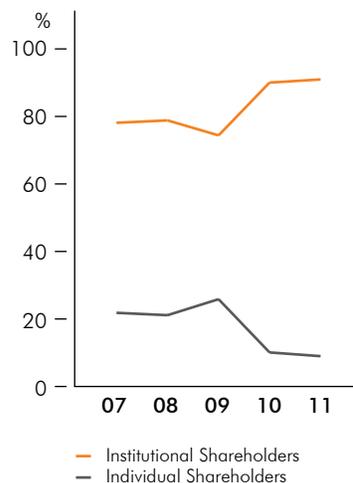
As per the Rule No 7.6(iv) of the CSE, the percentage of public shareholding as at 31st December 2011 was 21.22 percent as against 23.01 percent recorded at 31st December 2010.

Over the last four years, the percentage of public shareholding has declined substantially from the level of 50.25 percent in 2008.

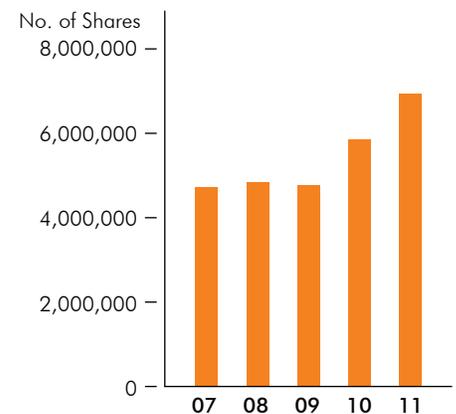
Institutional and Individual Shareholders

Over the last three years, institutional investors have displayed a strong discretion in investing in HDFC shares, thus increasing the institutional share holder base from 74 per cent in 2009 to 91 per cent in 2011, reflecting their long term interest. It is also notable to mention that 91 percent of shares are being held by 96 institutional shareholders. Other than the 51 percent of the Government stake, 40 percent is been held by four leading corporate bodies in the country.

Institutional and Individual Shareholdings



Shares Held by 20 Largest Shareholders



Financial Value Creation Shareholders *contd.*

Distribution of Shares as at 31st December 2011

	No of Shareholders	No of Shares	%
1 – 1,000	1,525	219,302	3.39
1,001 – 10,000	66	213,973	3.30
10,001 – 100,000	10	471,151	7.28
100,001 – 1,000,000	4	2,348,626	36.29
Over 1,000,000	1	3,218,000	49.73
Total	1,615	6,471,052	100.00

Value Created to Shareholders

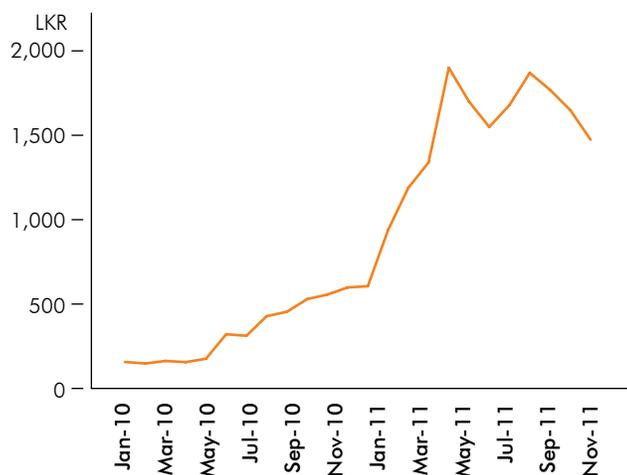
The Stock Market

In the course of 2011, we saw a significant upturn in the Colombo Stock Exchange (CSE), although a degree of uncertainty persisted in the last quarter of the year. The healthy start to the year was followed by a period of stabilization and then recovery. It was probably the only exchange to record positive year-to-date growth in the region as at September 30, 2011. The All Share Price Index of the CSE recorded a 2.23 percent growth during this period.

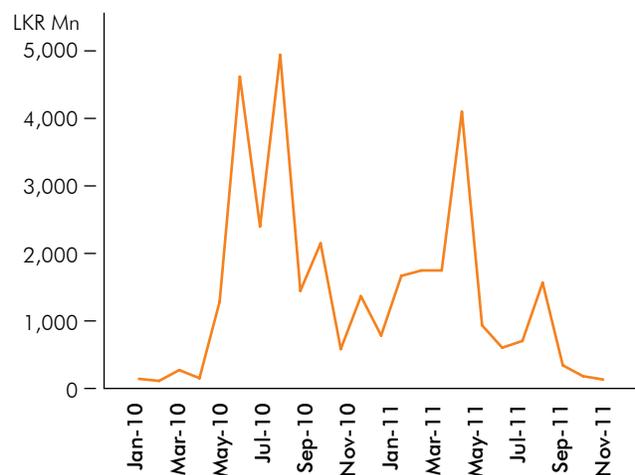
Increased Share Price and Market Capitalization

HDFC Bank's closing share price rose by 155 percent to LKR 1,400 in the reporting year compared to LKR 550 in 2010. HDFC recorded the highest market price of LKR 1,900 in May 2011 at the CSE, since listing in 2005, accounting for a market capitalization of LKR 12,294 million. At the same time, substantial intraday price volatility decreased as the markets became less nervous. During the year, traded lowest price was LKR 554 in January. However, throughout the year, HDFC's share price performed well compared to the industry index. Market capitalization at the balance sheet date was LKR 9,059 million, which represent approximately 0.31 percent of the total market capitalization.

HDFC Share Price



HDFC Market Turnover



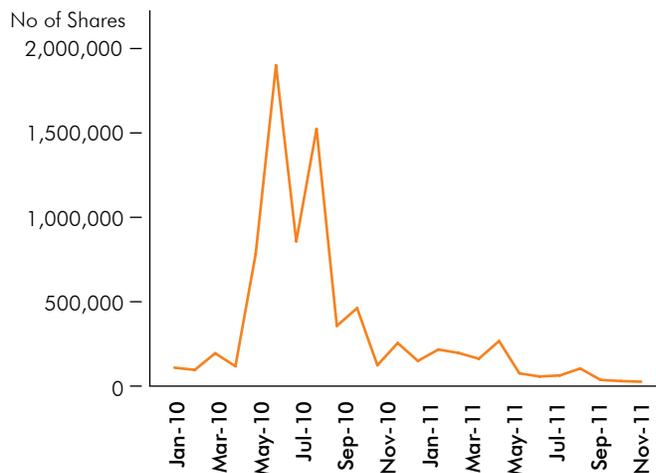
Share Trading Information -2011

Quarter 2011	Price -LKR			Volume
	Highest	Lowest	Closing	
1st Q	940	554	911	365,000
2nd Q	1,900	1,228	1,547	448,700
3rd Q	1,869	1,352	1,798	157,500
4th Q	1,689	1,271	1,389	367,000

Volume of Shares Traded

HDFC share is fairly illiquid in the market, since it has largely consolidated into the hand of few strategic corporate investors. However, during the year 1,192,100 shares were traded at a total market value of LKR 1,444 million.

No of HDFC Shares Traded



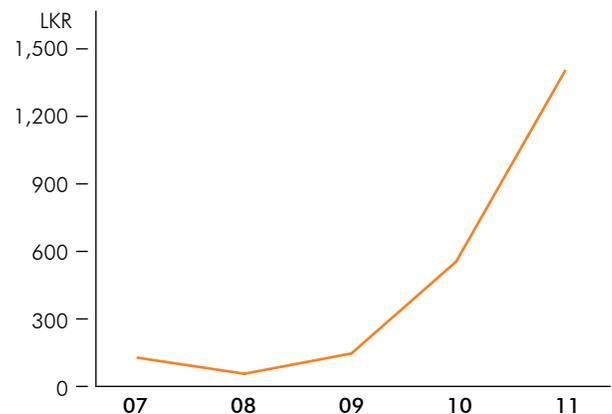
Improved Long - Term Return

Although equity markets picked up again in 2011, the severe price decline continued in the latter part of the year resulting in a negative long-term shareholder return. However, our share holders have earned a strong wealth compared to the initial public offer price of LKR 220 in 2005. Over the long-term, this corresponds to an average annual return of 89 percent.

Direct Return to Shareholders

Year	Share Price LKR	Shareholders' Fund LKR-Mn
2005	191	1,643
2006	174	1,800
2007	128	1,789
2008	56	1,697
2009	147	1,721
2010	550	1,848
2011	1,400	2,125

Share Price 2007 - 2011



Financial Value Creation Shareholders contd.

Earning Per Share

The earnings per share (EPS) of LKR 47.90 in 2011, recorded a strong growth of 140 percent compared to the last year's EPS of LKR 20.91. This is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issues during the year.

Challenge of Meeting the Minimum Core Capital

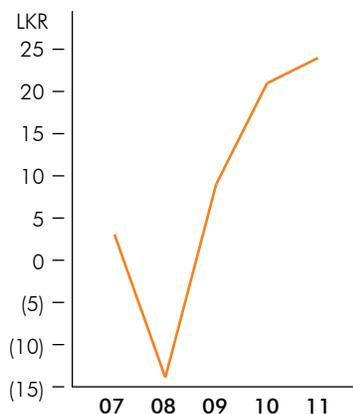
Tier-1 Capital

It is a mandatory requirement of the CBSL, that all Licensed Specialized Banks to meet the minimum capital (Tier-1) requirement of LKR 2,000 million by the end of 2011. HDFC Bank has been marching towards achieving this target from internally generated funds because of the structural and statutory challenges faced by the Bank on raising new equity or debt capital before the deadline. The Bank is proud to announce that it could meet this regulatory requirement comfortably on 31st December 2011.

HDFC is remorseful about the decision to keep back the dividend

Following a challenging environment in 2009 and 2010, HDFC Bank achieved a commendable result of LKR 310 million in 2011. Upon recommendations of the management, the Board of Directors have decided to utilize this fund to maintain a comfortable solvency zone ratio after achieving the Tier-1 capital requirement of the Bank up to the statutory minimum. This decision will invariably improve the soundness of the balance sheet and fundamentals of the share for stronger long-term prospects. Tier-1 capital ratio increased by 1.17 percentage points to a record 21.34 percent at year-end, entirely from HDFC's own resources.

Earning Per Share (EPS)



Financial Reporting and Social Branding

Financial Reporting

Shareholders and the public are regularly kept up to date, mainly through the annual reports and the interim reports. HDFC Bank's annual report won the 1st place in the ACCA Sustainability Reporting Award 2011, under small scale category enterprises recognizing our commitment to publish a more transparent annual report to our shareholders. We also won a certificate of recognition at the Annual Report Award Ceremony 2011, conducted by the Institute of Chartered Accountants of Sri Lanka.

Financial Statements and related notes of this report have been audited by the Auditor General and other qualitative informations and compliance with GRI are assured by an independent Auditor the report is also referred to the Accounting Standards Monitoring Boards to review the compliance with accounting standards.

IFRS Implementation

We strive to develop our annual reporting framework inline with national and international developments to enable shareholders and prospective investors to make balance investment decisions of our shares and other financial instruments. Financial statements of 2012 will be prepared in accordance with International Financial Reporting Standards (IFRS) which provide a higher degree of transparency and facilitate comparability with our national and international peers.

Economic and Social Contribution

During the year, HDFC Bank won a merit award at the National Business Excellence Awards, conducted by the National Chamber of Commerce of Sri Lanka.

Credit Ratings Unchanged

Credit rating is important to make an independent judgment of our affairs to shareholders and investors. Fitch Rating Lanka (Pvt) Ltd, the credit rating agency, reaffirmed the national long-term rating of HDFC Bank at BBB+(lka) with a stable outlook. This is the second consecutive year where HDFC was affirmed the same rating.

Financial Calendar 2012

HDFC Bank is committed to publish annual reports and quarterly reports on a timely manner and submit the required information to the CSE on the stipulated dates. Quarterly accounts of 2012 will be published within two months following the quarter end and the Annual Report before the end of April 2013.

Future Prospects

Enhancement of Scope of Operation and Share Value

Permission to carryout business enumerated Schedule 1V of the Banking Act

As a Licensed Specialized Bank , HDFC was not permitted to carryout businesses enumerated in Schedule 1V of the Banking Act, because of the statutory restrictions enforced by the HDFC Act. These boundaries restricted our playing field in the competitive banking industry. This was a major concern for our shareholders, regulators and employees, with the view of enhancing profitability, operational efficiency, risk management and maintaining of industry norms.

As per the amendment Act No 45 of 2011, approved by the Parliament on 21st November 2011, HDFC Bank is now permitted to carry out banking businesses listed under the schedule 1V of the Banking Act within the primary objective of housing finance.

Subdivision of Ordinary Shares of the Bank

With the above amendment, the Bank was also permitted to split the LKR 100.00 ordinary share of the bank in to LKR 10.00. This split will be implemented in 2012, with the approval of the shareholders in an extraordinary general meeting.

New Products and Services

The Bank is moderating its activities within the above statutory boundary and is developing its product portfolio to enhance the competitiveness of operations thus easing the challenge of risk management and maintaining industry norms. These initiatives would enhance profitability and generate strong long-term results to the shareholders while increasing liquidity of HDFC shares in the market.

Funding Needs

HDFC Bank is in need of long –term capital to cushion the equity/assets ratio which has been deteriorating over the years, intensifying the challenge of raising long term funds within the turbulent macroeconomic environment. The Bank has intensified discussions with fixed-income investors and banks who prefer to deal with adjustable long term advances as well as with investors who are increasingly making investment decisions on the basis of sustainability criteria of meet funding needs.

Increasing Interest in our Annual General Meeting

The Annual General Meeting of HDFC was held on 9th May 2011, in Colombo with substantial representation of shareholders, than in the previous year. The Management Board Chairman's customary report on the development of the business in the past year was followed by a question and answer session between the shareholders and management on HDFC's current position and future prospects.

Key performance Indicators - Share Price and Trading

	2011	2010	2009
Total Number of Shares Traded	1,192,100	6,623,900	1,510,700
Market Value of Shares Traded –LKR-Mn	1,444	1,938	194
Monthly Average Traded – Shares	99,341	551,991	125,891
Price and Market Capitalization			
Share Price - Highest – LKR	1,900	600	192
Lowest – LKR	546	135	49
Closing – LKR	1,400	550	147
Market Capitalization/Closing – LKR- Mn	9,059	3,548	948
Net Assets Value per Share – LKR	328	284	266
Dividend per Share – LKR	-	5	5
Dividend Pay Out Ratio	-	25%	57%
Earnings per Share – LKR	47.85	20.91	8.72
Price Earnings Ratio-Time	29.26	26.30	16.94

Economic Value Creation

Strategic Priorities 2011

- Accelerate lending
- Enhance customer reach
- Promotion of financial inclusion
- Agricultural sector housing

Our Approach

Responsibility is directed by the broad based corporate objectives set out by the Government who is our principal stakeholder. The primary objective of HDFC Bank, as constituted by the Act of Parliament under which the Bank is incorporated, is to provide financial facilities to construct, own, upgrade homes or provide ancillary needs. Access to safe and healthy shelter is essential to a person's physical, psychological, social and economic well-being, as it also enables the Government to realize its expectation of providing affordable housing finance through HDFC Bank.

Affordability of our service does not mean affordability to an individual customer, but broadly to the economy, nature and the society.

Millennium Development Goals (MDGs)

Economically, environmentally and socially affordable decent housing could assist in several dimensions to improve the physical quality of life and economic growth of a country as measured and communicate by the Millennium Development Goals (MDGs). HDFC Bank being a prominent development partner of the Government is committed to provide assistance in realizing these goals. The

country has already achieved the MDGs in several dimensions and is marching towards achieving most of the other MDGs by year 2015, at national level despite regional disparities. Housing conditions which have substantially improved since the 1980s, in particular with respect to housing materials and access to electricity, safe water and sanitation, ownership of radios and television sets have substantially contributed to achieving these goals.

HDFC being a fully fledged housing finance institution is committed to continually improve housing conditions by granting affordable housing finance and thereby contribute towards achieving the nation's MDGs in an equitable manner in all regions and economic sectors. In this context, our strategic approach on economic performance is demonstrated in the following directions.

- Direct economic value creation.
- Promote equitable human settlement through enhancing the national housing stock and homeownership with special focus on the less privileged groups.
- Assist in minimizing development disparities through equitable regional distribution of service and resource mobilization.

+ 32%

No of Loans

20,177

No of people financially included

12,142

Facilities to construct new houses

+ 55%

Value of new Loans

- Contribute to economic empowerment through instilling banking habits and financial inclusion.
- Contribute to the Government's special development initiatives-national and regional.

Our economic responsibility is directed by the policies stated above and statutory directives upon which we have established our social license over the last 26 years as a leading player in the affordable housing finance market in the country.

Policies and Governance

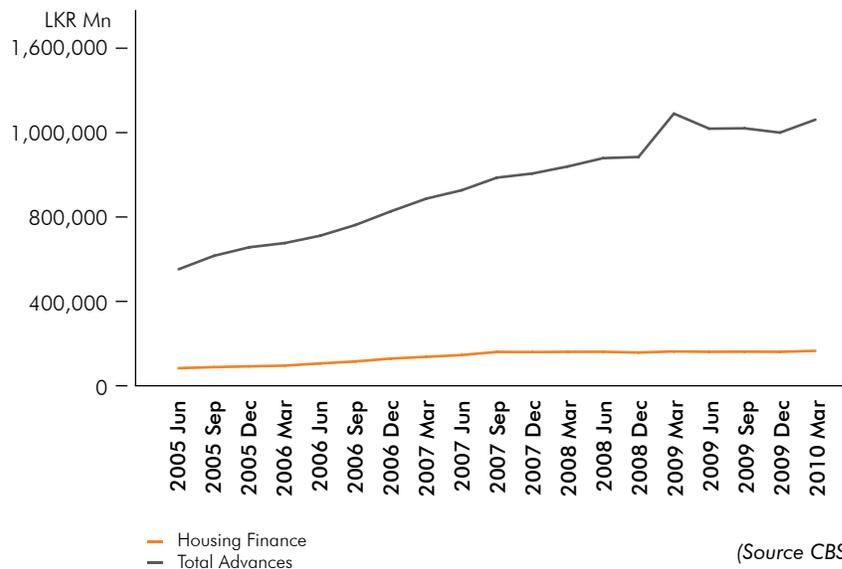
Our core economic responsibility is defined by the corporate objectives as constituted by the Housing Development Finance Corporation Act No. 07 of 1997, amended by Act No. 15 of 2003. Activities of HDFC Bank are further directed by the economic directives issued by the General Treasury and the Central Bank of Sri Lanka in line with the Government housing policy and national and regional development initiatives. Internal policy guidelines are developed and approved by the Board of Directors, in implementation of above broad based objectives, in line with management of operational risk and maintaining industry standards. These policies are executed by several management committees. HDFC Act and policy directives can be found in the websites of www.gosl.lka, www.cbsl.lk and the corporate website of the Bank, www.hdfc.lk

Housing Finance Industry and GDP

Housing Finance Sector

Housing finance market which is mainly driven by the commercial banking sector has grown from Rs.142 billion in March 2007 to Rs.172.5 billion in March 2011 reflecting an annual average growth of 7 percent even during challenging economic environments. Commercial banks that actively engaged in extending mortgage financing are better able to cope with the liquidity risk by relying on demand and time liabilities and are able to benefit from higher yields. However, advances to the housing sector by commercial banks as a percentage of total lending has declined from 16.1 percent to 14 percent over the same period. In the second half of the year, with favorable change in the macroeconomic environment, peace dividend and faster recovery of the South Asian region, the banking sector was more geared on the housing industry offering more dynamic products.

Banking Sector total Advances and Housing Finance



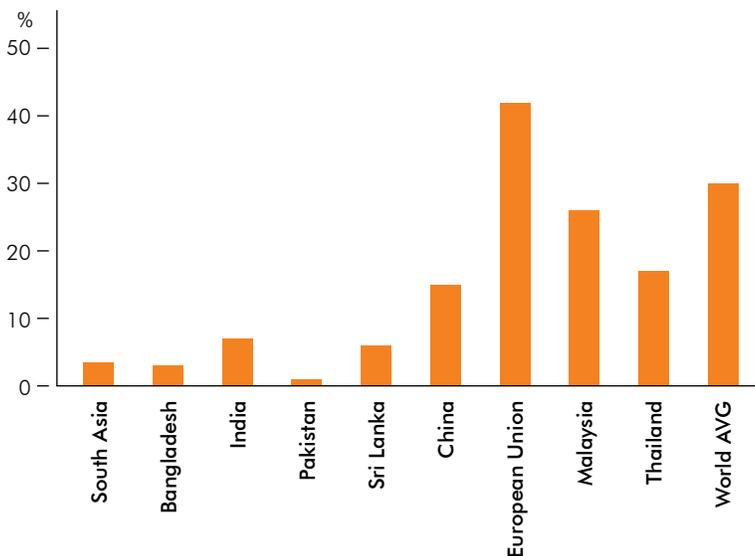
This revival was in line with the Government's policy focused on agriculture and infrastructure development as priority sectors for achieving the target of USD 4,000 per capita income by 2015. However, the present scale of development in the housing finance sector needs to be substantially supportive of the existing level of geographic transformation in the country, with the current scale of the expansion in the middle income sector.

Economic Value Creation *contd.*

Penetration of Housing Finance

The housing sector of a country contributes to the nation's GDP in two basic ways; through private residential investment and consumption spending on housing services. In Sri Lanka, the mortgage to GDP ratio is approximately 6 percent. As per the World Bank assessment this is the highest in the region but is still much lower than the world average of 30 percent, thus showcasing the vast potential for growth and development. Consumption spending on housing services includes gross rents paid by tenants, and owners' imputed rent and utility payments.

Banking Sector Total Advances and Housing Finance



Mortgage Debt to GDP - source world Bank

The factors which influence the industry

Lack of Long Term Funding

Short supply of low cost long term matching funds precludes the penetration of housing finance sector to the masses. This factor affects the maintenance of affordability of home loan services and the profitability and stability of housing finance institutions. Inadequately mitigated exposure creates an interest rate risk and maturity mismatches.

Housing Cost Affordability

Ever increasing cost of construction, land and labour further precludes the envisaged expansion of the industry. As per the CBSL statistics, cost of construction of houses has increased more than 12 percent since 2008 with an annual average increase of around 4 percent. Building materials which recorded substantial price hikes since 2007 includes timber 17 percent, skilled labour 19 percent and cement 27 percent thus making cost of housing unaffordable for many, particularly to the low and middle income segment.

Poor Accessibility

In Sri Lanka the need for housing finance is much greater than the effective demand due to lack of accessibility. As per the World Bank assessment, 35 percent of the housing finance market is inaccessible to formal finance due to lack of proof of income, inadequate collaterals and financial illiteracy. However, this segment has the willingness and capacity to pay for low cost affordable housing.

Increasing Land cost

Sri Lanka's population growth is approximately 1 percent per annum whereas the country's urban population growth is threefold higher than the country average, making urban housing a challenge. Apart from the cost of construction, high cost of lands has further mounted pressure on urban housing. This has resulted in the dissemination of slums, encroachment of valuable Government properties and increasing urban poverty.

Significant decline in greater Colombo housing approval index, from 10,974 in 2008 to 9,792 in 2011 is a clear indication of this pressure. Particularly, approval index of middle income housing units, in sizes of 1000 -2000 sq.ft.s has declined sharply over the same period. The Government has initiated several programs to develop underutilized valuable urban properties to provide up market urban housing and affordable housing for the middle income segments. The Government also plans to build social housing schemes to accommodate encroachers and clear land for development activities. Following this market opportunity HDFC has granted 21 percent of its facilities to the Colombo district in 2011.

Cost Effective and Sustainable Housing

Sri Lanka’s housing industry is also undergoing a transformation into more cost effective, resources efficient and sustainable designs and buildings, focusing on affordability in construction and maintenance. As per the CBSL statistics, housing approval index of above 2000 Sq.ft houses in greater Colombo has recorded a remarkable decline from 207 in 2007 to 112 in 2010.

Poor Governance

Poor emphasises in governance is one of the main issues that stakeholders in the housing finance industry should address. Real estate forms perhaps the largest assets class in any country and is also the largest source of wealth for families. Therefore, it requires high level of governance in planning, designing, approval and construction etc to protect the rights of residents. Mortgage lenders who invest over 75percent of the cost of construction for over 10 years, also do not possess a warranty as to quality of property. This has largely precluded new cost effective and sustainable construction technologies penetrating the local market, which has been successful in other countries. These are the fundamental issues which will ensure long term sustainability of the industry rather than short-term gains.

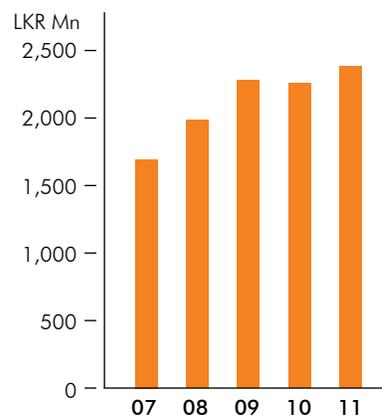
Most of the condominium projects in Colombo have not obtained necessary approvals from required statutory bodies and this has prevented buyers from seeking credit from financial institutions due to lack of legal title. This factor also restricted the multiple effects of funds which otherwise would have occurred by investing these funds in purchasing apartments, in other economic sectors.

Whilst facing these challenges, HDFC Bank has gained widespread social license over the last 26 years as the affordable housing loan provider. As the leader of the low and middle income housing finance market, HDFC has contributed immensely to the socio economic development of the country.

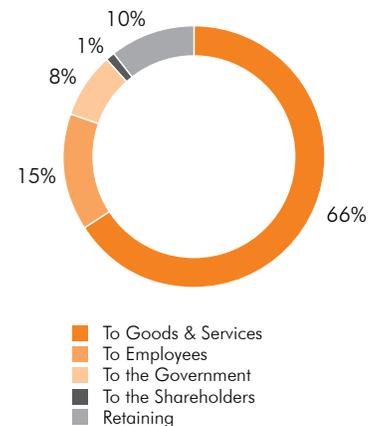
**Our Economic Performance
Direct Economic Value Creation**

During the year under review HDFC Bank has created Rs. 2,374 million value to the economy as against Rs. 2,250 million in 2010. This value has been distributed among the suppliers, employees, Government and shareholders, while Rs. 276.53 million was retained by the Bank to strengthen its growth and stability as tabulated in the table of Key Economic Performance. We have contributed Rs.188.88 million to the Government as direct and indirect taxes in 2011.

Economic Value Created 2007 - 2011



Economic Value Creation 2011



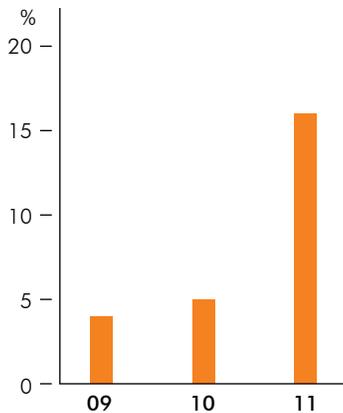
Government’s Investment and Return

The Government of Sri Lanka, has invested Rs.327,800,000/- in 3,278,000 ordinary shares of the Bank at Rs.100/- each, which represents 51percent shareholding. Currently, the operations of the Bank are fully financed by interest bearing funds mobilized from the market and through financial assistance or grants received from the Government.

Accumulated funds of the Government at HDFC Bank; initial capital Rs.490.62 million and 51 percent of the accumulated reserve capital which is equal to Rs.592 million, accounts for Rs.1,083 million. During the year HDFC Bank has paid to the Government in terms of taxes Rs.188.89 million indicating a 17 percent financial return on investment of Rs.1,083 million, which amounted to 18.5 percent in 2010.

Economic Value Creation contd.

Return to the Government 2009-2011



Over the last two decades there has been a surge in the national housing stock and home ownership in Sri Lanka, paving the way to a significant improvement in the quality of lives of its people. Over 75 percent of the population has access to electricity, over 30.8 percent of the households to pipe born water and over 70 percent of households own a radio or television set.

Despite the direct economic value creation from the core business operations, we assess that indirect impact of HDFC's core business over the last 26 years is significant in the context of this socio economic development of the country.

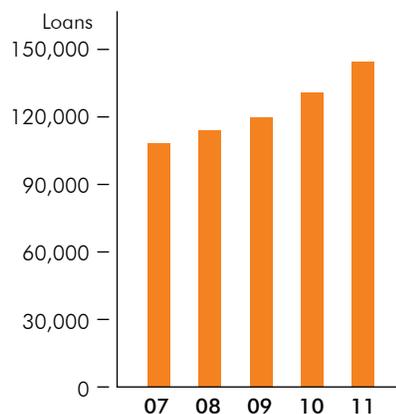
Aggregate Service in the Country

HDFC has assisted over 145,000 families to obtain homeownerships, improve existing dwellings and acquire household equipments and accessories. The total value of the facilities granted since year 2000 is over Rs. 23.5 billion, while over 80 percent of these advances were extended to the low and middle income groups making their dream of owning a house a reality.

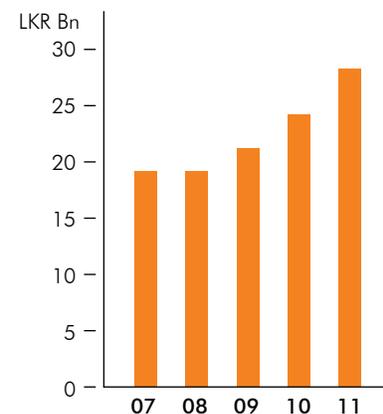
Promoting Human Settlement Assisting for Diversified Need of Housing

Housing not only provides physical shelter but also has a significant impact on the lives of the dwellers in terms of skill enhancement, income generation, increased security, health, self confidence and human dignity. Housing finance development therefore plays a vital role in boosting equitable economic growth and reducing poverty through assisting households to build assets, improve living conditions, empower middle and lower middle income population, and strengthen communities. An active system of housing finance provides real economic benefits and positively affects savings, investment and household wealth. It also provides an investment option for long term funds in the economy as an alternative to investment in treasury bonds. Each Rupee invested in housing sector catalyzes multiple economic activities in other sectors of the economy.

Aggregate Service No. of Loans



Aggregate Service Value of Loans



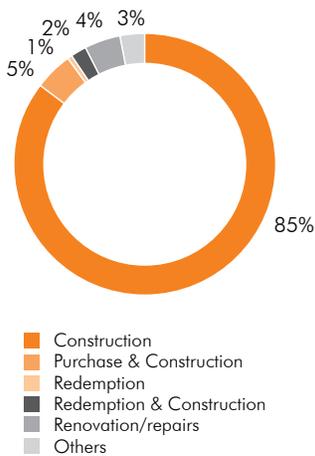
Enhancing Home Ownership

During 2011 HDFC recorded a robust increase in lending activities registering an impressive growth of 32 percent in the number of loans and 55 percent increase in the value of loans granted. In 2010, we extended 10,739 facilities, totaling Rs.3,069 million. These facilities were extended for house construction, purchasing, redeeming of housing loans obtained at high interest rates, renovations, repairs and extensions to existing structures. Number of loans granted for purchasing of household items, furniture and other lifestyle development needs were 428, with a total credit value of Rs.240 million. We estimate that, these facilities have assisted over 14,000 families and over 75,000 people to fulfill their pressing need of shelter.

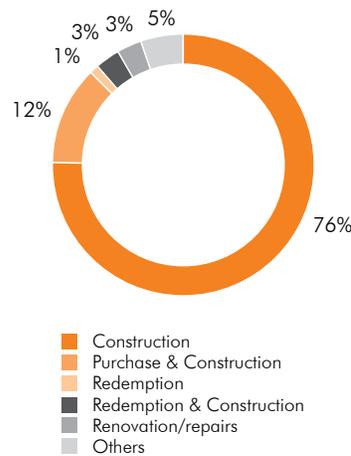
Purpose Wise Distribution Of Facilities – Rs. Mn

Purpose	2011	2010
Construction	3,594	2,300
Purchasing	573	177
Redemption	64	56
Repairs & Improvement	290	268
Lifestyle Needs	240	268
Total	4,762	3,069

Purpose Wise Distribution of Service 2011 (No of Loans)



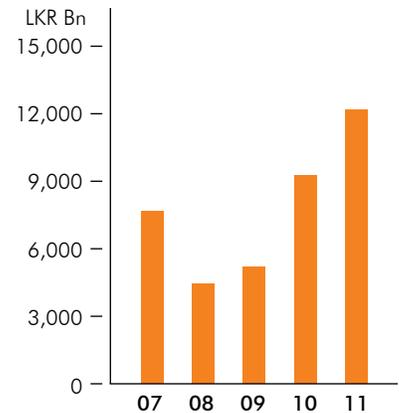
Purpose Wise Distribution of Service 2011 - Value of Loans LKR Million



Contribution to the National Housing Stock

During the year under review, HDFC contributed towards increasing Sri Lanka's national housing stock by approximately 12,142 new houses. HDFC financed approximately Rs.3,594 million of the construction value of these houses which had a property value of over Rs.4,500 million. The number of construction loans granted during the year recorded 31 percent increase compared to 9,252 loans in 2010. Further, the number of construction loans granted during the year increased by 56 percent Year on Year. The Bank also granted Rs.290 million for repairs, renovations and improvements of existing dwellings.

Granting of Construction Loans

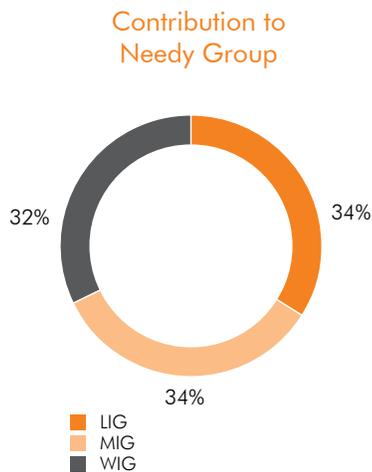


**Assisting to Minimize Development Disparities
Prioritized Services to the Low and Middle Income Segments**

HDFC's primary objective has always been to serve the lower and middle income groups to meet their needs of housing finance and allied services. With the majority of the population in Sri Lanka coming under these income categories, there's a significant lack of supply to meet the demand for housing. Approximately, 55 percent of the rural population and 8 percent of the urban population live below the poverty line and on average 15 percent of the total population live below the universal poverty line, with an income which is totally insufficient to meet the cost of housing (Sri Lanka Poverty Assessment 2007, World Bank). Majority of the people belonging to this category has to contend with restricted access to credit facilities offered by commercial banks or financial institutions due to inadequate collateral, proof of income and lack of financial inclusion.

Economic Value Creation *contd.*

During the year, more than 68 percent of the approved facilities were granted to low and middle income group representing 41 percent of the value of loans approved. Out of approved facilities, 34 percent of the loans were less than Rs.200,000. Loans between Rs.200,000 and Rs.500,000 accounted for 34 percent. The average size of the loan granted by the Bank rose from Rs.285,000 in 2010 to Rs. 327,000 in 2011, reflecting the widened scope of our social responsibility toward serving the needy groups of the country.



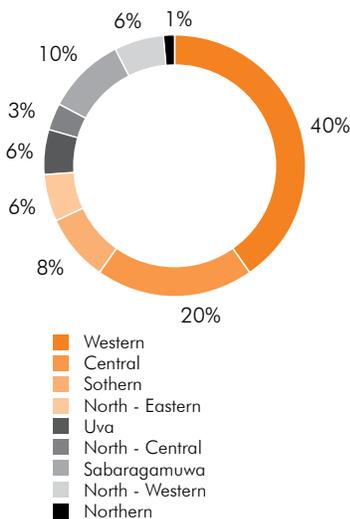
Provincial Distribution of Service

Increasing urbanization has seen the burgeoning of urban dwellers, rising sharply at 3 percent per annum. This trend is significantly reflected in the western province due to the large number of immigrant families which has triggered land and construction labour prices within the province to rise to unaffordable proportions. Given these emerging trends, in 2011 HDFC granted a total of 5,740 loans in the Western Province representing 40 percent in volume and 51 percent in

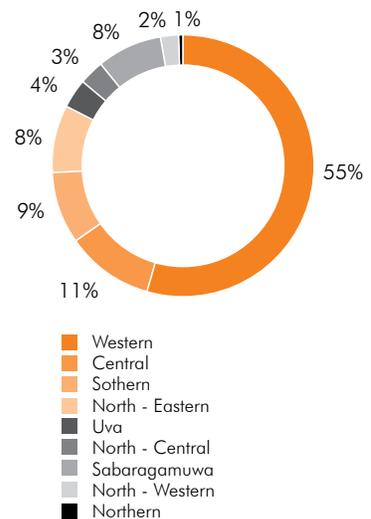
value respectively. Of these, 67 percent of the loans were granted to the middle income group, with loans for new constructions representing 80 percent, home purchases 8 percent and other housing related loans 10 percent.

Of the total disbursements, 8 percent was disbursed in the Southern province while 20 percent was disbursed in the Central province. The balance disbursements were made in Wayamba, North Central, Sabaragamuwa, Eastern and Northern Provinces. The Bank opened three branches in Gampola, Kuliyaipitiya and paliyagoda to widen its customer reach. It is pertinent to mention that 34 percent of our disbursements were made to the low income families who hardly had accessibility to formal housing finance. Enabling these families to realizing the dream of owning a house had invariably improved the quality of life and the living standards of households.

Provincial Distribution of Service - No of Loans



Provincial distribution of Total Loan portfolio LKR M



District Wise Disbursements of Service

Colombo district records the highest rate of population growth and urbanization in the country. This trend has caused the price of land and housing to spiral upwards. The increasing population in the district has caused meeting the housing needs a challenging task. HDFC concentrated on disbursing 21 percent of the value of loans and 30 percent of the loan volume, in the Colombo district. HDFC has an all island wide branch network of 31 with presence in every district. The second highest disbursement was made in the Gampaha district with a special programme launched in the districts of Batticaloa, Vavuniya and Trincomalee for lending and resource mobilization.

Regional Financial Resources Mobilization

Region	Loan Portfolio Balance Rs. Mn	Deposits Mobilized Within the Region Rs. Mn	New Funds Mobilized to the Region Rs. Mn
Central	2,338	887	1,451
North Western	1,695	548	1,147
Southern	2,210	1,006	1,204
Uva	1,266	421	845
Western	7,048	7,839	-791
Total	14,557	10,701	3,856

Employment Generation and Poverty Alleviation

While our team has 505 members within its permanent cadre, we are proud to be the enabler in generating approximately 13,180 indirect employment opportunities around the country as a result of house financing. Housing finance enables to create self employment opportunities in the fields of carpentry, masonry, bricks and tile industries, sand mining and other housing related activities in the small and medium enterprises sector.

The construction industry is a primary employment generator. Based on the information of the Central Bank of Sri Lanka estimated employment opportunities in the construction industry is approximately 592,000 island wide representing approximately 7 percent of the total employment market in 2011. Total advances granted to the housing industry by commercial banks stood at Rs.214 billion (annualized based on CBSL September figures). HDFC contributed Rs.4.762 billion in 2011, for personal housing needs in over nine provinces.



Mobile Banking to lowest income group

Resources Mobilization to Regions

Other than the western province, the Bank mobilized large sum of financial resources to finance regional housing finance need which made a significant contribution to regional socio economic development. HDFC mobilized Rs.1,451 million to Central province, Rs.1,147 million to North Western province and Rs.1,204 million to the Uva province as tabulated in the following table indicating the Bank's

commitment to regional development, which made a significant contribution to minimize provincial development disparities.

How HDFC Aligns Business Strategies With Socio-Economic Needs

As a development bank that grants long term loans, HDFC is vulnerable to adverse economic, social and environmental changes of the low and middle income segment of the population who constitutes 70 percent of the customer base. Our business strategies are always aligned with the socio-economic challenges of this segment who has been the main customer base of our Bank over the last 26 years.

Empowering Through Promoting Financial Inclusion and Literacy

Financial Inclusion

Efficient and inclusive financial markets facilitates investment and increases productivity by reducing information gaps and transaction cost, pooling resources, diversifying risk, and improving resources allocation. Tailor made financial instruments help households to smooth lifetime consumption, manage their economies and social risks, and engage in business opportunities that improve their livelihood. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society.

In Sri Lanka there is significant scope for financial penetration, since private sector credit is substantially lower that the regional as well as the world average.

Economic Value Creation contd.

Need to Improve Accessibility to Housing Finance

Sri Lanka's effective demand for housing finance is significantly lower than the national housing need, mainly due to inadequate access to housing finance. In order to synchronize the effective demand with the actual housing need, it is essential to improve the accessibility of housing finance to the low and middle income group. Majority in this segment is from urban low income families and qualifies to obtain an affordable mortgage loan but is restricted due to inaccessibility.

The common hindrances in extending formal banking facilities to this segment are inadequate financial literacy, poor banking habits, inadequate collaterals and lack of proof of income. Often they are the most vulnerable segment of our community who are at risk of financial exclusion. HDFC experienced that a substantial percentage of this community who do not transact with formal banking channels, lose their wealth to informal financiers when borrowing money for housing and daily financing needs.

Our Strategy

HDFC continually strives to improve the accessibility of housing finance by promoting savings which is the strategic priority of the Bank. HDFC uses its resources and expertise to inculcate banking habits, skills and confidence in this community thus enabling them to access formal housing finance. We are delighted to mention that a majority of our customers are from this category that constituted 68 percent of the total customer base of HDFC in 2011. Of the low and middle income group 34 percent of the customers were from the communities with minimal or zero financial literacy or banking habits.



Women empowering through housing related micro finance

Mobile Banking Operation

As a strategic approach, HDFC initiated its mobile banking operation (Palm Top) to capture the low and middle income segment who do not use formal banking channels to the formal banking system and promote banking and savings habits among them. The operation was initiated in 2007 and is currently operating successfully throughout the Bank's branch network with over 100 Palm Top machines and operators. Our promotional assistants daily visits approximately 18,000 customers island wide, majority being pavement hawkers, boutique/shop keepers, daily waged laborers, fishermen etc whose income is not permanent. For over 35 percent of these customers, the average daily deposit is less than Rs.250/- per day. It was the very first time that most of these customers were exposed to formal banking channels through our Mobile Bankers.

Development of the Mobile Banking Operation

Capacity Building: During the year, HDFC increased the mobile bankers group from 81 to 100 operators in all parts of the country. It is noteworthy to mention that the Bank recruited female trainees, to serve the women entrepreneurs in small townships. In order to enhance the service 50 Motorcycles were purchased to mobilize neighboring townships of all cities where HDFC has a presence.

Women Empowerment: HDFC Bank paid special attention to empower women who involves in small business through housing related micro finance via mobile banking. During the year we captured over 500 women in different small townships.

Enrichment: During the year, the Board of Directors approved the recruitment and promotion policy of the mobile bankers, and also conducted several training programs, including two day outdoor program conducted for the best performers at Hotel Kandalama. An awards ceremony was held in February 2011 to recognize the high performers of the Bank while 14 operators were promoted as banking assistants and 12 operators as permanent promotional assistants.



Geographical Expansion: during the year mobile operation was further expanded to cover the areas of Trincomalee, Batticalo and Vauniya with new ten operators

Number of Customers Captured In 2011

In 2010, 20,177 new customers were added to HDFC from the low and middle income segment with an average monthly increase of 1,681 customers. These customers were promoted from all provinces via the Bank's branch network of 31. We launched a special lifestyle development loan for them, secured on a group guarantee scheme.

Promoting Financial Literacy

Majority of laborers in the Colombo Manning Market and Central Fish Market became our valued customers though their financial literacy was very poor. With our mobile banking operations we aim to educate this



HDFC Mobile Banking team



Events - Promoting Financial Literacy

Economic Value Creation *contd.*

segment on the use of banking, create wealth and provide documentary proof of income for consideration of formal loan facilities. We conducted several programs to inculcate banking habits and promote financial literacy among them.

HDFC Bank deployed a dedicated staff to educate the low and middle income segment on the importance of saving and banking and assist them to fill account opening documents. We also encourage them to save part of their daily wage for retirement and for the future well being of their children. For this purpose we educated them to invest monthly Rs.100 to Rs. 500 in an attractive customized group investment fund formulated for them to create wealth for their retirement.

Addressing the Need of an Aging Population

Sri Lanka has become a country with a faster aging population. Sri Lanka has the highest aging rate in the South Asian region and as per the World Bank assessment it will reach the current rate of aging in Japan or Europe within a period of 10 to 15 years. The population above 65 years is 6 percent in Sri Lanka, 21 percent in Japan and 20 percent in Europe. The existing social security system will adapt at a lesser pace compared to the pace of aging in Sri Lanka. Therefore, many would be compelled to work beyond retirement, due to lack of social and family support and retire only due health reasons. In this context, raising a family will not be affordable while the children will not have time look after their parents.

Being a Development Bank, we strive to balance the economic, environmental and social challenges of our major stakeholder with the corporate objectives and formulate business strategies accordingly. We capitalized on the superior features of housing finance and formulated a unique investment instrument which could create wealth at a faster pace required for an aging population.

In this context, we introduced the HDFC Group Housing Fund scheme during the year, which was highly accepted by the different luster of social groups fluctuating income patterns. The scheme geared to establish customized group housing investment funds for different social groups. The product offers the highest market interest rate to the investors at any given time. Please refer the page 121 for more information.



Handing Over the first investment book to the first investor of the Artists' Group Housing Fund



Director lighting the Oil Lamp at the product launch

Contributing to Government's Special Development Initiatives

HDFC is committed to contribute to the Government's national and regional special development initiatives, by providing affordable housing finance and other ancillary services. Under the directions of the Government, HDFC paid special attention on promoting housing finance to the Agriculture sector and in the Monaragala District, during the year.

Monaragala Development Project

The Integrated Rural Development Project initiated by the Government, in conjunction with the 'Dayatakirula' National Exhibition, was scheduled to be held in Monaragala, in February 2011. HDFC launched a micro loan scheme to finance house repairs and upgrades. Loans were evaluated at the convenience of the customer at mobile public service centers and the 'Dayatakirula' Exhibition Centre. Under this scheme HDFC granted Rs.12 million worth of home improvement loans. The Bank launched a special program to promote savings and banking facilities among the villages and school children and undertook a unique CSR project to upgrade a primary School in Butthala and constructing two new buildings and improving facilities such as sports, computer training and farming.

Janasewana Housing Programme

HDFC Bank agreed to grant LKR 250 million worth of low income housing loan at a special rate of 10 percent per annum. As at 31st December 2011 Bank has approved LKR 38 million 123 customers.



Mobile Banking Customer

Agricultural Sector Housing

Rural infrastructure and agriculture are considered important sectors in the development policy formulation process. The Central Bank of Sri Lanka has given special policy directives to grant 10 percent of loan facilities to the customers from the agricultural sector. Therefore HDFC paid special emphasis on extending loan facilities to the customers from this sector.

Sector Wise Distribution of Facilities

Sector	2011		2010	
	Rs. Mn	%	Rs. Mn	%
Services	3,560	75	2,140	70
Industrial	824	17	693	23
Agricultural	371	8	231	7
Other	7	0	5	0
Total	4,762	100	3,069	100

Employees' Benefit Plans

Defined Contribution Plan Obligation

According to the Employee Provident Fund (EPF) Act No 15 of 1958 and subsequent amendments and Employee Trust Fund (ETF) Act No 46 of 1980 and subsequent amendments, HDFC is statutorily liable to contribute a sum equal to 12 percent and 3 percent of the monthly gross salary to the EPF and ETF respectively, to fulfill the obligation of the Bank as the employer for the well - being of the employees for their retirement. Further employees, contribution to EPF is 8 percent of the monthly salary. Both Bank and employee contributions to the EPF are directly transferred on the 15th day of every month, to the Employee Provident Fund managed by the Central Bank of Sri Lanka.

During the year the Bank and its employees contributed Rs.26.17 million to the EPF and Rs. 6.54 million to the ETF as tabulated in the table of Key Economic Indicators.

Defined Benefit Plan Obligations

Further HDFC also make contribution to a gratuity fund in accordance with the Gratuity Act No 12 of 1983, and employees of more than 5 years of service will receive half a month's salary for every year of service on retirement or termination of service. During the Year, HDFC provided Rs.9.44 million to the gratuity fund as tabulated under the key economic performance indicators.

Economic Value Creation contd.

Key Performance Indicators - Economic Value Creation

Economic Value Created	2011		2010		2009	
	Rs-Mn	%	Rs-Mn	%	Rs-Mn	%
Interest Income	2,249.75	94	2,164.98	96	2,216.37	98
Other Income	124.63	6	85.3	4	52.33	2
Total Value Created	2,374.39	100	2,250.28	100	2,268.70	100
Economic Value Distribution						
To Goods and Services Providers	1,564.33	66	1,505.9	69	1,722.09	76
To Employees	344.63	15	314.57	18	277.15	12
To the Government	188.89	8	155.78	7	112.14	5
To the Shareholders (Dividends)	32.35	1	32.35	1	32.35	1
Retaining (Depreciation, Loan Loss Provision, Retained Profit)	244.19	10	241.68	8	124.97	6
Total Value Created	2,374.39	100	2,250.28	100	2,268.70	100
Financial Return on Government's investment Rs -Mn						
Taxes	188.89		155.78		112.14	
51 % of Dividends	16.32		16.32		16.32	
Total Financial Return to the Government	205.21		172.10		128.46	
Government's Investment (51 % of Share Capital + 51% of Reserve)	1083.75		942.48		877.71	
Return as a % Investment	19%		18%		15%	
Contribution to Develop National Housing Stock and Home Ownership						
Cumulative No of Loans up to 31/12/11	144,159		129,935		119,196	
Cumulative Value of Loans up to 31/12/11 LKR- M	28,332		23,570		20,500	
No of Families Assisted for House Construction During the Year	12,142		8,993		5,197	
No of Families Assisted for Other Housing Purposes During the Year	2,082		1,746		780	
Total No of Families Assisted to Own a House a During the Year	14,224		10,739		5,977	
Value of Loans Granted During the Year Rs-Mn	4,762		3,069		1,404	
Average Size of Loans Granted During the Year Rs-Mn	0.330		0.285		0.235	
Assistance to Minimize Development Disparities						
Service to Needy Group – No of Loans	Loans	%	Loans	%	Loans	%
Low Income Group (LIG)	4,823	34	3,930	37	2,600	44
Middle Income Group (MIG)	4,894	34	3,610	34	1,838	31
Wider Income Group (WIG)	4,507	32	3,199	30	1,539	26

Sector Wise Distribution of Service – No of Loans	2011		2010		2009	
	Loan	%	Loan	%	Loans	%
Service Sector	9,386	66	6,924	64		
Agriculture	2,403	18	1,507	14	No comparative figures	
Industrial	2,435	17	2,300	21		
Other	9	0	8	1		
Provincial Distribution of Service -No of Loans	Loans	%	Loans	%	Loans	%
Western	5,740	40	4,504	42	2418	40
Central	2,775	20	1,997	19	1285	21
Sothern	1,188	8	780	7	456	8
North- Eastern	809	6	464	4	153	3
Uva	819	6	643	6	434	7
North- Central	475	3	500	5	224	4
Sabaragamuwa	1,369	10	828	8	663	1
North – Western	880	6	966	9	344	6
Northern	169	1	57	1	0	0
Total Loans	14,224	100	10,739	100	5,977	100
Services Provided Out of Colombo						
% Loan Granted Outside Colombo District	11,279	79	4,762	80	3,870	74
% Loan Granted Outside Western Province	6,239	60	3,559	60	2,945	56
Loan Granted Outside Colombo and Gampaha Districts	9,770	69	6,450	60	2,418	60
% Of Loans Granted in North and East	1,850	13	1,010	9	153	3
Employment generation and Poverty Elevation						
Direct Employments	505		425		364	
Indirect Employments	13,180		10,266		4,845	
Promoting Financial Literacy and Inclusion						
Cumulative No of Mobile Banking Customers. (MBC)	65,743		41,568		20,750	
No of MBCs Promoted During the Year	20,177		20,818		7,990	
MBCs with Avg. Daily Deposit Less than Rs 250	34,290		29,439		18,600	
Contribution to Defined Contribution and Benefits Plans – Rs-Mn						
Employees Provided Fund (EPF)	26.17		23.83		21.00	
Employees Trust Fund (ETF)	6.54		6.00		5.00	
Total Contribution to Defined Contribution Plan	32.71		28.83		26.00	
Contribution to Gratuity (Defined Benefit Plan)	9.44		15.00		21.00	

Environmental Value Creation

Resources efficient and environmental friendly house designs always become affordable not only to the personal cash flow of the household, but also to the economy, environment and society at large.

Our Approach

Since publishing our first sustainability report 6 years ago, recording, documentation and communication of environmental data has been a priority for HDFC Bank. By focusing on environmental challenges, we strive to be an active partner in achieving the country's Millennium Development Goals on environmental sustainability by year 2015. HDFC Bank as a financial institution also concerns our risk exposure on the cash flow and assets quality due to any form of climate change. Our commitment to environment sustainability includes **environmentally responsible lending, promoting sustainable housing, and being sustainable in our daily operations.**

Why Environment is Material?

We are mindful that, our core business of facilitating human settlement has a significant indirect impact on the eco system and climate change. House construction and maintenance requires a substantial amount of natural resources and energy such as soil, wood, cement, water, electricity and gas etc. Hence it involves a large amount of capital and emits a substantial amount carbon and waste.

A house is the immediate environment of a family and exerts influence on children's education, health, domestic peace and reflects the quality of life and aspirations of the household. In the process of demographic transition, clusters of homes form neighborhood and clusters of neighborhoods form towns and cities. Therefore, the way houses are designed, planned and constructed poses an enormous challenge to the ecosystem and environment.

HDFC Bank grants facilities with 10 to 15 years longer repayment periods during which degree of risk exposure on repayment cash flow, quality and value of collateral due to environmental change is unpredictable.

656,231 Kwh

Electricity Consumed

23,051 Ltr

Fuel Consumed

207,738 Km

Business Travel

4,077kg

Paper Recycled

Our Strategic Priorities

- Reduce Electricity Consumption
- Reduce Staff Transport
- Minimize Fuel Consumption
- Reduce Paper

Therefore the Bank's exposure to climate change risk is material on the quality of financial assets and mortgaged properties. On the other hand, over 70% of our facilities have been extended to customers from low and middle income families whose income is fully or partly earned from economic sectors such as farming, agriculture, fisheries etc. This segment frequently faces the challenge of extreme weather conditions and natural disasters such as flood, storms, drought, ambient temperature and water availability etc. This group also often faces the challenges of weather pattern related illness or diseases and income variations and job security.

Our Facets of Managing Environmental Responsibility

Environmentally Responsible lending	Promoting Sustainable Housing and Living	Being sustainable in daily operation
<p>Gathering our pool of knowledge and experience, it is apparent that regulatory complied designs and construction always minimise the negative impact of development and promotes more resource efficient construction.</p> <p>Resources efficient and environmental friendly house designs always become affordable not only to the personal cash flow of the household, but also to the economy, environment and society at large.</p> <p>Hence for construction loans, we ensure that all plans are prepared by adequately qualified planners and approved by relevant local authority. In a case of a purchase loan we ensure that subject property is properly approved and street line and non-wasting certificates are obtained in the name of the customer.</p>	<p>We believe that sustainable housing can mitigate the negative impact of house construction. Housing construction and maintenance requires a substantial amount of natural resources such as energy, soil, wood, cement, water, electricity and gas etc. At the same time housing is a major source of greenhouse gas emission.</p> <p>We believe that, for a house is to be sustainable its construction and maintenance should be affordable to the households and resource efficient to the country and environment. Meanwhile, house should be constructed in conformity with the relevant development and environmental rules and regulation for the house is to be environmentally responsible.</p>	<p>HDFC Bank consumes a large amount of natural resources such as electricity, water and fuel etc in our daily operations which directly impacts substantial amount of greenhouse gas emission.</p> <p>As a responsible corporate citizen, we are committed for efficient and sustainable use of these global resources and weather it is directly or indirectly and manage our carbon footprints.</p>

Environmental Policy, Governance and Goals

In 2010, the Bank approved the Environment Safeguard Policy, which strengthened the Bank's mandate to set more rigorous standards for lending operations, manage own carbon footprints, resource utilization and supply chain management. This policy is being implemented by the Bank to reach its long term environmental goals. Programs are being formulated to enhance knowledge and awareness of the staff on environmental aspects of business operations. The Policy is available at our website www.hdfc.lk for stakeholder reference.

Environmental Rights and Responsible Lending

In driving HDFC towards its objectives, we have been mindful of our responsibility to balance environmental needs with human needs while respecting the human rights aspects of the environment. Corporate goals should not exert an adverse impact on culture, biodiversity and overall uniqueness of our country and environmental rights of the community. In this context HDFC has complied strictly with the environmental regulations, promotes energy conservation and efficiency, educates customers and promotes sustainable management of natural resources.

Environmental Value Creation contd.

We do not approve any facilities for construction which are not properly approved in compliance with the applicable laws and regulations. In the process of mortgage lending, we ensure that mortgage property is properly approved by the local authority and allocation of infrastructure such as road ways, smooth flow of water, assurance of uninterrupted power supply, solid waste disposal and rain water drainage systems are addressed. Housing Project loans must comply with all regulatory bodies which as relevant could be the UDA, CMC, RDA, LLRB, and local authorities, the Condominium Management Authority and/or the Central Environmental Authority.

We are committed to educate our , customers and the society about their right to safeguarding the environment as well as the obligation to respects environmental rights of others which could eventually sustain the uniqueness of the environment of our country for the future generation.

HDFC Environmental Policy

In December 2010, the Board adopted the following Environmental Policy to guide the staff in their day to day operations and to instill a commitment towards environmental sustainability.

1-Environmental Regulations and Legislation

In carrying out business, HDFC should be mindful of balancing environmental needs with human needs. The desire to achieve corporate financial goals should not override the need to conserve the country's bio diversity, culture and overall uniqueness.

In this context, HDFC shall ensure that it grants facilities only against or for properties that are duly approved by the relevant local authority or regulatory body, but also for those in compliance with development regulations and environmental standards. Construction loans will be granted only for housing plans prepared and approved by adequately qualified building planners, in compliance with prevalent legislation and requirements of the relevant regulatory bodies, while at the same time meeting community environmental standards.

2- Promoting Affordable housing

HDFC shall educate and encourage customers on affordable and sustainable design of houses which mitigates the negative impacts of development and create a milieu of healthier and more resource efficient construction. Projects with better energy and water management processes will gain more advantages during project appraisal.

3-Emission control

HDFC will be committed to minimize emissions both directly and indirectly, through measurement and monitoring of staff and customer travels and thereby reducing fuel consumption and minimizing carbon emissions.

4-Natural Resources Utilization

HDFC is committed to conserve global resources by astutely managing fuel, electricity, water and paper consumption throughout its operations, promoting in-house resource saving programs and ensuring that paper will whenever possible, come under the 3R concept of reduce, reuse and recycle.

5-Sustainable Supply Chain Management

The Bank will procure whenever possible, recycled products within reasonable cost boundaries. Consideration will also be given to environmental criteria in the awarding of contracts to prospective suppliers and the selection of products for all HDFC operations.

6-Community and Employee Awareness

HDFC will ensure that every staff member fully comprehends the importance of incorporating environmental considerations into their daily business activities whenever appropriate. We also encourage employees to reflect their commitment to the environment by supporting staff driven voluntary programs for improving in-house greening and educating local communities on environmental conservation and preservation.

Level of Compliance of Lending Operations with Regulatory Requirements

	2011	2010	2009	2008
% of Plan Approval Out of Total Construction Loans	100%	100%	100%	96%
% of Plan Approval Out of EPF Construction Loans	97%	97%	97%	93%
% of Site Plan Approval Out of Total Mortgage Loans	100%	100%	100%	100%
% of Local Authority Complaints / Total Construction Loans	Nil	Nil	Nil	Nil
% of Environmental Dispute / Total Construction Loans	Nil	Nil	Nil	Nil

Managing Carbon Footprint

We identified that fossil fuel consumption caused by business and staff travel, consumption of electricity, water and paper as the core areas of focus in managing the Bank's carbon footprints. Internal indices which were identified in 2009 and 2010, were further developed to monitor green house gas emission and targets were set to quantify carbon dioxide (CO₂) emission in the entire operations of the Bank in 2012.

Business Travel and Fuel Consumption

Increase in CO₂ emission is a serious concern in Sri Lanka, especially in urban and industrialized areas. Whilst consuming a substantial amount of fossil fuel and causing a threat to the supply of natural resource, the transport sector is responsible for the highest percentage of CO₂ emissions. In order to make a positive contribution to reducing CO₂ emission from transport, HDFC emphasizes on reducing vehicle running mileage by developing an index to monitor the mileage per Rs.1 million loans approved.

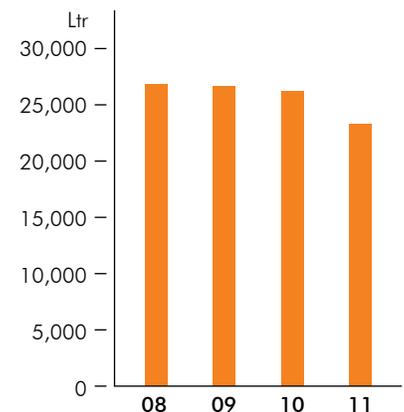
During the year Bank's fleet of vehicles has run 207,738 kilometers and consumed 23,051 liters of diesel and petrol for business purposes. This translates into a ratio of 5 liters of fuel per LKR 1 million loans approved and mileage of 44 kilometers per LKR 1million loan approved, compared to 8 liters and 89 kilometers respectively in 2010, recording a significant control in carbon emission. The following initiatives implemented by the Bank in 2011, greatly contributed to this achievement.

- Disposed three vehicles used for over five years and replaced them with cost and fuel efficient new vehicles
- Conducted training programs on cost effective and eco- friendly use and maintenance of vehicles
- Deployed regional staff for branch promotions without using staff from head office or other regions
- Contracted an efficient courier services for delivering documents and materials
- Decentralized operational authorities to regional level
- Authorized branches to hire local vehicles for business travel

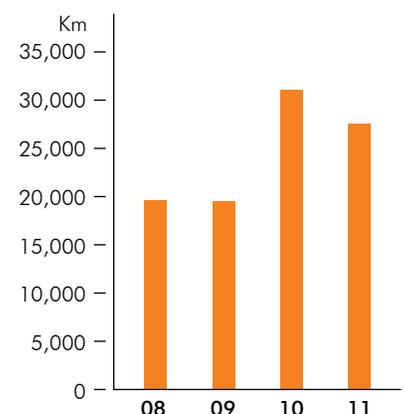
The above initiatives reduced the total business travel mileage 273, 921 Kilometers to 207,738 Kilometers within a year and encouraged efficient utilization of fuel by 11 percent compared to 2010 and this cost savings also cascaded to the Bank's

bottom line, while encouraging the management of greenhouse gas emissions judiciously.

Total Fuel Consumption from Business Travel



Total Staff Transport Mileage Per Day



Environmental Value Creation contd.

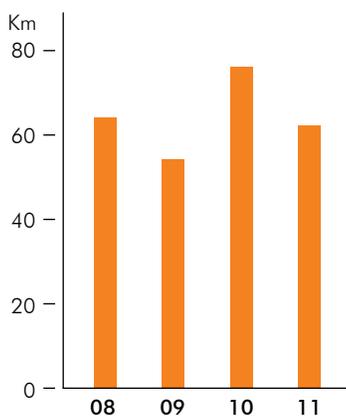
Staff Transport and Emission control

We are also emphasizing the management of greenhouse gas emission induced by employees travelling from home to office and vice versa. We have estimated that our staff has utilized approximately 7.3 Mn kilometers of public transport in 2011 compared to 8.2 Mn Kilometers in 2010. Approximate average demand of public transport per day by our staff was 27,652 kilometers in 2011 compared to 31,115 kilometers in 2010 which showcased an efficiency of 13percent.

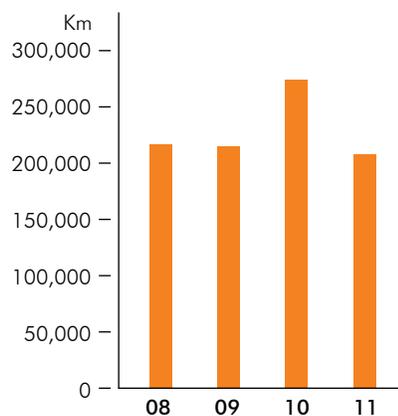
However, we succeeded in improving the staff travel index by 17 percent during the year. The average travel per employee per day is estimated as 62 kilometers in 2011, compared to 75 kilometers in 2010. This improvement was achieved as a result of the implementation of the recruitment policy of hiring employees from the locality of the branches and staff transfer policy. Average travel time is fairly high at HDFC due to the district based branch network. Strategies will be implemented to manage the travel index further as a medium term goal.

As shown in the following travel index schedule , 49 percent of our staff travels more than 25 kilometers per day and 26% of our staff travels more than 50 Kilometers per day . Since 2010, our goal is to minimize the percentage of employees who travel more than 50 kilometers per day from 18 percent to 10 percent and increase the percentage of staff who travels less than 25 Kilometers per day from 58 % to 65% , within a period of two years. However , the Bank has not been able to achieve a progress in both targets in 2011. We continue to focus on this direction and staff recruitments and transfers will be effected fairly, based on this index. Our objective of this exercise is to manage the environmental footprint of the Bank as follows.

Average Staff Travel Index Per Day



Business Travel Mileage



- Reduce emissions generated by public and private vehicles induced by our operations
- Conserve fossil fuel reserve of the planet and save money of the national economy
- Save time which eventually permeates to the advantage of the economy
- Geographical spread of employees
- Improve staff efficiency and productivity

Staff Travel Index Schedule

Travel-Km	2011		2010	
	Employees	Composition	Employees	Composition
0 < 15	149	33%	160	39%
15.01 < 25	80	18%	80	19%
25.01 < 35	59	13%	54	13%
35.01 <, 50	43	10%	41	10%
50.01 < 70	29	6%	26	6%
70.01 < 90	21	5%	18	4%
90.01 <	67	15%	33	8%
Total	448	100%	412	100%

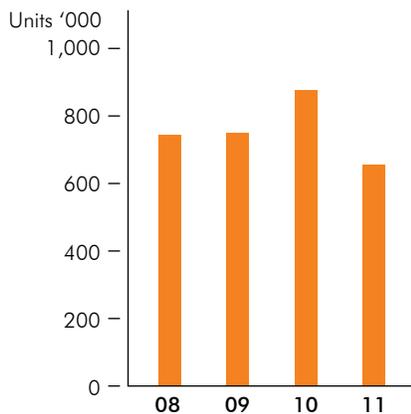
Electricity Consumption and Emission Control

Substantial amount of electricity supply in the country is fueled by fossil fuel which is a nonrenewable energy source. Therefore sustainable consumption of electricity can largely contribute to reducing climate change and conserving fossil fuel reserve in the world. Integration of this climate responsibility to daily operations of the Bank is an aspect of environmental

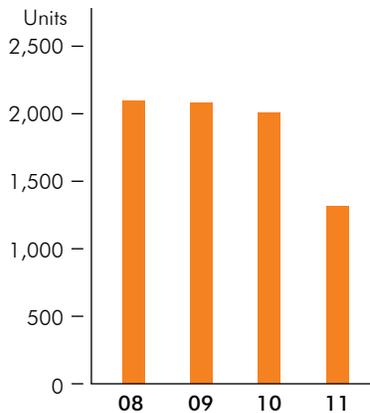
management at HDFC. During the year, we paid special attention to reduce the overall electricity consumption of our operation. Our strategies have resulted in a 25 percent reduction in the number of units consumed in 2011, Year on Year. Installation of energy efficient lighting systems and air conditioners in conjunction with the refurbishment program enabled us to achieve this improvement.

Further, we have established internal indices for the purpose of monitoring efficiency in consumption of electricity per employee and Sq.ft of building occupied by the Bank. We were able to reduce the index of electricity consumption per employee from 1,986 units to 1,299 units and per sq:ft index from 13 units to 8 in 2011, through staff education and awareness programs.

Total Electricity Consumption



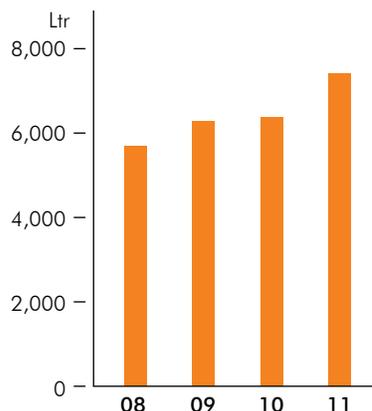
Total Electricity Consumption Per Employee



Water Consumption and Emission Control

During the year, the Bank has consumed 7,340 liters of water on its operations compared to 6,331 liters in 2010, which was mainly due to the increase of floor area and branch offices and the rise in the number of staff. However the index of water consumption per employee was maintained at the same level as 2010.

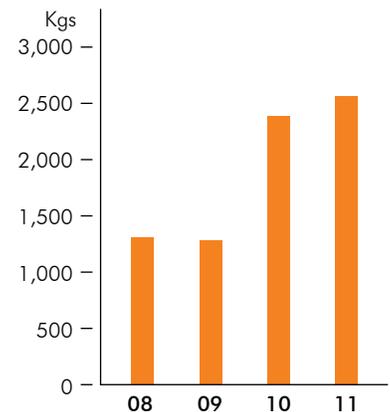
Water Consumption



Paper Consumption

Waste Management and management of paper consumption were prioritized this year. We sought avenues to simplify the loan approval process to minimize documentations. These efforts enabled us to reduce average photocopy paper consumed per Rs. 1 million loans approved, from 148 to 103 during the year. There has been considerable savings on print cartridges, maintenance of equipment and the time spent on distribution, handling and filing of documents as well. Going forward, we will continue to improve this ratio further as a medium term goal.

Paper Consumption



Sustainable Procurement of papers

We are committed to procure recycled products whenever possible within reasonable cost boundaries. While we follow a standard procurement procedure for stationery, in compliance with the Bank's environmental policy, we promote procurement of photocopy paper manufactured under the international paper principles; paper produced from planted and renewable

Environmental Value Creation contd.

forest with environmental responsibility, and brought paper consumption under the 3G concept of reduce, reuse and recycle. During the year we purchased 2,558 kgs of photocopy papers compared to 2,375 kgs in 2010. The increased consumption was mainly due to high volume of lending.

Waste Management and Emission Set Off

During the year, the Bank provided 4,0771 kg of waste papers to Neptune Papers (Pvt) Ltd, for recycling purpose. Company has confirmed that, our waste has saved 69 fully grown trees, 129,567 liters of water, 16,308 Kwh of electricity, 7155 liters of oil, and 12 cubic meters of land fill and reduced green house gas emission by 4,077kg of carbon equivalent.

Emission Source	Emission/Resources Consumed by the Bank	Resources saved/ Reduced by the Bank by Recycling	Net Savings/ (Consumption)
No of Trees	Not quantified	69	
Fossil Fuel Liters	23,051	7,155	(15,896)
Electricity – Kwh	656,231Kwh	16,308 Kwh	(639,923)
Water – Liters	7,340	129,567	122,227
Greenhouse Gas Emission -Kh	Not quantified	4,077	

Conservation of Biodiversity

Environmental sustainability means managing and protecting our natural resources to make them available for future generations. In Sri Lanka, the natural forest cover has decreased substantially from 80 percent in 1881 to 24 percent in 1990 while it has further decreased by 6.6percent from 1990 to 2001. According to statistics, average 40,000 ha of forest area are cleared every year, for agricultural and residential purposes. We are mindful that our core business causes deforestation substantially through expansion of residential development. In this context we encourage schools and communities on tree planting. In 2011, HDFC Bank planted 200 trees, incorporation with the children of Suboda School , Buttala, in tandem with the Dayata Kirula exhibition, conducted in February 2011.



Promoting Sustainable Housing and Living

We believe that, environmental challenges due to residential expansion can be substantially mitigate by promoting sustainable housing - resources efficient and environmentally and socially affordable housing. HDFC Environmental Policy specifies that every employee should comprehend the importance of incorporating environmental consideration in their daily business activities whenever appropriate. We also encourage employees to reflect their commitment to the environment by supporting staff driven voluntary programs for promoting in-house greening and educating local communities to improve their

environment habits. HDFC as a leader in housing finance industry believes that, by promoting sustainability practices to every home loan customer could contribute substantially to improve awareness of the people in every geographical region. The Bank also believes that youth and children of Sri Lanka must be made aware of the need for these practices to be imbued now for future benefit.

Habitat Day Walk

To commemorate the World Habitat Day 2011, the Bank organized a city walk, on the theme of “Cities and Climate Change” The two kilometer walk with placards and banners ended up at Gall face Green with over 250 participants from the head office, pupils of Colombo Grammar School, Battaramulla, and officers of UN Habitat Sri Lanka office. The objective of the walk was to promote awareness of environmental challenges facing the city due to non-inclusive developments which takes its toll on the environment and communities. The Bank also aimed to promote the importance of maintaining a conducive city environment which is healthy and clean, built around regulations and compliance and devoid of unauthorized constructions.

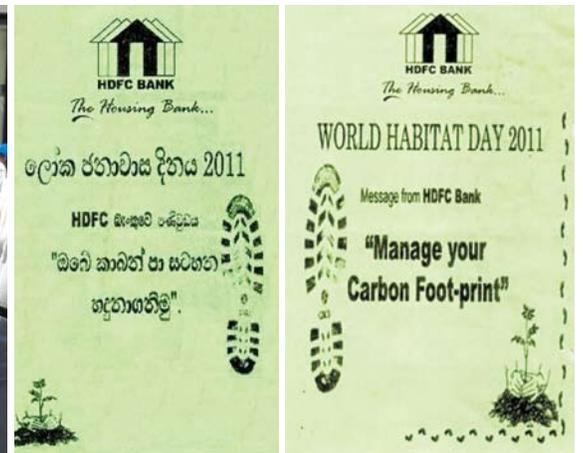


How to Manage Your Carbon Footprint

The Bank also published a booklet on the theme “Manage your carbon footprint” and distributed among the city dwellers. The booklet was aimed at providing guidance on ways of indentifying carbon footprints, and how people could contribute to its management in social life, office life, at home and during home construction. The booklet is kept in the counters of all branches and encouraged to be distributed among the customers.



1st booklet handed over to the Chairperson



Environmental Value Creation contd.

Key Performance Indicators - Environmental Value Creation

	2011	2010	2009
Save Electricity, Water			
Electricity Consumption -Kwh	656,231	836,488	750,659
Electricity Consumption -Kwh Per Employee. Per Annum	1,299	1986	2,062
Electricity Consumption per Sq:ft Occupied (Comparative Figures Not Available 2009) -Kwh	8	13	No information
Water Consumption Ltrs	7,340	6,331	6218
Water Consumption Ltrs- Per Employee. Per Annum	15	15	17
Paper Consumption- Save Trees, Resources and Reduce Emission			
No of Paper Purchased- Pkts	984	900	500
Weight of Photocopy Paper Purchased-Kgs	2,558	2,375	1,275
No of Photocopy Papers Consumed per Rs.1Mn Loans Approved	103	146	178
Waste Paper Disposed for Recycling-Kgs	4,077	3,261	2,345
Savings of Recycled Disposed Papers – Trees	69	55	No information
Water - Ltrs	129,567	103,634	No information
Electricity -Kwh	16,308	13,044	No information
Oil - Ltrs	7,155	5,723	No information
Land Fill -Cubic Meters	12	9	
Business Travels, Fuel Consumption and Emission Controls			
Diesel and Petrol Ltrs Consumption	23,051	25,050	26,405
No of Km Run by Bank's Vehicles	207,738	273,921	214,466
Vehicle Mileage Per Approved Loan Value Rs.1Mn	44	89	153
Fuel Ltr (Petrol & Diesel) Per Rs.1Mn Loan Approved	5	8	18
Fuel Ltr Per Loan Approved	1.6	2.4	4.4
Staff Transport , Fuel Consumption and Emission Controls			
Public Transport Utilized by HDFC Staff During the Years -Km	7,300,200	8,214,360	5,150,112
Public Transport Utilized by HDFC Staff Per Day -Km	27,652	31,115	19,508
Avg Traveling Per Employee Per Day (Home-Office-Home)-Head Office- Km	52	76	54
Avg Traveling Per Employee Per Day (Home-Office-Home)-Branch-Km	65	75	50
Avg Traveling Per Employee Per Day (Home-Office-Home)-Bank-Km	62	75	52

Social Value Creation

Sustaining our team

Our Approach

We expect our employees to actively endorse and support our corporate values. We promote diversity, equal opportunity and creativity of our staff by creating an environment they could train and develop to their full potential. We strive to maintain a high standard of occupational health and safety and maintain cordial labour relationships with the objective of creating a motivating and healthy environment to retain their services and expertise for a longer period.

Since HDFC was converted from a State Corporation to a Licensed Specialized Bank, developing human capital to reach the high standards maintained by the competitive banking environment has been a challenge. A complete transformation stemming from attitudinal change, increasing productivity, emphasis on quality and aligning vision and mission to customer service tenets and business strategies became high priorities and areas that needed rapid and inclusive training and development.

Team Profile and Development.

As depicted in the profile indicators below, since 2007, we have increased or permanent carder from 286 members to 505 members to support the operational expansion and the percentage of professionals qualified in related fields from 34 % to 46%. The average age of our staff is below the industry average which is a valuable asset to our organization due to the high potential for development in line with the standards of the competitive banking environment. Comprehensive training and orientation programs which were conducted on regular basis resulted in 85 percent of staff gearing themselves to meet the new challenges and setting themselves goals aligned to the Bank's vision of achieving a sustainable business growth.

Highlights 2011

+19%

Staff Strength

+11%

Emoluments

+96%

Training Hours

Strategic Priorities

- Strengthening
- Capacity Building
- Satisfaction



Recognition of Service

HDFC Team appreciates the valuable contribution made by the former GM/CEO, Mr. Suresh Amerasekera during his 3 years of service at HDFC Bank and wish him all the success for his future career.

HDFC Team also appreciates the service rendered by the retired staff members in achieving the standard and goals during the past and wish them and their families all the success for future endeavors.

Social Value Creation contd.

Team Profile indicators	2011	2010	2009	2008	2007
No of Staff	505	425	364	289	286
Percentage of Women	42%	45%	46%	52%	52%
Percentage of Graduates	19%	19%	21%	17%	17%
Percentage of Professionals (Including Banking)	46%	45%	41%	34%	34%
Average Age (Years)	35	36	37	39	39
Average Service Period (Years)	8.4	8.8	9.64	11	11
Average Absenteeism	8.33%	8.40%	10.60%	No information	
Average Medical Consultation – LKR	31,770	47,024	40,228	22728	30104
Percentage of Employees Covered by Collective Agreement	98%	98%	98%	98%	98%
Turnover Index	2.37%	2.58%	4.67%	1.70%	1.70%
Average Gross Salary- LKR	42,497	47,266	57,371	42,696	39,943
Average Basic Wage –LKR	17,479	18,266	15,849	17861	17643
Average Cost Per Employee – Monthly – LKR	60,000	64,000	61,000	84,000	67,000

HR Practices and Governance

HR Practices and Policy

We are an equal opportunity employer as discrimination based on religion, caste, gender or any other profile is not in our mandate of HR recruitment and development. We also ensure that we follow the ILO declaration on fundamental principles which aim to achieve both economic growth and equity through a combination of social and economic goals. Also we adhere to other relevant human resource standards and regulations very stringently. We refer the Establishment Code for all labour related matters where internal policies and rules are not available.

We do not condone child or underage labour nor do we exercise any gender biasness within our organization. Recruitment is based on transparent procedures such as newspaper advertisements, written tests and interviews. Recruitment decisions are based on qualifications, merit and capabilities. Priority is given to internal candidates when filling vacancies. We encourage geographically diversified and multiethnic participation and recognize the right of unionization.

All material HR matters are referred to the Board HR subcommittee. New recruitments and promotions are effected in accordance with the HR policy on recruitment and promotion and based on the career plan approved under the corporate plan of the Bank.

Performance Review Recognition

Performance appraisal

A staff appraisal system has been formulated to recommend annual salary increments and identify employee attitudes and training and development needs. Separate appraisal systems are in place for the following categories.

- i) Managerial and heads of divisions
- ii) Executives, clerical and allied grades
- iii) Promotional assistants - mobile banking
- iv) Office assistants and drivers

Annual appraisals are conducted for the entire staff of the Bank. Employee feedback and results of the staff satisfaction surveys enable us to identify specific training and development needs. Fund mobilization and recovery targets are given to all the staff members with the objective of creating a competitive environment for skill management and development of human capital.

Branch wise loan, recovery and fund mobilization targets are some of the other strategies used in performance review and productivity development. A system to review, reward and recognize annual targets is in place in respects of branch operations.

Staff Satisfaction

The staff satisfaction survey is considered as the key strategy used to identify staff attitudes, training and development needs. In the survey conducted in 2011, 376 employees responded to a confidential questionnaire representing 75% of the total staff. The results of the survey are as follows.

	2011 % of yes	2010 % of yes	2009 % of yes
Are you happy with your job?	81%	88%	68%
Are you satisfied with your work load?	73%	75%	74%
Do you believe the work load is equally distributed?	52%	49%	45%
Are the leaders in your work environment positive role models?	66%	78%	69%
Does your supervisor keep you well informed about the happenings in the Bank?	65%	79%	67%
Are your views and participation valued?	66%	77%	75%
Do you receive appropriate recognition for your contribution?	53%	55%	56%
Does your salary match your responsibilities?	60%	53%	59%
Are you satisfied with your understanding of the direction and goals of the Bank?	59%	70%	68%

The results portray that an average 81 percent are happy with the job, 60 percent confirm that their salary match their work responsibilities, 66 percent affirm that their views and participation are valued and 73 percent are satisfied with the workload. However, we observe certain negative variations in 2011 compared to the previous years, which we further analyzed and addressed. These include the level of understanding of the direction and goals of the Bank, which has dipped to 59 percent from 70 percent in 2010. Meanwhile 34 percent affirm that their superiors are not positive role models, which is an increase from 22 percent in 2010.

Rewards and Recognition

We are now in the process of addressing these issues, through the implementation of a performance based reward and recognition system coupled with external training and career development opportunities both local and overseas. HDFC also plans to implement an incentive driven culture which will add more scope to individual capabilities while instilling a team based culture within the organization. For the first time, HDFC organized a Award Ceremony to recognize performance of the star performers in March 2011. The best performed branch and staff members in 2010, in the operational areas of credit, recoveries and fund mobilization were recognized rewarded.

Social Value Creation contd.



Manger Monaragala - Best Branch Winner



All Winners with the Corporate Management

Training and Awareness

Staff is kept well informed on product development, policies, procedures and regulatory changes and developments through circulars and internal memos. These communiqués are originated by the respective departments and communicated centrally by the operating department. Procedure manuals are in place for all products and services and are updated regularly. Operational policies are periodically reviewed and updated and the effectiveness of this process is annually inspected by the Bank Supervision Department of the Central Bank. Training programs are conducted on all new products and procedures when necessary.

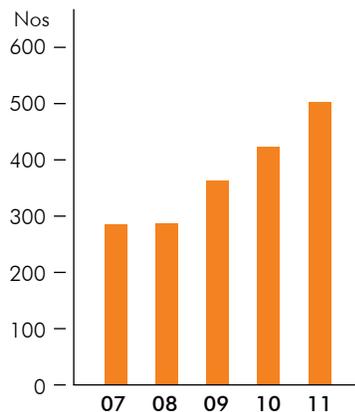
Decent Work Performance Team Strength

During the year the staff strength was increased to 505, from 425 in 2010. Majority of the new recruits were absorbed into operational level as Banking Assistants and Mobile Bankers. This was in line with our strategy that 60 percent of the staff should constitute the sales team in order to accelerate credit growth and saving

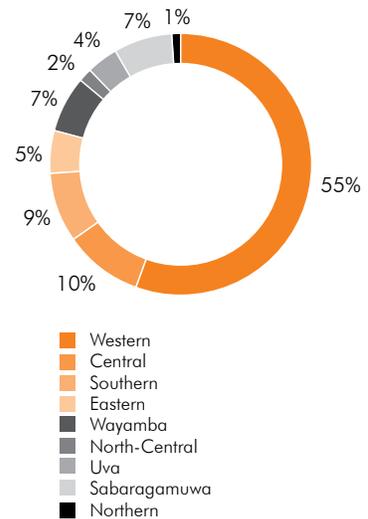
mobilization. The new recruits were mainly school leavers on contract basis who were absorbed to the permanent carder based on their performance. HDFC conducts regular training and orientation programs to improve the performance of the staff and provide a satisfactory career development.

equitable regional distribution of the staff, we gradually reduced the work force in the western province from 64 per cent in 2008 to 55 per cent in 2011, while 49 per cent of the new recruitments in 2011 were mainly from the Central, Southern, Eastern and Northern provinces.

Staff Strength 2011



Provincial Distribution of Our Team



Provincial Distribution of Staff

Our workforce is mainly concentrated in the western province as 39 percent of the total staff is based in the head office in Colombo. In an effort to promote an

Team Emoluments and Other Benefits

The average cost per employee was reduced from LKR 64,000 in 2010 to LKR 60,000 in 2011 mainly due to new recruitments. The average remuneration of the Bank is in par with other state banks. As a result of the cost of new recruitments the staff emoluments increased by LKR 30 million in 2011 compared to LKR 272 million in 2010. Apart from the basic salary and emoluments the following benefits are offered to the permanent carder of the Bank:

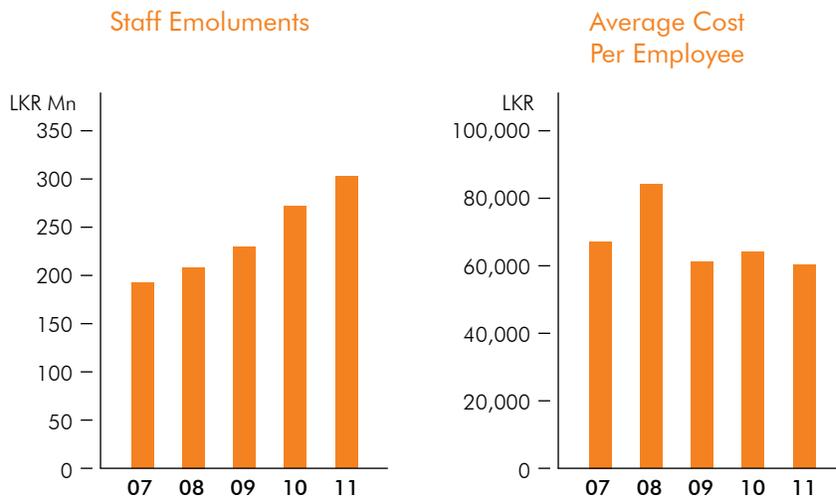
- Employee Share Ownership Program (ESOP)
- Comprehensive medical scheme
- Death donation and funeral assistance scheme
- Special loan scheme for housing, furniture and other housing related matters
- Vehicles loans at a special interest rates
- A distress loan scheme
- Two months bonus per annum
- Special risk allowance for cashiers
- Two months salary as bonus
- Holiday bungalow facilities owned by the Bank
- Hosing Loan at concessionary interest rate

During the year Staff Housing Loan entitlement per head was increased from LKR 1.5 Mn to LKR 3 Mn

Staff Turnover

These benefits have a positive influence on curbing employee turnover from 4.67 percent in 2009 to 2.37 percent in 2011 and sharp improvement in productivity

A low staff turnover was recorded in the category of Banking Assistants which was a significant improvement during the year.



Social Value Creation contd.

Key Performance Indicators- Decent Work Performance

Team by Employment Type & Contract	2011	%	2010	%	2009	%	2008	%
Corporate Management	7	1%	7	2%	8	2%	9	3%
Senior Management	16	3%	16	4%	13	4%	11	4%
Junior Management	169	33%	166	39%	169	46%	92	32%
Other Staff	313	62%	236	56%	174	48%	177	61%
Total	505	100%	425	100%	364	100%	289	100%
New Appointments								
Corporate Management	0	0	0	-	1	1%	0	-
Senior Management	0	0	0	-	0	-	0	-
Junior Management	0	0	1	2%	0	-	0	-
Other	80	100%	59	98%	75	99%	3	100%
Total	80	100%	60	100%	76	100%	3	100%
Turnover								
Corporate Management -%	2	0.4%	0	0%	0	0%	-	-
Senior Management -%	0	0.00	1	0%	0.27	0%	-	-
Junior Management -%	1	0.20	1	0%	0	0%	-	-
Other -%	9	1.8%	9	2%	16	4%	-	-
Bank Average-%	12	2.37%	22	3%	4.67	5%		3%
Provincial Distribution of Our Team								
Western	281	55%	246	58%	216	59%	185	64%
Central	49	10%	37	9%	36	10%	24	8%
Southern	44	9%	36	8%	31	9%	21	7%
Eastern	27	5%	12	3%	9	2%	8	3%
Wayamba	34	7%	25	6%	22	6%	16	6%
North-Central	9	2%	13	3%	7	2%	5	2%
Uva	20	4%	18	4%	13	4%	9	3%
Sabaragamuwa	36	7%	33	8%	30	8%	21	7%
Northern	5	1%	5	1%	0	0%	0	0%
Total	505	100%	425	100%	364	100%	289	100%
Team Emoluments : LKR -Mn								
Salaries	230	76%	206	76%	180	81%	160	66%
Overtime	11	4%	7	3%	2	1%	8	3%
Bonus	34	11%	35	13%	29	13%	25	10%
Staff Medical	16	5%	14	5%	12	5%	9	4%
Leave Encashment	8	3%	8	3%	-	-	6	2%
Incentives	3	1%	2	1%	-	-	34	14%
Total LKR -Mn	302	100%	272	100%	223	100%	242	100%

Labour Relation and Human Rights

Right of Unionization and Collective Bargaining

Freedom of association and collective bargaining is a human right of the workers in an organization, as defined by the UN Universal Declarations of Human Rights and ILO conventions. Collective bargaining is a forum of stakeholder engagements that helps to build an institutional framework which contributes to a stable society. Our approach to industrial relation spans beyond the collective bargaining mechanism. We recognize the Ceylon Bank Employee's Union (CBEU), which comprise almost 98 percent of our staff across all executive grades, as a consultative and supportive group that articulates a forum for improved communication, grievance handling, career counseling and creating an environment conducive to healthy employee relations. Our Collective Agreement which was renewed in 2010, for three years with effect from 2009, is available at our corporate web site www.hdfc.lk for public reference. TU is in a position to submit and proposals and recommendations to the chairman to draw the attention of the Board of Directors.

The Bank encourages voluntary and active involvement of staff in, in-house and industry TU activities. The Bank congratulates and supports Mr. Kesara Kottegodage, the president of the HDFC branch of Ceylon Bank Employees Union (CBEU), in his position as the Vice President of the CBEU (parent body) which is one of the largest trade unions in the country.

Minimum Notice Period

HDFC maintains an organizational practice of timely discussion of significant operational changes such as transfers, promotions and disciplinary actions etc with employees and representatives of Trade Union (TU). For this purpose, one month's notice is given where practicable to help minimize any adverse impacts stemming from operating changes. However, it is not defined in the collective agreement.

Grievances Mechanism

The Board nominated Management Committee, namely the Staff Relation Committee, comprise of five members from the Corporate Management, which was appointed in 2010. This Committee was set up for improving effective and timely engagements with the TU and staff grievance handling. The committee is held responsible to give recommendations to the Board through the Chairman. During the year five meeting were held with the TU in relation to matters of staff grievances.

Code of Ethics and Whistle Blowers Protection

The code of conduct of the bank is communicated to all staff with their appointments and made available in all departments for reference purpose. The Board of Directors of the Bank has appointed two officers to receive whistle blowers complaints on corruption malpractices as a regulatory requirement of the Central Bank. These officers are responsible to submit a summary of complaints received to the Board regular interval to the make direction for investigation and necessary actions Mechanism is in place to handle complaints. However whistle blower protection policy is yet to be formulated.

Pending Litigations

There are 5 litigations filed by ex-employees against the Bank on grounds of human rights against discrimination. Staff Relation Committee appointed in 2010, was delegated with the responsibility of engaging with staff and the TU to make recommendation to the Management to minimize reoccurrence of such staff grievances and ensure a smooth relationship.

Social Value Creation contd.

Key Performance Indicators- Labour Relation and Human Right

	2011	2010	2009	2008
No of Staff	505	425	364	289
CEBU Membership	494	419	355	282
Membership %	98%	98%	98%	98%
Employee Benefiting From Full Freedom of Association %	100	100	100	100
No of Pending HR Cases Against the Bank	5	4	No comparative information available	
No of hours of staff trained on HR policies and procedures relevant to operation	1,738	444	No comparative information available	
% of staff trained on HR policies and procedures relevant to operation	20%	3%	No comparative information available	

Occupational Health and Safety

Staff Health Plan

We offer a variety of facilities and benefits to our employees enabling them to maintain a healthy work life balance and thereby reduce stress levels and be more work oriented. Creating a healthy work life balance is imperative to improve productivity and commitment of the staff. HDFC Staff Health Plan was an important initiative taken by us to achieve this balance, apart from the numerous welfare initiatives including concessionary housing, vehicle and distress loans, insurance and death donations. The percentage of workforce covered by the staff health plan is 67.30 per cent and majority of them participate voluntarily in organizing health and safety programs.

Other Initiatives to Improve Work Life Balance

Apart from the Health Plan, we implement a range of health and safety measures to maintain a hazard free office environment. Some of these initiatives include, promoting healthy housekeeping practices, providing cashiers and managers risk allowance and a difficult area allowance. Health facilities under the Health Plan and other benefits are covered by the collective agreement. Apart from the above, the following measures are taken by the Bank to assess and maintain health and safety:

- Business Continuity Plan address all the safety of staff in emergency situations.
- Improving a healthy and a safe environment; nine branches were fully refurbished with new facilities during the year whilst many divisions in the head office were refurbished.
- Arrangements were made to provide safe drinking water and implement a standard lighting system to all branches.
- All female members of the staff at head office participated in two health education programs.
- A chemical treatment campaign was conducted in the head office for the prevention of dengue and all branches were encouraged to follow suit.

- Cost of funeral visits by staff in group vehicles is reimbursed by the Bank subject to a limit of 50 percent.
- The HDFC Community Policy approved by the Board in 2010, acknowledges Bank's commitment to sponsor a needy person for a medical, sports or educational needs and encourages voluntary staff participation.

These initiatives demonstrate HDFC's commitment to health and safety and these strategies has enabled us to maintain zero-accidents, zero occupational diseases and lost days and also achieve a sharp decline in absenteeism and average medical claims.

Cultural and Sport Events

Cultural Activities

We encourage the staff to develop cultural and sporting talents as it creates camaraderie and promotes a sense of team spirit among the employees. The Buddhist society of the Bank conducts a religious ceremony in the head office annually with financial

contribution from the Bank and staff members. This year, the society conducted a 'Vesak Dansala' and offered ice cream to people in the city in which a large number of staff and ex-staff members participated.



The Christian society celebrated Christmas by organizing Christmas carols together with the staff of the National Housing Development Authority (NHDA), in which a large number of staff from the both organizations participated.

Annual Sport Events

During the year, HDFC Cricket Team was qualified for the quarter finals of 'Nationalized Services Cricket Tournament – 2011' from the 18 teams participated. Further, for the first time, the sport club of the Bank organized an annual sports series including, Carom, Badminton, Elle, Cricket, volleyball, netball and athletics which enabled a majority of the staff members in the head office and branches to participate. HDFC Bank's Chairperson and CEO/GM graced the event.

Key Performance Indicators - Occupational Health & Safety

	2011	2010	2009	2008
Staff covered by the health plan	67.30%	67.00%	69.00%	70.00%
Average medical claimed per employee - LKR	31,777	47,024	40,228	22728
Occupational injury	0	0	0	0
No of occupational diseases	0	0	0	0
No of lost day rate	0	0	0	0
Absenteeism rate	8.33%	8.40%	10.60%	10.80%
Fatality	1	1	1	0

Capacity Maximizing Training and Development

Training and development became a crucial tool for addressing the challenges we experienced as a Bank, since conversion to a Bank from a state corporation. Given the intensity in the competitive banking environment, imbibing a knowledge gaining culture has become imperative to gear our team to face the challenges ahead.

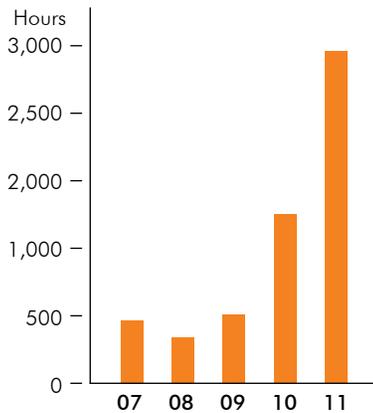
With the objectives of developing knowledge that support the continuity of our staff and facilitating a successful career retirement, we have initiated several programs as mentioned below.

- Granting interest free loans for professional examinations
- Reimbursing of course fees for examination passed and qualifications gathered while in employment
- Encouraging all new recruits to obtain a banking qualification within a specified period
- Financing industry training and workshops
- Continuous in-house and external training and orientation programs on new products, services and procedures
- Special programs to improve English and Tamil literacy
- Giving special recognition to the staff promotion policy for obtaining additional banking qualifications after joining the Bank
- Continuous strengthening of the staff engagement process

Social Value Creation contd.

As depicted in the table of key performance indicators - capacity maximizing, we significantly increased the number of training hours given to the sales staff and junior executives. Total training hours in 2011, increased by 96 percent compared to 2010. Training hours per employee increased by 65 percent compared to 2010.

Training Hours



A special training program was conducted for all drivers on cost effective and eco-friendly driving, vehicle maintenance, road ethics and related rules. The training program was conducted by a resource personal from the Motor Traffic Department of the Sri Lanka Policy and the Department of the Registration of Motor Vehicles.



At two day training program was conducted on positive thinking and leadership development at Kandalama Hotel to the best performed group of the mobile bankers in 2010.

Special Training

Since conversion into a licensed specialized bank, the business environment we compete in has become increasingly competitive. In this context we have identified specific training needs for our staff especially in the areas of customer care, customer rights, industry practices, banking law, governance, anti-corruption, risk management, development regulations, organizational policies and procedures etc. In response to the training needs identified through customer and staff satisfaction surveys and individual performance appraisals in 2010, customer care was identified as a priority area for training needs, for which over 1,800 hours was dedicated in 2011.





Skill development training at Hotel Kandalama

Professional Education

The conducive strategies implemented in the recent years have resulted in a significant qualitative improvement in our workforce. The numbers registered with the Institute of Bankers for professional banking examinations and qualified bankers increased to 25 per cent in 2011 compared to 15 per cent in 2010. The percentage of graduates qualified in the areas of commerce, accounting, economics, arts, geography and valuation amounted to 19 percent of the workforce. These developments have substantially strengthened the capacities of the employees.

Key Performance Indicators - Capacity Maximizing

Training Man Days								
Training Type	2011	%	2010	%	2009	%	2008	%
Internal	2,242	76%	1,474	98%	505	83%	305	75%
External	679	2%	19	1%	101	17%	101	25%
Foreign	24	1%	10	1%	3	0%	2	0%
Total hours	2,945	100%	1,503	100%	609	100%	408	100%
Average training hours per employee	6		4		2		1	
Strengthening with Professional Education								
No. Staff registered for banking exams	128	25%	65	15%	54	15%	26	9%
No of staff completed banking exam	7	1%	5	1%	5	1%	2	1%
No of lawyers qualified	18	4%	16	4%	16	4%	16	6%
No of accountants fully/partly qualified	51	10%	50	12%	50	13%	48	17%
No of IT qualified/partly qualified	33	7%	33	8%	33	9%	32	11%
No of degree holders	97	19%	82	19%	77	21%	51	18%
Other	171	34%	174	41%	130	36%	114	39%
Total	505	100%	425	100%	364	100%	289	100%

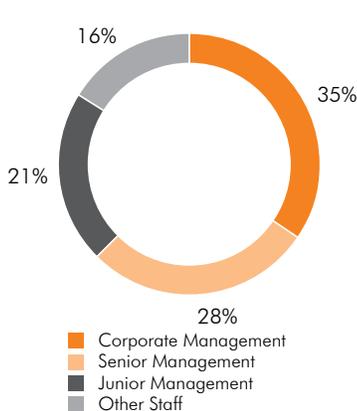
Social Value Creation contd.

A Culture of Diversity

The extent of employee diversity based on gender, age group, service period and ethnicity within an organization is imperative for the stability of the human capital. HDFC is an equal opportunity employer, paying a uniform remuneration for men and women for work of equal value. From inception we have employed a high percentage of women in our organization which amounted to 45 per cent in 2010. During 2011, we strategically recruited more males to strengthen our sales team and thereby reduced the percentage of women in our workforce to 42 per cent by the year end.

The average service period of above eight years indicates the level of stability and the average age of 36 reflects a high potential for development. In 2009, 99 percent of our workforce comprised of Sinhalese which was identified as a constraint for sustainable regional expansion of the Bank. In order to expand the ethnic diversity in 2011, we made a conscious effort to recruited staff from minority groups which enabled us to dilute the majority representation from 99 percent to 93 percent by the year end.

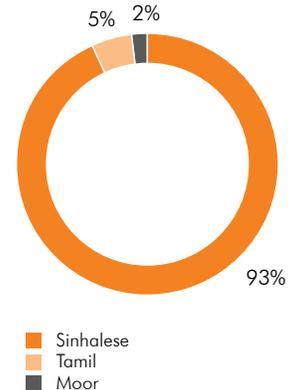
Diversity by Grade



Average Service Period



Ethnic Participation

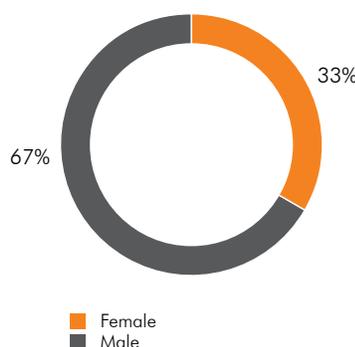


Gender Participation of the Board of Directors

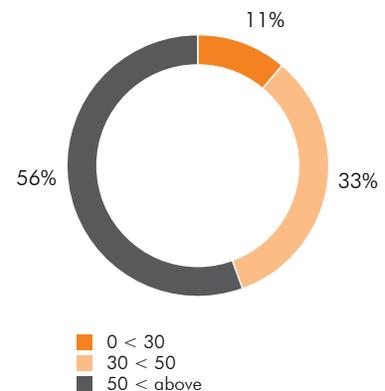
The Board of Directors of the Bank consists of 3 female members including the Chairperson, Mrs S.N.Wickramasinhe. The other two members represent the General Treasury and Ministry of Housing making the female participation 33 percent.

Board consist only one member above 60 years of age and one member below age 30. The Majority of members are between 50 to 60 years.

Board Composition



Board Age Analysis



Key Performance Indicators - Diversity

	2011		2010		2009		2008	
Diversity - by Gender Participation	M	F.M		F.M	M	F.M	M	F.M
Corporate Management	7	0	7	0	8	0	8	0
Senior Management	9	7	9	7	7	6	7	6
Junior Management	71	98	72	98	71	98	71	98
Other Staff	208	105	143	89	112	62	110	64
Total	295	210	231	194	198	166	139	150
Gender	58%	42%	55%	45%	54%	46%	48%	52%
Diversity - By Average Age (Years)								
Corporate Management	52		50		49		51	
Senior Management	42		41		43		46	
Junior Management	32		31		32		41	
Other Staff	24		23		23		38	
Bank	35		36		37		39	
Diversity - by Average Service (Years)								
Corporate Management	8		5		4		44	
Senior Management	13		13		12		11	
Junior Management	14		13		13		13	
Other Staff	3.5		4		9		12	
Average Bank	8		9		10		11	
Diversity - by Ethnic Group								
Sinhalese	471	93%	401	93%	357	99%	No Information	
Tamil	25	5%	14	4%	4	1%		
Moor	9	2%	10	2%	3	0%		
Total	505	100%	425	100%	364	100%		

Social Value Creation

Customer and Supplier Responsibility

Highlights 2011

+24%

Deposit Customer Base

Our Approach

We recognize that our responsibility extends beyond the bottom line, to deliver value to our customers and business partners with whom we interact. We strive to exceed expectations of the customers by providing fair and customized products and services. We emphasize that,

- Socially responsible banking,
- Maintaining affordability of our service ,
- Flexibility-customized solutions,
- Customer satisfaction,

are as the main facets of our customer responsibility. Since obtaining ISO quality certification in 2006, we have been improving our operational efficiency, by broadbasing the quality objectives and targets of our service departments and branches. We were an ISO certified entity and one of the first in the industry to obtain quality certification for the entire operations. This emphasizes our commitment to maintain quality standards on customer service tenets and principles which form the backbone in creating a sustainable organization.

+11%

Branches

+38%

ATM Access

+78%

Satisfaction

Strategic Priorities

- Socially Responsible Banking
- Customer Reach
- Customer Satisfaction

Our Facets of Socially Responsible Banking

Product Responsibility	Right of fair information and information security	Managing conflict of interest and corruptions	Improving accessibility of financial service	Promoting financial literacy and inclusion
<p>We strive to be a fair partner in housing finance by respecting human ' rights in the procedure of product development, product advertising, loan evaluating, approving, contracting, granting and recoveries.</p> <p>In the process of loan and deposit product development, a robust design process takes place assuring fairness and compliance with legal and regulatory requirements and voluntary codes of best practices. All loan agreements and , mortgage bonds have been drafted with due screaming on human rights aspects.</p>	<p>We respect the customer rights to know fair information on any banking transaction. Our Communication of Bank's products and services is always based on principles of ethical and responsible advertising.</p> <p>The Bank is extremely conscious of the need to safeguard the interest of its depositors and loan customers and strives to maintain high degree of risk management through system security, internal controls, policies and procedures. We do not levy monopolized interest or charges on our products and services.</p>	<p>We do not encourage any form of corruptions, malpractices and irregularities weather is in public or in house which threaten social wellbeing.</p> <p>We encourage customers to be complied with all applicable laws and regulations and also strive our self to be complied with. We have taken all steps to manage conflict of interest between the Bank, employees and present and prospective customers.</p>	<p>We recognize that all citizens have an equal right to access our service. Equal access to capital for all segment of a community is important from the prospective of maintaining social balance.</p> <p>In this direction, the Bank strives for , continuous improvement and upgrading of delivery channels, operational capacity, introducing innovative products and services which are imperatives to achieve and sustain customer satisfaction.</p>	<p>We recognize that people in the society are not equally knowledgeable on banking and financials.</p> <p>Insufficient financial literacy can result in poor management of resources of individuals threatening social sustainability.</p> <p>We experience that financial deepening gives us enormous opportunities for business expansion particularly in the emerging market of low and middle income segment.</p>

Maintaining Affordability of Our Services

Our mission is to improve 'The Physical Quality of Life through Sustainable Living', which holistically encompasses domestic, social, cultural and economic facets for a sustainable development, which in turn permeates prosperity and value creation for the nation at large. Our loans therefore aim to convert an aspiration into a reality, making an impossibility - a possibility. House is a fundamental need, achieving which require a large amount of capital that cannot be invested within a short period from average income of a household. We experienced that for a majority of the population, house is the only life time savings. Our philosophy is that, a mere brick and mortar structure of a house is not a harmonious place of living. For a house to become a home, it should be sustainable to the nature and society and affordable to households, when it is built and maintained.

We presume that housing cost up to 40% of disposable income is affordable for any household. This benchmark depends on variable such as collateral values and income pattern, nature of income source etc. Therefore we strive to maintain the monthly cost of housing , within the 40% benchmark of average household income , through customized solutions and innovative products and services

Social Value Creation contd.

Flexibility and Customized Solutions

HDFC's service tenets are built upon delivering customized solutions via service excellence. With a view to encouraging sustainable development of the industry and in creating an affordable housing culture, it is imperative that HDFC maintains a product portfolio that encompasses the diverse mix of customers that we possess. Our customers have a common objective of owning a home however, the criteria to be eligible for a facility differs from customer to customer. Therefore, products and services are developed and facilities are delivered collating a customer's individual requirements, levels and patterns of income, economic activity and available collateral etc.

Our facilities are extended for physical development of houses such as construction, renovation, extension and purchase of built houses. Our services have been further extended to enable customers to purchase household appliances, furniture, fittings, amenities and accessories. HDFC has also formulated savings, deposit and investment plans tailor-made to suite different customer groups. We strive continuous improvement in our processes and services with more customer and user friendly IT based products. The basis of product customizing is more enumerated in the Customized Product Schedule, given below.

Customer Satisfaction

Considering the positive customer response and increase in our customer base it can be construed that HDFC is placed among the best service providers in the housing finance industry. Many of our branches expertise to process a housing loan facilities to the EPF remembers within a day. Our goal is to reach this processing time as the Bank's average

Policy and Governance

HDFC Bank's responsibility of operating as a fair banker is implemented by several Management Committees and governed by the Board of Directors through several Board Subcommittees such as Recovery Subcommittee, Integrated Risk Management Committee, Valuation Committee, Audit Committee etc. Our customer approach is also governed by the regulatory directions issued by the Central Bank of Sri Lanka, Colombo Stock Exchange(CSE) and industry codes of best practices, ensuring fair and social responsible Banking. Moreover, HDFC Bank is compelled to comply with economic policy directives issued by the Ministry of Finance and Planning of the Government of Sri Lanka, being the founder and the principle shareholder. All these policies and directives guide the Bank to carry out the business within the statutory scope of operation enacted by the Act.

Policy and Governance Framework - Socially Responsible Banking

Internal policies assuring fair and socially responsible banking	Regulatory Directions and Voluntary Coded of Practices adopted by HDFC Bank to assure fair and socially responsible Banking
<ul style="list-style-type: none"> ● HDFC Staff Code of Conduct ● HDFC Information Security Policy. ● HDFC Credit Policy ● HDFC Recovery policy. ● Treasury Investment Policy. ● Assets and Liability Policy. ● HDFC Sustainability Policy. ● HDFC Environmental Policy. ● HDFC Community Policy. ● HDFC Integrated Risk Management Policy 	<ul style="list-style-type: none"> ● Know your customer policy ● Antimony laundering policy. ● Customer Charter ● Misleading and Unethical Advertisements ● Display of interest rates, exchange rates and service charges. ● Inadequate / Incorrect Disclosures/press statements ● Code of best practices for corporate governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and CSE ● The Policies on whistle blowing and whistle blowers safeguarding

Our Quality Policy

HDFC Bank shall constantly strive to innovate and deliver total financial solutions to satisfy customers beyond their expectations in their home and lifestyle needs. This will be driven by;

- Caring customer service, anticipating requirements and delivering proactive solutions.
- ISO 9001-2000 based quality management system and enhancing potential of our through motivation, development and recognition.
- Caring customer service, anticipating requirements and delivering proactive solutions.
- State of the art Information Technology and Communications Systems, coupled with continuous improvement based on effective measures and efficient processes

Our Engagements

Socially Responsible Banking

Policy Development and Training

During the year operational policies such as Information Security, Community Participation, Integrated Risk Management, Treasury Investment, Assets and Liability Management were approved by the Board of Directors. Meanwhile, Customer Charter and Staff Code of Conduct were approved to avoid and manage conflict of interest between the Bank, customers and employees. Several operational procedure manuals were redeveloped and revised in line with the advancement of the products and service.

Staff training programs were conducted in the areas of banking related laws, property management, operational manuals, pawning and gold collateralized loans, anti money laundering, risk management , etc. During the year 278 members of the staff were trained spending 2,242 paid hours.

Whistle blowing mechanism and risk management

HDFC Bank accepted whistle blowing as a strong mechanism against corruptions, malpractices and irregularities and appointed two members from the corporate management to accept and analyze whistleblower compliance. Further integrated risk officer and compliance officer were appointed to analyze reputational and credit risk arising from corrupt practices and strengthen regulatory and statutory compliance.

Improving Accessibility to Housing Finance

Our Delivery Channels

Improving accessibility of our service is a crucial factor in enhancing customer relationships. We have made our service more accessible island wide via Mobile Banking Units and ATM networks. We provide mobile banking solution in approximately 136 townships through 31 branches and service centers

Our Banking Channels

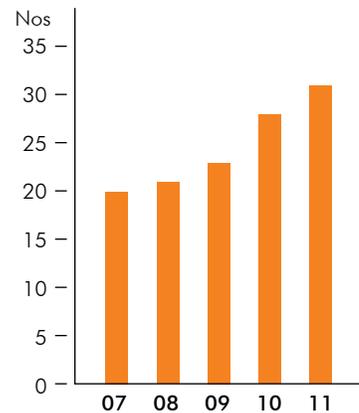


Our Initiatives 2011

Expansion and Improvement of Branch Network

During the year we enhanced our geographical reach by opening three branches in Gampola, Kuliyaipitiya and Paliyagoda. Branch relocation and refurbishment program which was initiated in 2007, continued successfully during the year. Gampaha, Ja-Ela, Homagama, and , Kurunagala branches were relocated in customer convenient locations with improved facilities. Batticaloa Branch was refurbished with contemporary designs and better facilities.

Branch Network



Social Value Creation contd.



Branch Opening - Paliyagoda



Branch Opening - Paliyagoda



Branch Relocation - Kurunegala



Branch Relocation - Kurunegala



Branch Relocation - Homagama

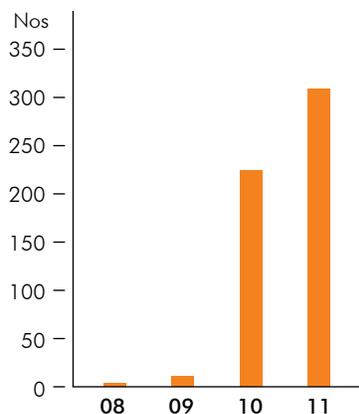
Regional Management

HDFC appointed five regional managers in 2010. These managers were provided with improved office facilities in new office buildings with the objective of improving operational efficiency and productivity which was expected through this initiative.

Enhancing ATM Access

Accessibility through ATMs improved from 225 to 310 via the strategic alliance signed with Sampath Bank PLC in 2010. With this cost effective initiative our customers are facilitated to transact through any Sampath Bank's ATM, throughout the island.

ATM Access



Strengthening of Mobile Banking

Number of Mobile Banking units were increased from 81 operators to 100 operators during the year. With the objective of accelerating our geographical presence and efficiency in customer service, During the year, we expanded the operation in to 105 townships other than towns where HDFC has its branches.

New Product and Services Group Housing Fund Scheme

During the year HDFC introduced an investment plan namely "HDFC Group Housing Fund Scheme" which offers the market highest returns to small long term savings that maintained for retirement needs.

Under this scheme any social group, association, organization, village can establish a their own group investment fund at HDFC Bank where the Bank is agrees to offer an interest rate which is equal to 75% of the interest rate that Bank charged for the lowest priced housing loan at any given time. The product was focused to address the need of the aging population who seeks a return for his investment above the market verage return for catalyzing wealth to the retirement life.

Welcome retirement with confidence INVEST IN the HDFC Group Housing Fund

- Do you know that we are the fastest aging population in South Asia?
- Do you know that in 15 years, our population of 65 years old and above may equal that of Japan and Europe?
- Do you know that in 10 – 15 years one in every 4 individuals will be a senior citizen of over 65 years of age?
- How much longer should we compel ourselves to be a part of this struggle?

Are you thinking of retiring without being a burden to anyone?

The HDFC Group Housing Fund has been introduced to dispel any fear or insecurity you may have about your future.

🏠 What is the HDFC Group Housing Fund?

It is an investment plan which enables you to accumulate wealth, in the golden years of your life

🏠 What should be your initial investment to begin an HDFC Group Housing Fund?

The initial investment is Rs. 500/-

🏠 Is a permanent job a necessity to be a part of the HDFC Group Housing Fund?

An individual with a permanent job or even a self employed individual can acquire membership of the HDFC Group Housing Fund

🏠 Is a monthly fixed deposit a necessity to ensure continuity of the fund after the initial investment?

This is not a necessity. You have the flexibility of depositing any amount above Rs. 100/- at any given time as and when an opportunity arises

Social Value Creation contd.

The 'Ran Naya' Loan Scheme

Ran Naya loan scheme was introduced as a short term loan products with tenure of less than 3 years. 'Ran Naya' loans enable lower and middle income customers to obtain loans against their gold collateral for urgent housing requirements. We will mainly focus on growing the short term market (1- 3 months) initially, by offering competitive interest rates and promoting the product through mobile bankers.

HDFC Lifestyle loans

Lifestyle Loan scheme offers financial facilities to meet lifestyle needs of customers such as purchasing furniture, electrical goods etc. The products will be offered by reputed suppliers to employees of identified companies in the form of group sales.

Advancement of IT Based Processes

Internet Banking

HDFC launched its Internet Banking services in 2011 with the intention of reducing transaction cost to customers in daily banking activities. With introduction e-banking solution, all our customers have been facilitated to conduct their banking transaction by themselves such as inter accounts and banks fund transfers, inquire rates and statements and utility bill payment via internet without having to visit to the Bank. It also provides customers access to banking 24 hours a day, 7 days a week anywhere in the island

HDFC also implemented 'iSwitch' - an ATM Switch and Monitoring System by Interblocks. The new applications enable us to be at the forefront in overall banking operations with quick and innovative products and maintain

a healthy customer service relationship. We are able to offer our customers a wide array of new services, through the ATM network island wide. We intend to avail our facilities to customers from almost any ATM through the linkage Interblocks has with other banks in the future.

SMS Banking

SMS Banking was another initiative launched during the year making our services more competitive within the industry and even more efficient service to our customers, by taking convenience of banking to every person's fingertips. This facility too enables us to extend banking services 24 hours a day, 365 days of the year and further provide a more efficient service to our customers.

Promoting Financial Literacy and Inclusion

During the year, Bank initiated several programs to improve financial accessibility and literacy among the economically less privileged people. These initiatives are explained in detail under economic value creation.

Our Efforts to Maintain Affordability

We revised the interest rates of many loans that had been given when the market rates were at its peak and maintained the interest on new facilities at the best possible rates. Loans targeted for the low income segment were kept at the lowest using a specific pricing strategy. Our strategy is that smaller loans lower interest and higher value loan higher interest with negotiable rate. This pricing strategy, showcases HDFC's commitment to service low and middle income market.

Tenure of loan which was curtailed as a risk management strategy during turbulent market situations was extended to 15 years and above. Processing cost was reduced in many loan categories. Mobilization of savings to reach a balance of LKR 1.600 Million also contributed to reduce cost of funds as a strategy of making facilities more affordable.

Meanwhile HDFC improved the mix of funding base and loan portfolio in order to manage maturity risk while improving affordability of services. We developed short term loan products backed by alternative collaterals such as gold, institutional guarantees etc, to facilitate customers with inadequate collateral.

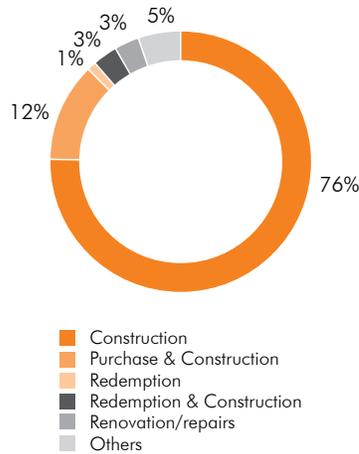
Providing Customized Solutions

During the year 12,142 facilities were offered for new house construction recording an YoY increase of 32 per cent. Further, 697 facilities were granted for house purchasing while 351 facilities were given for redemption and construction and 605 loans were granted for house improvement and repairs. For purchasing of household equipments Bank assisted for 428 families by granting facilities worth of LKR 240 Million. Housing loans worth of LKR 3,567 Million were extended to customers with sources of income from service sector employments and LKR 824 Million was granted to customers from the industrial sector income. The customers from farming and agricultural industry sectors were extended LKR 370 Million worth of facilities.

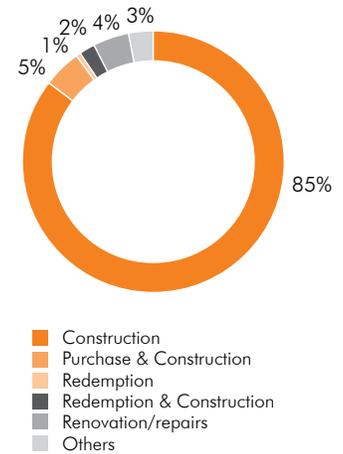
Purpose wise Distribution of Loans 2011

Purpose	LKR-M	No of Loans
Construction	3,594.36	12,142
Purchase & Construction	572.74	697
Redemption	64.16	71
Redemption & Construction	140.98	281
Renovation/repairs	149.76	605
others	240.40	428
Total	4,762.40	14,224

Purposewise Distribution of Service 2011 - Value of Loans LKR Million



Purposewise Distribution of Service 2011 (No of Loans)



Customized Products Schedule

Customizing of Loan Facilities		Deposits / Savings Plans
Customer Need	Loan Products	
* Construction	* Kedella	* Thilina
* Purchase of a house/flat	* Shrama Udana	* Thilina Rakawarana
* Purchase and construction	* Guru Sevana	* Prathilaba
* Redemption existing high interest loans	* Sirisara	* Vishrama Udana
* Extension and reconstruction	* Thilina Home Loan	* HDFC Dana Nidhana
* Renovation, repairs/improvements	* HDFC Home Loan.	* HDFC Fixed Deposits
* Purchase of residential lands	*.Farmer's Loan Scheme	* HDFC Mobile Savings
* Purchase of electrical fittings	*.Teacher's Loan Scheme	* Arumbu Minor Savings Plan
		* Group Housing Fund scheme
* Purchase of household accessories	* Project Loans	
* Development loans		
Customized Collaterals.		
* Property mortgages	* Guarantor loans	
* EPF backed loans	* Group Guarantor loans	
* Cash backed guarantee loans	* Institutional Guaranteed loans	
* Gold Collaterals loans		

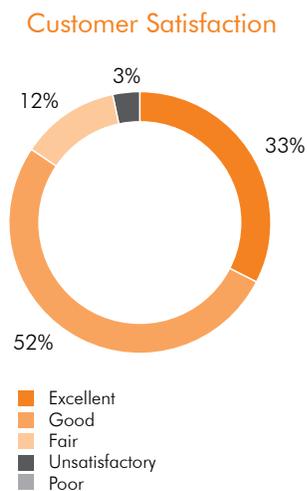
Social Value Creation contd.

Improving Customer Satisfaction

The annual survey on customer perception enabled us to improve our customer service by simplifying procedures and offering tailor-made products whilst providing continuous training to our staff. With these initiatives we have been able to improve our overall customer satisfaction ratio from 53 per cent in 2009 to 78 per cent in 2011.

Customer Satisfaction Survey results.

Survey Criteria	2011	2010	2009	2008
Sample size	4,000	4,000	6,000	6,000
Responded	322	518	1490	2,540
Response - Excellent	32%	40%	3%	3%
- Good	51%	35%	36%	29%
- Fair	12%	5%	35%	36%
- Unsatisfactory	3%	0%	23%	30%
- Poor	0%	0%	1%	3%
Overall Rating	78%	80%	53%	46%



Our Commitment to Suppliers

Our Approach.

Given our business and operational profile, HDFC's interaction with suppliers is limited. Even for that limited portfolio, we strive to be a strategic partner in their interaction with us. We have therefore implemented a comprehensive system that's built on the tenets of transparency and accountability, where controls and monitoring are built in, to ensure that suppliers are treated with meritocracy.

HDFC makes a conscious effort to source suppliers from the vicinity of branches, especially for maintenance and repairs. We allocate resources mainly for stationery expenses. We are committed to ensure that our relationships with suppliers are only with service providers who are registered with HDFC having scrutinized their financial and past records.

Supplier Rights, Governance and Practices

Standard procurement procedures and ethical practices such as supplier registration, tender, quotations and evaluation systems is in place. Different committees are vested with responsibilities such as the Tender Boards and the technical evaluation committees based on diversity in the value of supplies. HDFC also follows a high level of transparency and control in tender and procurement procedures. Price negotiations are conducted by a designated team depending on the contract value. HDFC thus has not had any major supplier complaints in the last two years.

Over the years, we have maintained a high level of supplier satisfaction with timely payments, communication and by respecting their human rights by offering equal opportunities for equally qualified partners.

Initiatives to enhance capacity, customer reach and service - 2011

Customer Reach and capacity		
Strategy	Objectives	Achievements
Opening three new Branches	Enhance Geographical presence and customer reach	Substantial increase in lending and deposits
Expansion of Mobile Banking service to capture non banking community and increase per capita savings.	Improve customer reach by providing service at customer door step with special focus on savings	Increased and savings portfolio by 45%.
Enhancing ATM access points from 225 to 310	Enhance delivery channels.	Increased customer base and deposits.
Implemented Internet Banking facility	Facilitate customers for cost effective and convention banking	Results consolidates in 2012
Customer care – training	Improve quality of service and customer satisfaction	Improved loans, savings and deposits.
Regular branch wise Promotion.	Expanding customer base.	Enhanced loans, savings and deposits portfolio.
New Products and Services		
Initiative	Description & Objective	Targets & Achievements
HDFC Group Housing Fund Scheme	An investment plan faster catalyzing wealth needed for the aging population while creating a risk pooled long term deposits base to the bank	Performance impressive consolidating in 2012
Gold Loan	Goal collateralized loan	Consolidating in 2012

Key Performance Indicators - Customer Value Creation

Purpose wise Service	2011		2010		2009		2008	
	No of Loan	%						
Construction	12,142	85.2	9,252	86.2	5,197	86.7	4,449	80.0
Purchase	697	5.0	588	5.5	350	5.8	513	9.2
Renovation/repair	351	2.1	486	4.5	52	0.9	246	4.4
Redemption	886	6.3	67	0.6	166	2.8	39	0.7
Home loans	428	2.0	346	3.2	212	3.5	312	5.6
	14,224	100.0	10,739	100.0	5,997	100.0	5,559	100.0

Social Value Creation contd.

Purpose wise Service	2011		2010		2009		2008	
	No of Loan	%	No of Loan	%	No of Loan	%	No of Loan	%
Customer wise distribution of service								
General mortgaged loans	1,325	9.1	1100	10.2	692	11.5	1028	18.5
EPF members	8,545	60.3	6163	57.4	3134	52.3	2110	38.0
Government teachers	203	1.0	387	3.6	368	6.1	889	16.0
Existing customers (Home Loan)	375	3.3	2648	24.7	1240	20.7	1196	21.5
Other	3,776	27.0	441	4.1	563	9.4	336	6.0
	14,224	100.0	10739	100.0	5997	100.0	5559	100.0
Customer Reach and Capacity Building								
Permanent work force	505		425		364		289	
No of Mobile Bankers	100		81		58		24	
No of Branches	31		28		26		21	
No of ATMs access	310		225		10		4	
No of PCs/staff	72%		71%		69%		63%	
Customer Rights								
No cases filed by customers on Human Rights grounds	4		2		3		2	
No of cases filed by the Bank	1		1		1		0	
Total litigations on Human Rights grounds	5		3		3		2	

Social Value Creation

Sustaining Our Community

Management Approach

The community is an important stakeholder of HDFC. The ethos of our Bank is focused on sustaining the community given that our core business is fulfilling a primary need of the community which is shelter. Over the past two and half decades we have made a significant contribution to improve the physical quality of life of the low and middle income segment of our nation by facilitating affordable housing finance in order to fulfill their dream of owning a home which itself creates a sustainable environment for them to built their future upon. We also acknowledge our responsibility to involve ourselves with the community which enables us to build deep relationships with customers and promote the reputation and image of the Bank. Investment in the community is most effective when it is built on a foundation of mutual benefit and a long term partnership.

Strategic Directions

Our community investment strategy focuses mainly on the following six strategic directives;

- Sustainable housing and living
- Financial inclusion
- Clean water and health
- Education and Sports
- Donation and sponsorships
- Volunteerism in disaster management

HDFC Community policy is available at www.hdfc.lk for public reference. During the year the Bank has invested over LKR 4.4 Mn in the process of policy implementation representing 1% of cash earnings before tax.

Highlights 2011

+ LKR 4.4Mn

Community Investment

Policy and Governance

Our community participation responsibilities are governed by the CSR Steering Committee headed by the Chief Executive Officer/ General Manager represented by DGM (Finance), AGM (Business Development & Marketing), AGM (IT), Manager Technical, Manager Treasury and a representative of the Trade Union. CSR projects and activities are proposed, identified, screened and evaluated based on social cost benefits and are submitted for Board approval. Project implementation is assigned to the CSR Project Committee represented by a member from each functional department. The outcome of each project is reported to the Board on the completion of a project.

HDFC Community Policy

1. POLICY OBJECTIVES

- (a) To be used as a guideline in identifying and implementing CSR projects.
- (b) To communicate the level of the Bank's commitment to community participation and to different stakeholder groups.
- (c) To use as a measure in sustainability reporting.

2. POLICY DIRECTIVES

- (a) For direct participation in the drive of achieving the Millennium Development Goals in poverty eradication, improvement of physical quality of lives and education etc.
- (b) To assist people in the event of natural disasters and health and medication needs.
- (c) Popularizing the HDFC brand among the public.

3. POLICY

- 3.1. *Promotion of clean water and healthcare:* - HDFC recognizes that enhanced accessibility to clean water and healthcare facilities are important factors in improving the quality of lives of people. Hence the Bank is committed to contribute to the community, directly or indirectly, in its capacity, to achieve the above.

Social Value Creation contd.

3.2. Education: - Since 1943, education in Sri Lanka has been considered a basic right and the country is focusing on achieving the goal of Universal Primary Education by the year 2015. HDFC recognizes the importance of its contribution, involvement and participation in the society in its capacity to achieve this goal, where every child is enrolled and completes primary education in full.

3.3. Promotion of sports: - HDFC recognizes that sports are an important activity in enhancing capacity, unity and personality of our children. The Bank therefore, is committed to participate in promotion of sports in schools and the society.

3.4. Donations, sponsorships and participation in community projects:-

HDFC also recognizes the importance of interaction with community organizations such as societies, associations etc for the wellbeing of the people and therefore is committed to support in its capacity financially or by other means. The Bank recognizes its responsibility to support the democratic process, law and order and ensure the Government is well informed of its activities in the society. The Bank, therefore is committed to ensure that any donations and sponsorships extended are:

- Solely for the purpose of supporting the democratic process
- Lawfully and properly recorded and disclosed in our accounts
- Not made, where there can be any misrepresentation of purpose

HDFC is also committed to support the society in the event of natural disasters financially or by other means and encourages staff to volunteer in their local communities. The Bank also helps individuals in the society in need of sponsorships for medication, sports and education and is extensively involved in the community projects within its capacity while encouraging the staff in voluntary participation.

3.5. Promotion of banking habits and empowerment

HDFC is dedicated on providing banking facilities to the non banking community and proliferating banking and savings habits among them. Since a majority of customers are from this segment, the Bank is committed to direct strategies towards this community, extend banking advice and support services and develop products and services tailored for that purpose.

3.6. Promotion of sustainable and economical housing technologies

The Bank recognizes that it has an inbound responsibility for sustainable development of the industry, hence is committed to promote innovative housing technologies that are economical to the common man and equitable to the country and environment.

Community Performance - 2011

Children Savings with Bank's Sponsorships

To inculcate savings habits among school children, HDFC launched the "THILINA" minor savings accounts in schools and preschools with an initial deposit of LKR 100/- from the Bank. HDFC opened THILINA minor savings accounts for 5,500 children, throughout the island via the branch network and mobile banking operations.

Promoting Education School Development Project, Buththala

This project which commenced construction in October 2010 was completed and handed over in March 2011.

Sri Suboda Vidyalaya is a school situated in Buththala, facing the Katharagama road, providing education up to grade 10. There are approximately 100 students who have undergone many hardships due to lack of adequate building space, study material, library facilities, sports, sanitary and water facilities. The lack of teachers and the threat of wild elephants were the other issues faced by the school. When we initiated the rehabilitation project the school was virtually neglected with a steady decline in the number of students majority of whom were from the low income families whose main source of income was seasonal cultivation.

HDFC sports club selected to rehabilitate Suboda Vidyalaya as a CSR project and Board approval was obtained to implement the project in conjunction with the Monaragala Integrated Rural Development Project organized under the Dayata Kirula exhibition which was held in February 2011 in Monaragala. The development program organized by the Sport Club includes the construction of two 20x50 school buildings. Total estimated cost was LKR 4.5 million and was planned to be implemented in three stages as a participative project by the Bank and staff with substantial assistance from villages in terms of labour and materials. Construction of two school buildings, planting of trees and doing up of the garden were completed in 2011 and handed over to the school at a ceremony which was held in March 2011, with the participation of Chairperson of the Bank, Mrs. Siromi Wickramasinghe, General Manger, staff members, principal and teachers of the school and the villagers.

The building was furnished with the required number of chairs and tables by a donor organized by a member of the staff.



School Building before the development



Facilities before the renovation



The first parent's meeting to discuss the projects



Laying of the foundation stone
– November 2010



Laying of the foundation stone
– November 2010



After the completion of two buildings
– March 2011



Building opening by the Chairperson



Handing over the key to the Principal



Project Team - Staff, villagers and teachers

Social Value Creation contd.



Granting Educational Material

This project was initiated by the sport club, in 2010, as an annual event, to assist rural children of less privileged families with educational materials. During the year we granted school bags, sport materials and books to 85 children at Sri Suboda Primary School, Buththala.

Cricketer, Nuwan Kulasekara participated in the function as the chief guest and as a donor. Part of the cost was incurred by the staff and the amount spent by the Bank was LKR 140,000/=



Cricketer, Nuwan Kulasekara gifting school bags at Suboda School, Buththala.

Computer Training

Providing computer education to children in rural and less privileged families was another project initiated by the Bank as an annual event. During the year, the Bank donated three computers to the Computer Training Center at the Sri Suboda Vidyalaya, Buththala, which was built by the Bank as the main CSR project in 2011. Bank conducted three follow up training programs to the teachers and students in March, July and November 2011. The IT knowledge and competence gained by the children was admirable.

The Bank also conducted a computer training camp for three months, to children from less privileged families around Dematagoda at Maha Visuddharamaya temple using out sourced, resource personnel. Total cost of this training project was LKR 200,000 in 2011.



Donation and Sponsorships

During the year, the Bank has spent LKR 674,500 as donations and sponsorships for social events organized by various organizations, societies and schools, for the wellbeing of the society and the industry. Some of the significant donations and sponsorships are as follows:

- * Sponsorship of the Samurahi staff welfare society's annual events - LKR 140,000
- * Sponsorship of the event organized by the Ministry of Housing in tandem with World Habitat day 2011- LKR 100,000
- * Donation for a self employment project - LKR 202,000.

Social Value Creation contd.



School children at building opening ceremony

Community Responsible Banking

The operations of HDFC Bank are statutorily limited to housing finance and allied services. Therefore, our business strategies have to be focused to the larger segment of the households - low and middle income groups, that represents around 60 percent to 70 percent of the population. Approximately 35 percent of these households hardly have access to housing finance, even though they have the capacity and willingness to pay for low cost housing. A part of our community policy is empowering

these people to access for formal housing finance which would in turn improve the quality of life of these people and render enormous socioeconomic benefits the country. Our social responsibility in this direction is conducted by promoting financial inclusion through the Mobile Banking Operations which is described under our performance towards economic responsibility.

Volunteer Contribution of Staff

Volunteer Labour

As a part of the Community Policy, HDFC encourages voluntary staff participation in community projects and in the event of natural disasters and other community needs. Voluntary participation in community projects is imbued to HDFC employees, by creating a platform for them to actively participate in CSR projects and community development initiatives organized by the



CSR Committee and the Sport Club. The Buththala school development project, numerous events organized to promote savings habits and financial inclusion and computer training were the major CSR events, where our staff generously contributed financially and with voluntary labour.

During the year, our staff contributed over 240 man days of hard labour to the school development project at Buththala which reduced the construction cost of the buildings substantially. In an island wide savings promotion organized by the HDFC branch of Ceylon Banks Employees Union, our staff participation was 96 percent. Further, our staff participated generously in events organized by the Business Development and Marketing Division of the Bank, in promotion of savings and financial inclusion. In total, our staff has contributed over 1,200 man days, at zero cost to the Bank, utilizing their weekends. On average, one member of the staff has contributed 2.2 days of labour on social participation of the Bank.



Social Value Creation contd.



Volunteer Financial Contribution

Moreover, HDFC staff made a financial donation of LKR 348,000 for the construction of the school project and generously supported their fellow staff members in need of financial assistance due to hospitalization, housing, education, and floods etc. During the year, our staff has donated over LKR 1.0 million for various social needs.

Key Performance Indicators- Community Investments - LKR Mn

	2011		2010	
	Amount	As % of PBT	Amount	As % of PBT
Promoting Sustainable Housing and Living	0.980	0.0	0.665	0.23
Promoting Financial Inclusion	0.550	0.0	0.830	0.29
Promoting Clean Water and Health	-	0.0	0.315	0.11
Promoting Education and Sports	2.237	0.0	2.108	0.72
Donations and Sponsorships	0.674	0.0	0.535	0.18
Staff Voluntarism (Paid Hours)	0.025	0.0	0.385	0.01
Total	4.447	1.0	4.492	1.54
Profit Before Taxation (PBT)	496.000		291.000	

Our performance

against the focused engagements - 2011

	Strategic Action	Degree of Implementation
Government	Maximize direct economic value creation	Satisfied
	Accelerates lending in conjunction with government development initiatives	Satisfied
	Focus on expanding banking services in the North and East	In progress
	Actively participate in government's special regional development projects	Participated
	Enhance lending to customers from agricultural sector	Satisfied and in progress
	Enhance strategies to capture unbanked community	Satisfied and in progress
Shareholders	Timely and regular publication of quarterly financial results	Satisfied
	Timely publication of Annual report 2011.	Being implemented
	Reconstruction of Corporate website	Satisfied
	Enhance profitability and shareholder fund	Satisfied
	Maintain above the industry average growth.	Fairly satisfied
	Enhance branch and corporate image	Fairly satisfied
Customer	Enhance customer reach by opening new branches and through ATMs	Satisfied
	Diversify the product range	Introduced one product
	Enhance mobile banking operation	Being implement
	Introduce new value added services at customer convenience	E-banking solutions
	Introduce code of ethic and customer charter	Introduced
Environment	Implement a branch wise competition to promote efficient utilization of resources.	Not implemented
	Initiate to quantify GHG emission and manage own carbon footprint	Not implemented
	Initiate to introduce green loan product	Not implemented
	Implement 'one tree for one loan' program	Not implemented
	Initiative to reduce indirect energy consumption of fuel from staff transport.	Satisfied
Employee	Introduction of unique branch performance appraisal system.	Not implemented
	Review of HR policies.	Being implemented
	Expansion of field sales with recruitment of new palm top operators	Not implemented
	More ethnic and geographical diversity of staff	satisfied
Community	Complete school development project	Satisfied
	Implement Computer literacy center	Satisfied
	Investment on promoting education by assisting schools	Satisfied
	Continue with Thilina Tharu art competition	Discontinued
	Continue with Habitat Day program	Satisfied

Focused Engagements 2012

Stakeholders	Focused Engagements in 2012
Government	<ul style="list-style-type: none"> - Continue with Janasevana housing program - Continue with palm top operation and promote financial inclusion
Shareholders	<ul style="list-style-type: none"> - Timely and regular publication of quarterly and annual financial results
Environment	<ul style="list-style-type: none"> - Implement a branch wise competition to promote efficient utilization of energy and resources - Implement 'one tree for one' loan project to improve and protect bio-diversity - Initiate cost effective housing technologies - Initiate to quantify GHG emission from Bank's operations
Employees	<ul style="list-style-type: none"> - Continue with career development and training with special focus on foreign training - Completion of the ongoing head office and branch refurbishment and relocation program - Introduction of a unique branch performance appraisal system which encompass career training and extending financial rewards to best performing branches - Revision of human resources (HR) training and development, health and safety policies. - Appointment of Head of Credit- the position has been vacant since January 2012 - Remuneration and rewards - renegotiation of the collective agreements - Creating a balance between personal and professional life - Promote health & safety
Community	<ul style="list-style-type: none"> - Continue with HDFC Computer Literacy Center Project - Initiate a debt settlement awareness program for EPF members in the estate sector to secure their retirement fund from unauthorized financial intermediaries - Revision of community policy and introduction of Whistleblower Protection Policy to strengthen the fight against corruption and anti-competitive behavior

Risk Management and Corporate Governance

“ The Foundations of long-term
success ”

Risk Management

HDFC's Risk Rational

Risk is an integral part of business, banking in particular. In the banking industry, risk can be defined as "any event or possibility of the occurrence of an event which can impair corporate earning or cash flow over short/medium/long-term horizon." The vision of Risk Management is to proactively assist the business in delivering superior shareholder value by ensuring an optimal trade-off between risk and return.

HDFC's Risk Profile

Due to the long term nature of the housing finance portfolio funded by comparatively short-term funds, diversity of the market, and geographical regions in which HDFC Bank operates, implementation of an efficient risk management structure is a critical for the Bank. Housing sector is crucial for socio economic development of the country and considered as a specific priority area in the formulation of development policies. Sensitivity to changes in those policies is also a part of the risk profile of HDFC which needs continuous strategic focus. Further, the impact of unforeseen changes in macro economic environment, such as global economic and environmental changes are the other aspects of focus in the risk management approach at HDFC. In this context, HDFC pays special emphasis to be compliant with regulatory requirements issued by the Central Bank of Sri Lanka, ensuring the sustainability of the banking industry from time to time. HDFC emphasizes that these precautionary measures would warrant the long-term sustainability of the Bank.

Risk Management Objectives

- To contribute to the development of the Bank by optimizing the overall risk-adjusted profitability.
- To guarantee the Bank's sustainability as a going concern, through the implementation of policies, systems and infrastructure which promote effective risk measurement and monitoring.
- To ensure that HDFC function as a responsible corporate citizen in compliance with applicable laws, regulations and external codes of best practices.
- To contribute to the sustainability of the banking industry.

HDFC Risk Precautionary Management Framework

COMPLIANCE	RISK MANAGEMNT	BUSINESS LINE OPERATION
Compliance review with applicable laws and regulations	Operational policies and procedures	Real time operational focus of risk management
Bank's compliance officer reviews operational compliance with the HDFC Act under which HDFC Bank is established. HDFC also adheres to the requirements of the Finance Act, directions issued by the Central Bank of Sri Lanka(CBSL), listing Rules of the Colombo Stock Exchange (CSE), and the code of best governance practices issued jointly by the CSE and the Institute of Chartered Accountants of Sri Lanka.	The Bank regularly develops reviews and adheres to operational policies and procedures in the day to day operations. These policies are developed on the basis of past experience and in line with the industry and environmental standards with the prime objectives of managing Operational Risk, Market Risk, Interest Risk, Environmental and Social Risk, which influence the growth and sustainability of the Bank.	Risk management division is headed by the Risk Officer (RO), by whom the audit and analysis is carried out to ensure that risks are taken at prudent levels in the daily operations and reviews are conducted with internal policies and procedures. RO is responsible to set up a system to timely identify different types of risk and its management.
Level of compliance is periodically reported to the relevant regulatory authorities and to the stakeholders through the annual report.	The policies are formulated by the senior management/ management committees and approved by the Board of Directors, and reviewed in conjunction with current developments.	

Challenges in Managing Risk

In the process of risk management, HDFC faces the following crucial challenges which are not faced by the competitors in the industry, in general.

1. The scope of the business operations of HDFC Bank is restricted to the powers constituted by the HDFC Act No 07 of 1997 and amended Act No 15 of 2003. However in the process of mobilization of market funds, it is inevitable that the Bank has to face an equal competition with other banks. Thus product and service diversification which is an important strategy of risk management is a challenge.
2. The core business of HDFC is entirely focused on assisting people to achieve one of the basic needs; housing. This is a pressing issue for a majority of the population. Thus maintaining affordability and accessibility of our service to the masses should be the paramount phenomenon in our business. Balancing this cause with the open market competition is a crucial challenge in the process of managing risk at HDFC.
3. Housing loans should be unarguably long term and reasonably priced to be affordable to the customers. However funds available in the market always look for short-term destinations with high returns. Managing risk through balancing different interests of these two stakeholders is a significant challenge.
4. Housing finance invariably has to be over 10 years during which time the customer and the Bank can go through several unforeseen economic, environmental and social challenges.
5. Over 75 percent of the customers initiate negotiations for housing loans with a zero banking relationship with HDFC. Thus the degree of challenge in credit assessment is higher than for competitors from the commercial banking sector.

Risk Management Governance Framework

HDFC Bank's risk management governance is based on:

- Strong managerial involvement, throughout the entire organization from the Board of Directors down to operational management teams;
- A tight framework of internal procedures and guidelines;
- Continuous supervision by an independent body to monitor risks and enforce rules and procedures.

Risk Management Framework of the Bank



Risk Management contd.

The Board of Directors

The Board of Directors approves policies and defines the Bank's strategy and supervises risk control. In particular, the Board ensures the adequacy of the Bank's risk management infrastructure and monitors the risk exposure of its activities. Presentations on the main risk categories and notable changes of Bank's risk management strategy are regularly made to the Board by the General Management.

Board Sub Committees

The Board sub-committees escalate the identified risks to the Board for necessary actions.

- **Board Integrated Risk Management Committee**

The Risk Management Committee is chaired by the Chairperson of the Bank and meets at least once a quarter. The mandate of the Committee is to define the framework required to manage risk, review changes in the risk characteristics and Bank's risk portfolio and decide on any necessary strategic changes.

- **Board Audit Committee**

Within the Board of Directors, the Audit Committee plays a crucial role in the assessment of the Bank's internal control quality. More specifically, the Audit Committee is empowered to examine the adequacy and effectiveness of internal control systems, review the financial statements, assess compliance with regulatory requirements and consider contents of the internal audit reports.

Management Committees

The Management Committees coordinate different business processes and risk owners.

- **Risk Working Committee.**

Coordinate with the Board Integrated Risk Management Committee and operational level risk management function. Monitor effective implementation of risk management policies, procedure and a sound system in mitigating risk.

- **Assets and Liability Committee (ALCO)**

Asset and Liability Committee is held responsible for managing liquidity, maturity gap of assets and liabilities, pricing of loans and deposits and sensitivity to other market variables etc. These aspects are monitored by the ALCO with set guidelines on a regular basis.

- **Credit Committee**

The Committee comprises of the General Manager, Deputy General Manager (Finance), Assistant General Manager (Business Development & Marketing) and the Senior Manager (Recoveries). The Committee has been delegated with authority limits to approve credits within its scrutiny or make recommendations to the Board of Directors in respect of the facilities which exceed delegated authority limit. The Committee also issue guidelines on credit evaluation, administration and recovery process with a view of mitigating credit risk.

Investment Committee

Investment Committee that comprises of the members of the corporate management is responsible for evaluating and screening the investment of excess funds made by the treasury department of the Bank.

IT Steering Committee

The Committee comprises of the Assistant General Manager IT and members from the Corporate Management. The Committee oversees IT developments in conjunction with the IT corporate plan and industry developments.

Sustainability Committee

The Committee oversees the process of integration of sustainability practices in the operation of the Bank and its engagement and communication.

Risk Management Division

Carries out the function of risk identification, analysis and managing throughout the Bank. Forwards timely risk evaluation reports to the Risk Working Committee and Integrated Risk Management Committee and ensure the effective implementation of their recommendations.

Business Processes and Risk Owners

- **Finance Division**

The interest rate and liquidity risks, Bank's long-term financing programs, capital requirements and equity structure are managed by the Finance Division. The Finance Division is also responsible for assessing and managing the other major types of risks, namely the strategic and business risks etc. It also validates the methods used and extends advices to the business divisions.

- **Treasury Division**

Regularly monitors the credit portfolio and analyzes the entire credit portfolio under different criteria such as sector wise credit concentration and maturity analysis and propose corrective actions if necessary. Also the Treasury Division daily analyzes prevailing market conditions and makes decisions to maximize profitability and manage the liquidity position in such a way that the Bank is able to meet customer demand, redemption commitments and capital requirements even under adverse market conditions.

- **Operational Division**

Over the last few years the Bank has developed processes, management tools and full control infrastructure to enhance the control and management of operational risks that are inherent to its various activities. Operations Division identify, assesses, measure, monitor and take necessary steps for managing such risk while reporting to the management.

- **Internal Audit Function**

The Internal Audit function provides assurance to the management by undertaking independent assessments on the effectiveness of risk management activities and takes necessary steps for managing such risks while reporting to the management.

Risk Identification and Grouping

In defining the Bank's overall risk appetite, HDFC takes various considerations and variables into account, including.

1. The relative risk/reward of the Bank's various activities
2. Business sensitivity to changes in the macro economic environment, fiscal policies or market events
6. Macro-economic risks on interest yield and liquidity notably in emerging markets
7. Risk from unforeseen events such as natural disasters, floods, tsunami etc.
8. The aim of achieving a well-balanced portfolio of earnings streams

The Housing Finance Industry like any other financial services industry, is exposed to a multitude of risks, which could broadly be classified as credit, market, operational, legal/compliance, and reputational risk as detailed in the Table of Risk Groups.

HDFC Bank's Main Risk Exposures

Risk Grouping		Importance to HDFC Bank
Risk Field	Risk Group	
Credit Risk	Credit Concentration Risk	Credit risk that could arise from inadequate diversification of the loan portfolio. For any financial institution, income sector, income group, geographical area or collateral basis, distribution of the loan portfolio is important to manage credit risk associated with the loan portfolio. HDFC Bank grants facilities with longer tenure which is serviceable within the 40 percent benchmark of the disposable income and diversification of portfolio mix is important.
	Climate Change Risk	Housing loans are in average 10 to 15 years in tenure and over 70 percent of facilities have been extended to customers from low and middle income families whose income is highly vulnerable. This segment frequently faces the challenge of extreme weather conditions and natural disasters such as floods, storms, droughts, extreme temperatures and non-availability of water etc. This group also frequently faces the challenges of weather pattern causing illness or diseases and income variations and job insecurity. Therefore, management of risk, related to climate change is important to HDFC.
	Risk related ineffectiveness of credit policy and recovery	Credit policy and the recovery function of the Bank is to be reviewed in line with the industry development and changes in the macro economic, environmental and social challenges. Ineffectiveness of this process could expose the Bank to a credit risk.

Risk Management contd.

Risk Grouping		Importance to HDFC Bank
Risk Field	Risk Group	
Interest Rate Risk	Risk of Interest Mismatch	Risk of losses resulting from adverse movements in the market variables such as interest and inflation in a volatile market situation. The degree of HDFC Bank's exposure to the interest rate mismatch is fairly high, since over 60 percent of the housing finance portfolio is funded by market mobilized short term funds. An upward movement of market interest rates could significantly impact the financial bottom line of the Bank as the additional cost of interest cannot be immediately transferred to the customer.
	Liquidity Risk	In a volatile market situation, interest rate risk could expose the Bank to an inadequate liquidity situation where the Bank will not be able to meet its obligations as they come due. This arises as a result of the Bank's inability to liquidate assets, obtain adequate funding or inability to easily offset specific exposures without significantly lowering market prices, market depth or market disruption.
Operational Risk		Risk of losses or sanctions due to inadequacies or failures in procedures and internal controls, compliance requirements or corporate governance practices or those caused due to human error, fraud, failure/delay to perform or compromise of HDFC Bank's interest by employees. Operational risk also includes the potential loss arising from a major failure in IT systems and both natural and man-made disasters.
Reputation/ Strategic Risk		Potential damage to the Bank through deterioration of its reputation or standing due to a negative publicity of the Bank's business practices, whether true or not which would cause a decline in the customer base, unexpected withdrawals of deposits, costly litigations or income decline. This could arise out of poor strategic planning, management decisions, non compliance with statutory and regulatory requirements and dissatisfied stakeholders.
Legal/ Compliance Risk		The risk arising from the potential enforceable contracts, lawsuits, adverse judgments or non compliance with statutory or regulatory requirements that can disrupt or otherwise negatively affect the operation or the condition of the Bank.

Prudential Measures Introduced by Central Bank

Central Bank of Sri Lanka introduced several prudent measures in the last few years to strengthen the risk management and resilience of banking system. These include,

- Specific provisioning requirement,
- Mandatory corporate governance requirements,
- General provisioning requirements,
- Revised single borrower limits,
- Guidelines on Integrated Risk Management,
- Mandatory liquidity assets and statutory reserve requirements.

In addition to the above compliance requirements, the Central Bank required banks to migrate to Basel 11 adequacy framework applying standard approach for market, credit and operational risk from January 2008. HDFC Bank's risk management framework is further strengthened by being compliant with these regulatory requirements.

External Codes/Initiatives of best practices

HDFC also respects externally developed economic, environmental and social charters, principles or other initiatives, which directly or indirectly become relevant to the core business or operations of the Bank. These codes, initiatives or best practices are used as points of reference in developing internal policies, new products and services as far as possible as precautionary approach for economic, environmental and social risk controls/management. HDFC Bank also has been awarded or has obtained membership in several, economic, environmental and social organizations, and the Bank is compelled to be compliant with their policies, best practices, ethics, membership rules etc. This volunteerism has warranted HDFC's social license over the last 27 years, as a responsible corporate citizen in the housing finance industry while mitigating environmental, social and economic risk. These charters and initiatives which are regularly used as points of references and organizations with which it maintain regular engagements are enumerated in the section of organizational profile.

Statutory Protections against Insolvency

HDFC Act, Banking Act and Companies Act have provided several protective measures to HDFC against any possible insolvency. As per the Banking Act, HDFC should transfer 5 percent of the profit after tax to the statutory reserve fund before declaration of dividends. In accordance with Section 25 of the HDFC Act No 07 of 1997, HDFC should transfer an additional amount not exceeding 10 percent of the profit after tax, after transferring to the statutory reserve as aforesaid, to a special reserve fund, before declaration of dividends for any financial year. However, the Act has not prohibited the Bank from voluntarily transferring a higher percentage of its profit to the special reserve fund. As per section 57 of the Companies Act No 07 of 2007, Bank is to conduct a sound solvency test, that it has an adequate capacity to pay its debt in the normal course of business after the proposed dividend is paid. These provisions have provided sound statutory safeguards for the sustainable growth of HDFC Bank.

Review of Implementation of Approved Policies and Procedures

Audit/Assurance	Reporting Level	Reporting Frequency	Area Covered
External Audit	Shareholders	Annually	Other than finances, compliance with company objectives, policies, regulatory and statutory requirements are reviewed
Internal Audit	Chairman/Board	Frequently	Implementation of policies and procedures and regulatory and statutory compliances and systems and controls
Assurance Audit on Sustainability	Shareholders	Annually	Implementation of policies and procedures and regulatory and statutory compliances and qualitative key performance indicators
Bank Supervision Department of the Central Bank	Chairman/Board	Annually	Implementation of policies and procedures and compliance with the regulatory and statutory requirements and directions, internal controls and systems
Credit Ratings	Stakeholders	Annually	Profitability, soundness and economic, environmental and social challenges for growth and profitability

Risk Management contd.

Risk Management – Strategic Priorities and Achievements -2011

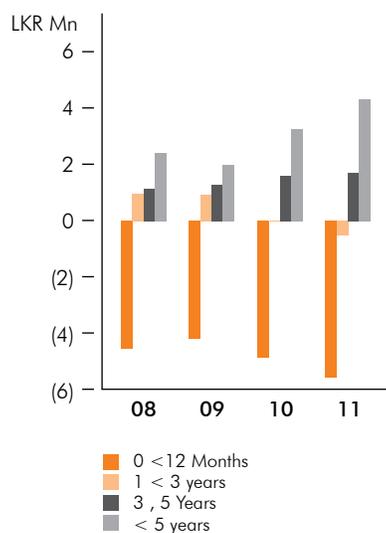
HDFC paid special consideration in managing risk in 2011 on the following areas considering the negative effects of the global financial crisis and consequent macro economic changes experienced by the financial market.

Strategic Priority	Target	Achievement-2011
Reducing Maturity Gap	Standard Gap	Could not achieve a substantial improvement as at the year end
Statutory Liquid Assets Ratio (SLAR)	20%	Maintained a healthy level throughout the year
Implementation of IFRS	1st January 2011	80% achieved
Minimize Concentration Risk from the Top 10 Deposit Customers	Minimize dependency	Could not achieve a substantial improvement as at the year end
Enhancing Savings Fund Base	Enhance spread and growth	Achieved a YOY growth of 48 percentage
Setting up a Fully Function Risk Management Division	31st December 2011	80 percent achieved
Non Performing Loan Ratio	Industry average	Could not achieve a substantial improvement
Diversity of Loan Portfolio	Enhancing income group, sector, collaterals, geographical spread	Achieved significant enhancement of portfolio spread/diversity as detailed below
Promotion of Sustainability Development and Reporting Practices	To be complied with GRI reporting framework	Sustainability report was aligned with GRI Index, to a substantial extend

Management of Maturity Gap

Liquidity management is critical in the housing finance industry, because of the difficulty of sourcing long term low cost matching funds from the market. Home loans of over a tenure of 10 years in general, are frequently financed by short-term funds exposing the Bank to a high leverage of maturity Risk. Therefore, maturity gap management is critical to the Bank as a continuous task. During the year, Bank achieved a commendable improvement in the maturity gap.

Maturity Gap Analysis



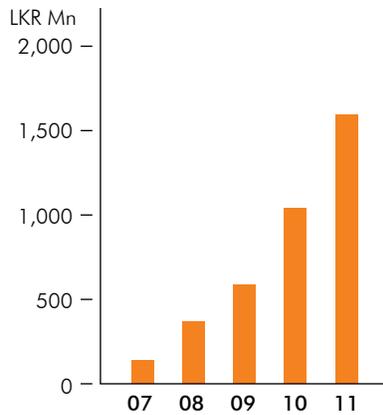
Managing Concentration on 10 top Depositors

Management of diversity/spread of the deposit fund is imperative to mitigate the liquidity risk that could arise from unexpected withdrawals of deposits. The Bank had been heavily dependent on the top ten corporate customers, who had invested over 47 percent of deposits by the end of 2010. The Bank was not able to manage this criteria and this ratio exceeded 63 percent at the end of 2011.

Spread and Growth of Savings

Savings funds are critical to HDFC since it gives an attractive low cost and long term risk pooled fund for providing affordable housing finance. The saving fund base which was 14 percent of total deposits in 2010 was maintained at 13 percent at the end of 2011. This was mainly due to the higher growth in fixed deposits in 2011. However, the Bank was able to record a robust growth in savings which was over 48 percent YoY.

Savings Growth



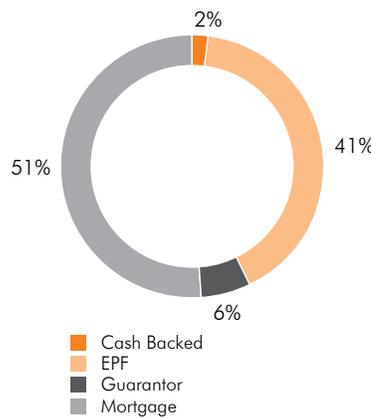
Collateral Wise Distribution of Loans

HDFC Bank grants facilities against customized collaterals such as property mortgages, Employee Provident Fund (EPF) balance, guarantor scheme, cash backed loans etc. During the year, the Bank has granted LKR 2,352 Million against EPF balances representing 49 percent of the approved loan value in 2011, while 32 percent was granted against property mortgages and 11 percent against personal and institutional guarantees. Value of loans extended to service sector customers accounted to 75 percent of the total loans granted in 2011 and 17 percent has been granted to customers engage in the industrial sector.

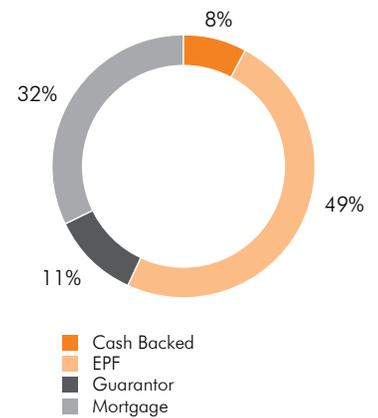
Diversity of Loan Portfolio Income Segment wise Distribution

HDFC strives to enhance the geographic spread, income group, and income source, collateral and sector wise diversity of the loan portfolio on a continuous basis as a priority to mitigate the concentration risk. Out of the total value of loans approved during the year, 41 percent was to the Wider Income Group and 59 percent to the Low and Middle Income groups.

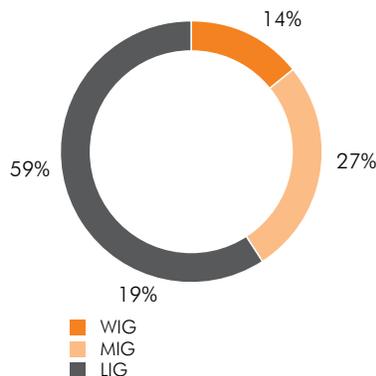
Collateral Wise Distribution of Total Loan Portfolio



Collateral Wise Distribution of Loans in 2011



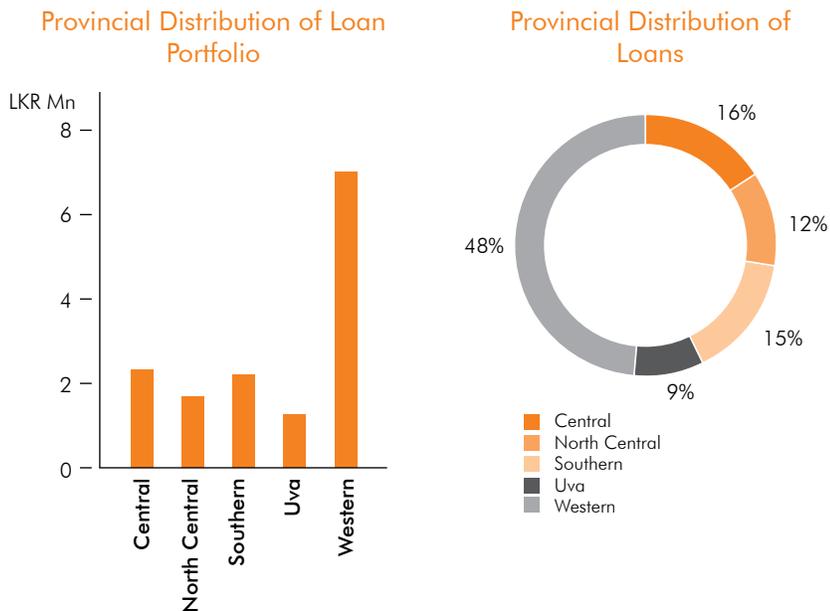
Income Group Wise Distribution of Loans in 2011



Provincial Distribution of Loans

Out of total loan portfolio 48 percent has been granted in the Western Province, 16 percent in the Central Province and 15 percent in the Southern Province. This provincial distribution of the housing finance portfolio reduces the concentration risk of the advances substantially for any form of risk due to climate change.

Risk Management contd.



Risk Analysis and Mitigating Strategies

Risk Category		Risk Rating	Risk Description	Controls in Place to Mitigate
Credit Risk				
1	Credit Concentration Risk	Significant	Risk arises where loan portfolio is not adequately diversified based on income group, sector, industry, geography, product, type of collaterals etc.	<ol style="list-style-type: none"> 1. Credit Policy and maximum credit exposure limits. 2. Compliance with guidelines of CBSL on single borrower limits. 3. Management of portfolio mix with particular attention to sector scheme, income group, provincial and security wise diversity. 4. Strategic profit management through budgetary controls.
2	Risk of Climate Change	Marginal	Customers' inability to pay loans due to loss of income consequent to extreme weather patterns	<ol style="list-style-type: none"> 1. Diversification of loan portfolio based on income sector, income group and geographical region basis. 2. Alternative collaterals and institutional guarantee schemes. 3. Compulsory mortgage insurance cover. 4. Maintain average size of loan below LKR 1Mn. 5. Promoting sustainability practices.

Risk Category		Risk Rating	Risk Description	Controls in Place to Mitigate
3	Risk of Less Effectiveness of Credit Policy and Recovery	Marginal	Risk of losses arising from the inability of the customer/guarantor or other counterparties to meet home loan commitment	<ol style="list-style-type: none"> 1. Standardized credit evaluation. 2. Regular review of credit policy and procedures. 3. Regular strengthening of recovery department. 4. Compliance with CRIB requirements. 5. Risk officers review of loans above LKR 1.5Mn.
Interest Rate and Liquidity Risk				
1	Liquidity Risk.	Significant	Risk arising from inability to meet maturity liabilities of deposits, savings or contractual obligations as they fall due.	<ol style="list-style-type: none"> 1. Assets and Liability Committee (ALCO) ensures management of the Maturity Gap and Net Interest Margin. 2. Management of liabilities with adequate mix of deposits, savings and contractual liabilities. 3. Aggressively promotion of the risk pooled fund base (savings & deposit) to enhance value and spread. 4. Maintain adequate Loan to Deposit ratio. 5. Maintain Statutory Liquid Assets Ratio on or above the Central Bank's directions.
2	Interest Rate Risk	Significant	Possible adverse effects on net interest margin and advances due to interest rate changes in the finance market.	<ol style="list-style-type: none"> 1. Regular Maturity Gap analysis and management. 2. Ensure prompt re-pricing of loans. 3. Aggressively promoting of minor savings and long term funds. 4. Promoting institutional loan schemes with refinance funding.
Operational Risk				
1	Processing or Behavior Risk	Critical	Problems with products or services due to failed internal controls, IT system, employee integrity, errors and mistakes , negligence, accident, fraud or other weakness in operating systems.	<ol style="list-style-type: none"> 1. Compliance review of transactions, new products and procedures. 2. Continuous training on system and procedures. 3. Interdepartmental internal controls. 4. Business continuity plan.

Risk Management contd.

Risk Category	Risk Rating	Risk Description	Controls in Place to Mitigate	
2	System Risk	Significant	Risk of financial losses due to failure to deploy and maintain an adequate IT system, frequent shutdowns, malfunction, hacking and disruptions and failure of development with the requirements of competitive market developments and delivery channels.	<ol style="list-style-type: none"> 1. Structured IT division headed by an experienced and qualified AGM. 2. Regular developments inline with regulatory compliances and market developments following a Board approved IT strategic plan. 3. IT policies. 4. IT steering committee.
3	Human Resources Risk	Critical	Risk arising from failure to recruit, develop or retain employees with the appropriate skills and knowledge, in appropriate time and manage employee relations.	<ol style="list-style-type: none"> 1. HR policies and procedures. 2. Collective agreement with Trade Unions. 3. Regular capacity maximizing through training and development, rewards and recognition, work life balancing etc.
4	Risk of Inadequate Risk Control & Management.	Significant	Inadequate design or performance of the existing risk management framework; risk identification risk management planning etc.	<ol style="list-style-type: none"> 1. Internal Audit. 2. Review by Board Risk Management Committee.
5	Geopolitical Risk	Marginal	Possibility of financial loss or damage caused by political issues, poor quality of internal infrastructure, cultural differences, misunderstanding etc.	<ol style="list-style-type: none"> 1. Training and development. 2. Regular engagements with stakeholders. 3. CSR and Environmental Policy. 4. Sustainability development and reporting.
6	Risk Involves with Management Information.	Significant	Inadequate, inaccurate, incomplete or untimely MIS to support the management in decisions making process.	<ol style="list-style-type: none"> 1. System audit and developments undertaken by internal audit. 2. Reconciliation and day to day balancing process. 3. Information Security Policy. 4. Regular system generated MIS for management review.
7	Health and Safety Risk.	Marginal	Health and safety risk of staff and customers and public.	<ol style="list-style-type: none"> 1. Environmental Policy. 2. Labour practice and decent work. 3. Life and fire insurance. 4. Staff health plan. 5. Business continuity plan.

Risk Category		Risk Rating	Risk Description	Controls in Place to Mitigate
8	Risk of Lacking Corporate Governance	Marginal.	Incompetence of Directors to fulfill their personal statutory obligations in controlling the Bank.	<ol style="list-style-type: none"> Governance policies and procedures. Compliance and risk management functions. Company Secretarial function.
9	Risk of Criminal and Illicit acts	Marginal	Possibility of financial or reputation risk due to fraud, theft, gross or willful negligence, sabotage, vandalism etc.	<ol style="list-style-type: none"> Training. Insurance. Physical security service.
10	Ethical Risk	Marginal	Unethical business practices, including those of business partners, racial and religious discrimination, child labour, environmental issue , pollution etc.	<ol style="list-style-type: none"> Policies and procedures. Development of sustainability practices and reporting. Compliance review. Customer and staff satisfaction surveys. Voluntary compliance with external codes of ethics, best practices etc.
Reputational Risk				
1	Reputational Risk	Marginal	Negative effects of public and customer opinion and market reputation.	<ol style="list-style-type: none"> Regular training on customer care. Business policies and procedures. Stakeholder engagement policy. Independent yearly rating from Fitch Rating Lanka Ltd.
2	CSR Risk	Marginal	Risk to brand reputation from inadequate/lack of Corporate Social Responsibility practices.	<ol style="list-style-type: none"> CSR Policy. CSR and Sustainability Executive Committees. Compliance with GRI guidelines in sustainability reporting.
Compliance Risk				
1	Legal and Regulatory Compliance Risk	Significant	Risk arising from non compliance with statutory and regulatory requirements.	<ol style="list-style-type: none"> Compliance officer who review adherence to regulatory requirements and reports quarterly to Board Audit Committee, CBSL and CSE. Existing of separate legal department with 15 qualified lawyers headed by the Legal Manager. Qualified Company Secretary. Policies and procedures. Finance division headed by a qualified Chartered accountant as a DGM.

Risk Management contd.

Credit Risk	Credit policy and recovery policies were revised.
	Reorganized the management structure, by appointing five area managers in order to strengthen the credit evaluation, follow up and recovery processes.
	Functionalities were added in the IT system to monitor credit risks efficiently and accurate computation of credit risks.
	Recovery drive was undertaken with the participation of all staff members of the Bank to bring down the NPL position.
	Risk Working Committee(RWC) was appointed to ensure risk management function.
	Risk officer was appointed to risk analyze and report to the RWC.
Market Risk	Performed sensitivity analyses taking in to account the changing market conditions, to assess the impact on profits.
	Credit authority levels were delegated to area managers.
	Recovery division was reorganized.
Liquidity Risk	Reduced the maturity mismatches to a greater extent by adopting appropriate funding and lending strategies.
	Assets and Liability Management committee was strengthened.
	Treasury Management, Treasury Investment Policies were formulated and approved by the Board.
	To facilitate attracting less volatile savings deposits Palmtop Banking operations was broadened .
	Maintained standby facilities for over LKR1 billion.
	Liquid Asset Ratio was maintained at over 20 percentage throughout the year.
Operational Risk	Diversified and broad based the funding sources.
	Network security was strengthened to ensure the continuity of business operations.
	Integrated Risk Management Policy was developed and approved by the Board.
	Subsidiary accounting records automated to ensure accuracy and continuity.
	Procedural changes introduced and documentation revisions carried out to prevent certain legal risks.
	Strengthened the relationship with Trade Union.
Compliance Risk	Continuous training was given to staff on operational procedures.
	Board of Directors and Senior Management participated in number of training programs on risk management and compliance.
	Appointed a Risk Officer.
	Improved the data quality of CRIB reporting to a greater extent and it was recognized by CRIB awarding an 'A' rating to HDFC.
	Appointed a compliance officer.
	Loans to agriculture sector increased to comply with CBSL targets.
Independent verifications performed on CBSL & SEC compliance requirements.	

Corporate Governance

Chairman's Statement on Corporate Governance

Corporate Governance At The HDFC Bank

From its inception the concept of corporate governance has strengthened our processes ensuring that we adopt the best corporate governance practices within the corporate world.

The quality of our service, productivity and efficiency are linked to corporate governance best practices. We have penetrated more geographical areas and positioned ourselves in diverse segments of the society, facilitating more people to transform their life styles.

A well structured corporate governance framework enabled us to streamline our processes and significantly contribute to harnessing our concept of changing lifestyles for the betterment of the nation. We have built our legacy within the proper legal framework, carried out our operations in a transparent manner and won the trust and confidence of generations; which we consider as our key achievement. In our proud history of 27 years, we have transformed from a building society to a Licensed Specialized Bank as it is at present.

HDFC has always operated adhering to the relevant laws and regulations. Our customers, Board of Directors, management team and staff has worked in unison in achieving the objectives of our strategic plan, while complying with the best corporate governance practices to the highest level.

Corporate Governance Frame Work

HDFC was incorporated by an Act of Parliament namely the HDFC Act No. 07 of 1997 and converted to a License Specialized Bank in 2005 by Act No. 15 of 2003.

In 2005 the Bank was listed in the Colombo Stock Exchange. The HDFC Act was subsequently amended by Act No 45 of 2011 to enhance the Banking powers.

This corporate background warranted HDFC to comply with several statutory regulations and codes of best practices.

Our Corporate Governance report in 2011, enumerates the level of our compliance with the laws and voluntary codes of best practices adopted by the Bank at present.

(I) HDFC Act

(II) Mandatory codes of corporate governance issued by the Central Bank of Sri Lanka (CBSL), and compliance with relevant laws under the Banking Act.

(III) Code of best practices on corporate governance issued jointly by the Institute of Chartered Accountants and Securities Exchange Commission of Sri Lanka.

(IV) Compliance with the continuing listing requirements under section 7.10 of the listing rules issued by the Colombo Stock Exchange.

Our Board of Directors is committed to continuously review and improve the Bank's corporate governance practices to achieve the corporate objectives.

This report sets out the initiatives that the Bank has adopted to inculcate a culture of corporate governance within the organization, maintaining the highest standard of integrity and professionalism.

In this connection the Board ensures that activities of the Bank are at all times conducted with the highest ethical standards and in the best interest of all its stakeholders with the guidance and assistance from the Board sub committees and the corporate management team.

The external auditor's certification issued by the Auditor General of Sri Lanka, on compliance with corporate governance directions of the CBSL, is a further confirmation of our position.



Mrs. S. N. Wickramasighe
Chairman

Colombo, Sri Lanka

Corporate Governance contd.

Corporate Governance Report

Section one of our corporate governance report covers the level of compliance with the Banking Act Direction No.11 of 2007 and subsequent amendments thereto on corporate governance for Licensed Specialized Banks in Sri Lanka issued by the Central Bank.

Section two of our corporate governance report covers the level of compliance with the code of best practices on corporate governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka in 2008.

Section three of our corporate governance report covers the level of compliance with the continuing listing requirements under section 7.10 of the listing rules issued by the Colombo Stock Exchange.

The Central Bank of Sri Lanka in December 2007, issued a mandatory code of corporate governance for licensed specialized banks in Sri Lanka which was adopted by the Board of Directors of HDFC Bank.

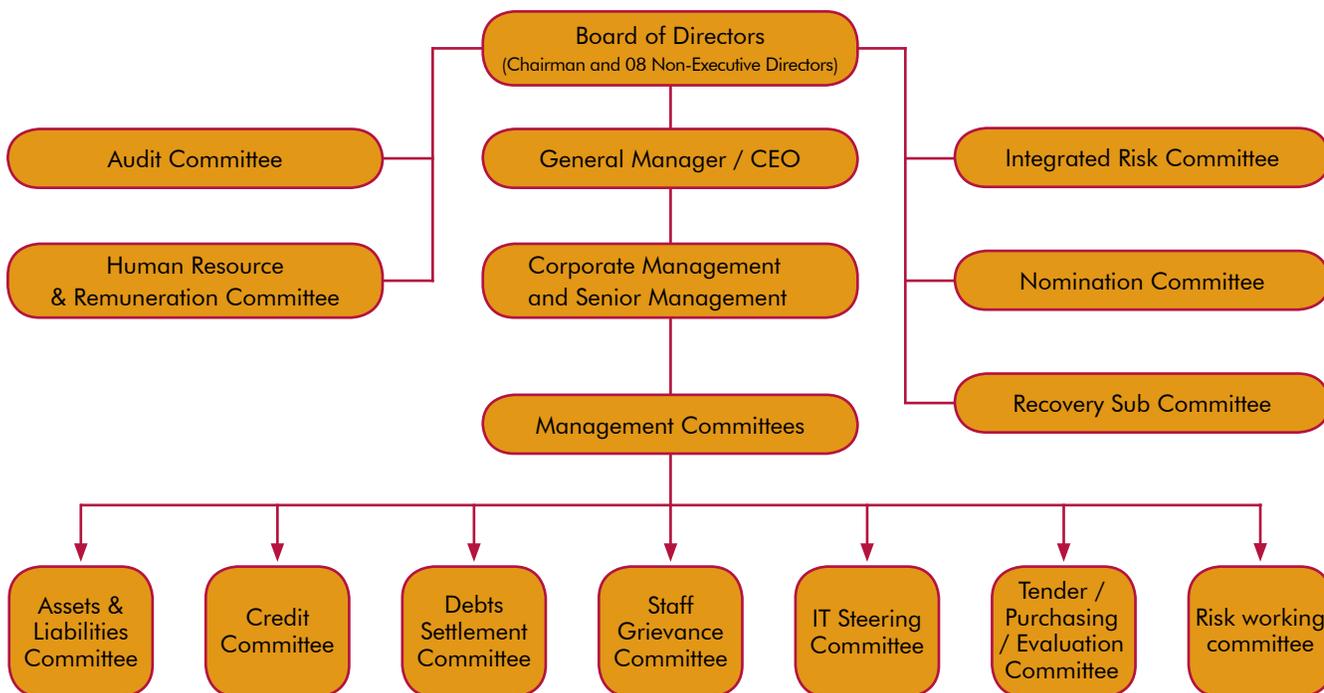
With effect from 01st of January 2010, all licensed specialized banks were granted a total exemption from the

requirement to comply with section 7.10 (corporate governance) of the continuing listing requirements under the CSE listing rules subject to discourses of rule 7.10(c) of CSE.

HDFC Bank has complied with corporate governance rules applicable to the banking sector as mandated under the Central Bank directions and voluntarily complied with Code of Best Practices on corporate governance issued jointly by the Securities and Exchange Commission of Sri Lanka and Institute of Chartered Accountants of Sri Lanka in 2008.

Corporate Governance Framework

The HDFC Bank governance framework is set out below.



SECTION ONE

Corporate Governance

HDFC Bank's compliance statement with the provisions of the Banking Act Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for Licensed Specialized Bank in Sri Lanka.

Rules of Corporate Governance shall be complied by all licensed specialized Banks in Sri Lanka and such compliance shall be as provided for in Direction 3(9)(i) of the Banking Act.

Guideline	Compliance Status
3(1) THE RESPONSIBILITIES OF THE BOARD	
Board Function	
3(1)(i) The Board shall strengthen the safety and soundness of the Bank by ensuring implementation of the following:	Complied with.
a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	
b) Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals.	Complied with. A Risk Management Officer and a Risk Working Committee was appointed to strengthen this area in a more professional and a prudent manner.
c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	
d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Complied with. The Bank's sustainability development policy covers this area.
e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied with. The Board has appointed a Risk Working Committee and an Integrated Risk Management Committee. Further, there is an on-going process for identifying, evaluating, monitoring and managing significant risks that may affect business objectives. Please refer the Board of Directors Statement on Internal Controls, on page 185
f) Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with. The Board has designated key management personnel as defined in the International Accounting Standards and defined their areas of authority and the key responsibilities.
g) Define the areas of authority and key responsibilities for the Board of Directors themselves and for the key management personnel;	Complied with. An authority matrix was adopted for this purpose defining the areas of authority.

Corporate Governance contd.

Guideline	Compliance Status
h) Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy;	Complied with. The policy is communicated to the Management continuously and the Chairman conducts meetings with the Management, to ensure that affairs of the Bank are consistent with the Board policy.
i) Periodically assess the effectiveness of the Board of Directors' own governance practices, including: (i) the selection, nomination and election of Directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied with. The Bank has adopted a special evaluation criteria for assessing the effectiveness of the Board of Directors' own governance practices.
j) Ensure that the Bank has an appropriate succession plan for key management personnel;	A succession plan and a policy for key management personnel were developed.
k) Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied with. The policies of the Bank are periodically reviewed and revised by the Board.
l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied with. HDFC Bank is directly under the regulatory authority of the Central Bank and the Securities and Exchange Commission and also under the authority of Ministry of Finance and Planning. The Bank maintains an effective relationship with the aforesaid regulatory authorities.
m) Exercise due diligence in the hiring and oversight of external auditors.	Complied with. In terms of sec 26 of HDFC Act, the financial accounts of the Bank are audited by the Auditor General.
3(1)(ii) The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of CBSL.	Complied with. The two positions were separately defined in the HDFC Act. The General Manager / Chief Executive Officer of the Bank is a full time officer accountable to the Chairman and the Board.
Board Meetings	
3(1)(iii) The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with. During the period under review 13 Board meetings were held. Obtaining approval through circulation of written resolutions / papers was avoided as far as possible. Any written resolution adopted by the Board, through circulation was always submitted at the following Board meeting to ensure transparency.
3(1)(iv) That arrangements shall be in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.	Complied with.

Guideline	Compliance Status
3(1)(v) That notice of at least 7 days is given for a regular Board meeting. For all other Board meetings, reasonable notice may be given.	Complied with.
3(1)(vi) That a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	Complied with Please refer the Board meeting attendance schedule of the Board of Directors.
3(1)(vii) Shall appoint a Company Secretary who has satisfied the provisions of section 43 of Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with. The Company Secretary is an Attorney-at-Law with relevant qualifications and experience and is responsible for handling the secretarial functions of the Board and shareholder meetings and carryout all functions specified in the statutes and other regulations.
3(1)(viii) All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are follows.	Complied with.
3(1)(ix) The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time on reasonable notice by any Director.	Complied with. Company Secretary maintains minutes of the Board meetings and Board Sub Committee meetings.
3(1)(x) Minutes of Board meetings shall be recorded in sufficient details as required under the Banking Act directions on Corporate Governance.	Complied with. All deliberations taken place at the Board meetings, relevant reports considered by the Directors and the views of the Key Management personnel are being recorded, fulfilling the Banking Act directions, which are relevant for preparation of the minutes of the Board meetings.
3(1)(xi) There shall be a procedure to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/ her/ their duties to the Bank.	Complied with. The Bank bears the cost and the Directors are allowed to obtain independent professional advice, on case by case basis.

Corporate Governance contd.

Guideline	Compliance Status
<p>3(1)(xii) Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with and commitments to, other organizations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where Independent Non-Executive Directors [refer to Direction 3(2)(iv) of these directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern, in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.</p>	<p>Complied. The Directors exercise their independent judgment on issues of strategy, policy, resources and standards of conduct, and avoid any conflicts of interest that may arise from any transaction of the Bank, with any person who shall be considers as a related party.</p>
<p>3(1)(xiii) The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.</p>	<p>Complied with The Board has specifically reserved to it the relevant matters which are necessary for the Board to have a proper control of the HDFC Bank, under the authority of the Board. The authority matrix was developed by the Bank complying with the above requirement.</p>
<p>3(1)(xiv) The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.</p>	<p>Not arisen yet.</p>
<p>3(1)(xv) The Board shall, ensure that the Bank shall capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.</p>	<p>Complied with. Please refer page no. 225 for capital adequacy as at 31/12/2011.</p>
<p>3(1)(xvi) Shall publish in the Bank's Annual Report, an annual Corporate Governance report setting out the compliance with Direction 3 of these Directions.</p>	<p>Complied with. The Corporate Governance Report of this Annual Report was prepared and published, complying with this requirement.</p>
<p>3(1)(xvii) The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.</p>	<p>Complied with. The Board has conducted a self assessment process during the period under review by each Director of the HDFC Bank.</p>

Guideline	Compliance Status
3(2) THE BOARD'S COMPOSITION	
<p>3(2)(i) The number of Directors on the Board shall not be less than 7 and not more than 13.</p>	<p>Complied with.</p> <p>(a) The appointments to the Board were made in accordance with HDFC Act No. 07 of 1997 amended by Act No 15 of 2003, under following three categories.</p> <p>(i) Ex-officio Directors representing the Secretary to the Treasury and Ministry of Housing.</p> <p>(ii) Nominated Directors, representing the Ministry of Finance, Labour and Minister of Housing.</p> <p>(iii) Shareholding Directors</p> <p>(b) Director Board was appointed as aforesaid and presently there are 09 Directors in the Board as given below</p> <p>01. Mrs. S. N. Wickramasighe (Chairman) was appointed in May 2010</p> <p>02. Mr. W. J. L. U. Wijayaweera was appointed in June 2010.</p> <p>03. Mrs. K. W. P. Dayarathne was appointed in June 2010.</p> <p>04. Mrs. C. Wijayawardhane was appointed in June 2010.</p> <p>05. Mr. A. M. Chandrasagara was appointed in June 2010.</p> <p>06. Mr. S. A. J. Samaraweera was appointed in June 2010.</p> <p>07. Mr. W. D. R. D. Goonaratne was appointed in June 2010.</p> <p>08. Mr. W. D .K. Jayawardena was appointed in May 2011</p> <p>09. Mr.A. J. Aloysius was appointed in May 2011</p>
<p>3(2)(ii) (A) 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.</p>	<p>Complied with.</p>
<p>3(2)(iii) An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (executive Directors)</p>	<p>N/A</p> <p>According to section 4(2)(b) of HDFC Act, aforesaid a person shall be disqualified from being nominated, appointed or elected as a Director or continuing in office as a Director, if he / she becomes an officer or servant of the Bank.</p> <p>Therefore, the Board of the HDFC Bank comprises only with Non-Executive Directors.</p>

Corporate Governance *contd.*

Guideline	Compliance Status
<p>3(2)(iv) The Board shall have at least three independent Non-Executive Directors or one third of the total number of Directors, whichever is higher.</p>	<p>Complied with. During the period under review, the correct number of Independent Non-Executive Directors was appointed to the Board as mandated by CBSL direction, as given below.</p>
	<p>(a) Out of the 09 Directors in the Director Board, 03 Directors were considered as Independent and 06 Directors were considered as Non- Independent.</p> <p>(b) Following Directors are Independent / Non-Executive Directors. 01. Mr. W. J. L. U. Wijayaweera 02. Mrs. K. W. P. Dayarathne 03. Mrs. C. Wijayawardhane</p> <p>(c) Following Directors are Non -Independent / Non-Executive Directors. 01. Mrs. S. N. Wickramasighe (Chairman) 02. Mr. A. M. Chandrasagara, 03. Mr. W. D. K. Jayawardena 04. Mr. A. J. Aloysius 05. Mr. S. A. J. Samaraweera 06. Mr. W. D. R. D. Goonaratne</p> <p>(e) The profiles of the present Director Board is given from page 28 to 29 of the Annual Report.</p>
<p>3(2)(v) In the event an alternate Director is appointed to represent an independent Director, the person so appointed shall also meet the criteria that applies to the independent Director.</p>	<p>Complied with. There were no appointments during the period under review.</p>
<p>3(2)(vi) Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.</p>	<p>Complied with. The relevant details are given under the Director's profile of the Annual Report, from page 28 to 29.</p>
<p>3(2)(vii) A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. This sub-direction shall be applicable from 01st January 2011 onwards.</p>	<p>Complied with.</p>
<p>3(2)(viii) The independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and independent Non-Executive Directors in the annual Corporate Governance report.</p>	<p>Complied with. The relevant details of the Directors are given under the Director's profile of the Annual Report.</p>

Guideline	Compliance Status
3(2)(ix) There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with. The Director Board of the HDFC Bank was appointed complying with the HDFC Act.
3(2)(x) All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied with.
3(2)(xi) If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied with.
3(2)(xii) A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another Bank.	Complied with. No Director or an employee of another Bank has been appointed as a Director of HDFC.
3(3) CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS (In addition to provision of section 42 read with section 76H of the Banking Act, No. 30 of 1988 the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a Bank.)	
3(3)(i) The age of a person who serves as Director shall not exceed 70 years.	Complied with. All the Directors of HDFC Bank are under the age of 70, as at 31 st of December 2011. 01. Mrs. S. N. Wickramasinghe (Chairman) (Age - 59) 02. Mr. W. J. L. U. Wijayaweera (Age - 54) 03. Mrs. K. W. P. Dayarathne (Age - 54) 04. Mrs. C. Wijayawardhane (Age - 46) 05. Mr. A. M. Chandrasagara (Age - 62) 06. Mr. S. A. J. Samaraweera (Age - 44) 07. Mr. W. D. R. D. Goonaratne (Age - 47) 08. Mr. W. D. K. Jayawardena (Age - 52) 09. Mr. A. J. Aloysius Age - 28)
3(3)(ii) A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank of such 20 companies / entities / institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.	Complied with.

Corporate Governance contd.

Guideline	Compliance Status
3(4) MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD	
3(4)(i) The Directors shall carefully study and clearly understand the delegation arrangements are in place.	Complied with.
3(4)(ii) The Board shall not delegate any matters to a Board committee, Chief Executive Officer, Executive Directors or Key Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with. The Board approved a delegated authority policy. However, this delegation arrangement has not hindered or reduced the ability of the Board as a whole to discharge its function.
3(4)(iii) The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with. The Board periodically reviews the aforesaid delegation processes, in order to ensure they remain relevant to the needs of the Bank.
3(5) THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER	
3(5)(i) The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with. Two positions of Chairman and GM/CEO are separately defined in HDFC Act.
3(5)(ii) The Chairman shall be a Non-Executive Director and preferably an Non-Independent Director as well.	Complied with. The Chairman is a Non-Executive Director
3(5)(iii) The Board shall disclose in its Corporate Governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with.
3(5)(iv) The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with. The Chairman is providing effective leadership in formulating strategies ensuring that Board functions are discharged in an effective manner addressing all key and appropriate issues. The Board procedures were setup to discuss and take appropriate action by the Board in a timely manner ensuring the best interest of the Bank.
3(5)(v) The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied with. The agenda for the Board meetings are initially prepared by the Company Secretary and finalize by the Chairman.
3(5)(vi) The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with. The Board papers are prepared by the respective Heads of the each department and submitted to the Board with the recommendation of GM/CEO. The Bank ensures that Directors receive relevant Board papers and necessary information in a timely manner.

Guideline	Compliance Status
3(5)(vii) The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied with. The Chairman acts in a manner that ensures the Board acts in the best interests of the organization.
3(5)(viii) The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied with. The Chairman facilitates the effective contribution of all Directors although there are no Executive Directors in the Board of HDFC.
3(5)(ix) The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with. The Chairman does not assign any executive duties or involve in direct supervision of key management personal.
3(5)(x) The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with. (a) The Board appreciates the participation of shareholders in the Annual General Meeting as HDFC uses the forum of the AGM to provide shareholders the opportunity to raise relevant questions pertaining to the business of the Bank, either verbally or in writing. (b) All relevant information is provided to shareholders through the Annual Report and whenever necessary, using relevant circulars.
3(5)(xi) The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with.
3(6) BOARD APPOINTED COMMITTEES	
3(6)(i) Each Bank shall have at least four Board committees as defined in CBSL Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) Each committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the committee. The Board shall present a report of the performance on each committee, on their duties and roles at the annual general meeting.	Complied with. The following sub committees were appointed by the Board. (i) Board Nomination Committee (ii) Board Audit Committee (iii) Board Human Resource and Remuneration Committee (iv) Board Recovery Sub Committee (v) Board Integrated Risk Management Committee.

Corporate Governance *contd.*

Guideline	Compliance Status
Board Audit Committee	
<p>3(6)(ii) The relevant responsibilities related to Board Audit Committee, is separately defined under 3(6)(ii) of the directions.</p>	<p>Complied with. The Audit Committee comprised of the following Directors. 01. Mr. A. M. Chandrasagara (Chairman of the Committee) 02. Mrs. C. Wijayawardhane 03. Mr. W. D. K. Jayawardena 04. Mr. W. D. R. D. Goonaratne Please refer the Board Audit Committee Report on pages 193 to 194 of the Annual Report for further details.</p>
Board Human Resource and Remuneration Committee	
<p>3(6)(iii) The relevant responsibilities related to Board Human Resource and Remuneration Committee, is separately defined under 3(6)(iii) of the directions.</p>	<p>Complied with. The Human Resource and Remuneration Committee comprised of following Directors. 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. K. W. P. Dayarathne 04. Mr. W. D. R. D. Goonaratne Please refer the Board Human Resource and Remuneration Committee on page 195 of the Annual Report for further details.</p>
Board Nomination Committee	
<p>3(6)(iv) The relevant responsibilities related to Board Nomination Committee, is separately defined under 3(6)(iv) of the directions.</p>	<p>Complied with. Nomination Committee comprised of the following Directors. 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. K. W. P. Dayarathne Please refer the Board nomination committee report on page 196 of the Annual Report.</p>
Board Integrated Risk Management Committee	
<p>3(6)(v) The relevant responsibilities related to Board Integrated Risk Management Committee, is separately defined under 3(6)(v) of the directions.</p>	<p>Complied with. The Integrated Risk Management Committee comprised of following Directors. 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mrs. K.W. P. Dayaratne 03. Mr. A. M. Chandrasagara 04. GM / DGM/ Head of Credit/CIA / Risk Officer Please refer the Risk Management Report on page 197 of the Annual Report for further details.</p>

Guideline	Compliance Status
3(7) RELATED PARTY TRANSACTIONS	
<p>3(7)(i) The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction (defined under 3(7)(ii) of the directions) of the Bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <ul style="list-style-type: none"> a) Any of the Bank’s subsidiary companies; b) Any of the Bank’s associate companies; c) Any of the Directors of the Bank; d) Any of the Bank’s Key Management Personnel; e) A close relation of any of the Bank’s Directors or Key Management Personnel; f) A shareholder owning a material interest in the Bank; g) A concern in which any of the Bank’s Directors or a close relation of any of the Bank’s Directors or any of its material shareholders has a substantial interest. 	<p>The Directors exercise their independent judgment on issues of strategy, policy resources and standards of conduct, instituting necessary steps to avoid any conflicts of interest that may arise from any transactions pertaining to HDFC, with any person who shall be considered a related party (according to definition of Banking Act.)</p> <p>Transactions carried out with related parties in the normal course of business are disclosed in note 32.1 of the financial statement on page 22.1.</p>
<p>3(7)(iii) The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business.</p>	<p>Complied with.</p>
<p>3(7)(iv) A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>Complied with.</p>
<p>3(7)(v)</p> <ul style="list-style-type: none"> a) Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director. 	<p>Not arisen yet.</p>
<ul style="list-style-type: none"> b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier. 	<p>Not arisen yet.</p>

Corporate Governance contd.

Guideline	Compliance Status
c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.	Not arisen yet.
d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	Not arisen yet.
3(7)(vi) A Bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/ or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such Bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	Complied with.
3(7)(vii) No accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with.
3(8) DISCLOSURES	
3(8)(i) The Board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that	Complied with.
(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with.
3(8)(ii) The Board shall ensure that the minimum disclosures are made in the Annual Report: a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Compliance Statement pertaining to applicable accounting standards and regulatory requirements has been reported in the Directors Responsibility Statement for Financial Reporting and is given on page 199 of the Annual Report.
b) A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Board of Directors confirmation pertaining to the effectiveness of the internal control systems over reporting financial systems and compliance of accounting principals and regulatory requirement are given on pages 185 to 186 of the Annual Report.

Guideline	Compliance Status
c) The external auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31 December 2008.	Complied with.
d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	Complied with.
e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied with. Please refer note 32.1 of the financial statements on page 22.1 of the Annual Report.
f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied with. Please refer note 0.61 of the financial statements given on page 22.1 of the Annual Report.
g) The external auditor's certification of the compliance with these Directions in the annual Corporate Governance reports published after 01st January 2011.	Board has noted.
h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	Complied with. Please refer the Report of the Directors Statement on the Board of Directors responsibility for financial reporting and statement on internal controls published on pages 185 and 199 respectively, on this Annual Report
i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Not arisen yet.

Corporate Governance *contd.*

SECTION TWO

Corporate Governance

HDFC Bank's compliance statement with the code of best practice on Corporate Governance issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
A. DIRECTORS		
A.1 The Board		
All Directors are Non-Executive Directors and consist of well qualified and experienced professionals. They possess relevant skills, experience and knowledge to steer the Bank towards its strategic intent.		
1. Meeting	A 1.1	Complied. Please refer status of compliance for 3(1) (iii) of CBSL Rules.
2. Board responsibilities	A 1.2	<p>Complied. Considering the best interest of the Bank, the Board takes responsibility for;</p> <ul style="list-style-type: none"> ● Formulation and implementation of a viable business strategy. ● Implementing effective systems to secure integrity of information, internal controls and risk management. ● The Board ensures that; <ul style="list-style-type: none"> ● the Chief Executive Officer (CEO) and Management Team possess relevant skills, experience and knowledge to implement the strategy; ● adoption of an effective CEO and Senior Management succession strategy; ● compliance with laws, regulations and ethical standards; ● all stakeholder interests are considered in corporate decisions; ● company's values and standards are set with emphasis on adopting appropriate accounting policies and in compliance with financial regulations.
3. Access to independent professional advice	A 1.3	Complied. Please refer status of compliance for 3(1)(xi) of CBSL Rules.
4. Board Secretary	A 1.4	<p>Complied. The Company Secretary is an Attorney-at-Law with relevant and required qualifications and experience.</p> <p>All Directors have access, advice and services of the Company Secretary for ensuring that Board procedures are conducted properly by adopting relevant rules and regulations.</p>
5. Independent judgment	A 1.5	<p>Complied. On issues of strategy, policy, resources and standards of conduct, the Directors exercise their independent judgment avoiding any conflicts of interest that may arise from any transaction of the Bank, with a related party.</p>

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
6. Dedication of adequate time and effort by the Board and Board Committee	A 1.6	Complied. The Board dedicates adequate time for Board meetings.
7. Training for new Directors	A 1.7	Complied. The Board recognizes the importance of capacity building of Directors. The Directors exercise their independent judgment when a Director forwards a request for participation in special training. HDFC facilitates for such participation.
A.2 Chairman & Chief Executive Officer Chairman and General Manager / Chief Executive Offer are separately defined in the HDFC Act defining clear division of responsibilities, with regard to banking operations and facilitating executive responsibility for management This will ensure a balance of power and authority, as such that no one individual has unfettered powers of decision.		
8. Division of responsibilities of the Chairman and GM/CEO	A 2.1	Complied. The functions of the Chairman and GM/CEO are clearly segregated and two individuals were appointed for the said positions.
A.3 Chairman's Role The Chairman is responsible to provide leadership in preserving a good Corporate Governance culture within the bank.		
9. Role of the Chairman	A 3.1	Complied. The Chairman is a Non-Executive Director, ensuring the following factors for the best interest of the Bank. <ul style="list-style-type: none"> ● The effective participation of all Directors ; ● Effective contribution of all Directors for the benefit of HDFC Bank; ● Maintaining a balance of power between all Directors. ● Ascertaining the views of all the Directors on issues under consideration; ● Maintaining complete control of the Bank's affairs with assistance of the Board and giving due consideration to its obligations to all shareholders.
A.4 Financial Acumen Sufficient financial acumen and knowledge to offer guidance on matters on finance is available at the Bank.		
10. Availability of sufficient financial acumen and knowledge	A 4	Complied. Four members of the Board and four members of the Corporate Management possessed financial qualifications. Further, the finance department of the bank and other relevant departments are equipped with several accounting professionals to provide assistance to the Corporate Management and the Board, on financial and related issues.

Corporate Governance contd.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
A.5 Board Balance		
Balance of Executive and Non-Executive Directors of the Board.		
11. Presence of a strong independent element on the Board	A 5.1	Complied. According to the HDFC Act the Director Board of the Bank consists only of Non-Executive Directors. However, the Board is always mindful to maintain a proper balance of power, when performing Board functions.
12. Independent Directors	A 5.2 A 5.3	Complied. 03 out of 9 Non-Executive Directors are independent as defined in the code. Please refer Board of Director's profiles on page 28 to 29 of the Annual Report for further details.
13. Signed declaration of independence by the Non-Executive Directors	A 5.4	Complied. All Non-Executive Directors of HDFC have given written declarations as to the independence criteria set out by the Bank.
14. Determination of independence of the Directors by the Board	A 5.5	Complied. The Board has determined the independence of Directors based on submission of the declarations by the Non-Executive Directors as a fair representation of independence. The independent Non-Executive Directors of the Board are as follows. 01. Mr. W. J. L. U. Wijayaweera 02. Mrs. K. W. P. Dayarathne 03. Mrs. C. Wijayawardhana
15. Senior Independent Director	A 5.6	N/A Appointment of a Senior Independent Director does not arise as the roles of Chairman and GM/ CEO are separated, and performed by two individuals.
16. Confidential discussion with the Senior Independent Director	A 5.7	N/A
17. Meeting of Non-Executive Directors	A 5.8	Complied. Chairman meets with the Non-Executive Directors without the presence of the GM/ CEO on a need basis.
18. Recording of concerns in Board minutes	A 5.9	Complied.
A.6 Supply of Information		
Timely information is provided to enable the Board to discharge its duties to HDFC Bank.		
19. Information to the Board by the Management	A 6.1	Complied. Please refer status of compliance for 3(5)(vi) of CBSL Rules.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
20. Adequate time for Board meeting	A 6.2	Complied. Annual calendar for regular Board meetings and Committee Meetings are prepared in advance and thereafter, separate individual notices are given to each Director on time.
A.7 Appointment to the Board It is required under the code to have formal and transparent procedure for the appointment of new Directors to the Board.		
21. Nomination committee	A 7.1	Complied. Nomination Committee of HDFC Bank comprised of the following Directors. 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. K. W. P. Dayarathne Please refer the Board Nomination Committee report on page 196 of the Annual Report, for further details.
22. Assessment of Board composition	A 7.2	Complied. The Director Board of the HDFC Bank consists only of Non-Executive Directors, including ex-officio Directors, nominated Directors and shareholding Directors. The representatives of relevant ministries defined in the HDFC Act and the representative of the Minister of Housing are appointed to the Board as ex-officio Directors and nominated Directors. The shareholding Directors are appointed to the Board with the recommendations of the Board Nomination Committee on the final approval of the Director Board and by election at a shareholder meeting. The Nomination Committee continually reviews the composition of the Board. The Committee identifies, evaluates and makes necessary recommendations on appointments to the Board.
23. Disclosure of details of new Directors to shareholders	A 7.3	Complied. Relevant details of new Directors are disclosed to the shareholders by way of public announcements. Director profiles are published in the Annual Report. Immediately after appointment, disclosure is made to the CBSL and the Colombo Stock Exchange.

Corporate Governance contd.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
A.8 Re- election It is required under the code, for the Directors to submit themselves for re-election at regular intervals and at least once in every three years time.		
24. Appointment of non-executive Directors	A 8.1	Complied. All new appointments to the Board of Director should be in accordance with the HDFC Act No. 07 of 1997 and amended Act No. 15 of 2003. Accordingly, appointment of the ex-officio Director and nominated Director were made through the Ministry of Finance, complying with the provisions of the HDFC Act. Continuing Directorships of the share holding Directors are reviewed by the Nomination Committee, periodically. The Nomination Committee examines the facts and circumstances applicable for the relevant period and makes recommendations pertaining to the new appointments to the Board. According to the HDFC Act, each shareholding Director retires by rotation once in every three years and is required to stand for re-election by the shareholders at the Annual General Meeting. Further the ex-officio Directors and nominated Directors are also appointed to the Board for a fixed term period and are also subject to re-appointment on completion of the membership period on the Director Board and are subject to re-appointment in accordance with the aforesaid HDFC Act.
25. Election of Directors by the shareholders	A 8.2	
A.9 Appraisal of Board performance The Board to annually appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.		
26. Appraisal of Board performance	A 9.1	Complied. The Board is evaluated by the Chairman, with the assistance of the other members of the Board. The Sub Committee, except for the Audit Committee implements a self assessment process each year to ensure efficacy and efficiency, to facilitate continuous improvement. The Audit Committee is evaluated by the Chairman of the Audit Committee who uses the assessments from Committee Members, the GM/CEO, Head of Finance, Head of Internal Audit and External Auditor as per the requirements of international best practices.
27. Annual self evaluation of the Board and its committees	A 9.2	Complied. Please refer comments mentioned under A 9.1, above.
28. Disclosure of the appraisal of Board and Board Sub Committee performance	A 9.3	Complied. Please refer comments mentioned under A 9.1, above.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
A.10 Disclosure of information in respect of Directors Shareholders should be kept informed of relevant details in respect of each Director for the benefit of shareholders.		
29. Details in respect of Directors	A 10.1	Complied. The relevant details of the Directors are given under the Director's Profile in the Annual Report, on pages 28 to 29 of the Annual Report.
A.11 Appraisal of the GM/ CEO It is required under the code, to assess the performance of the CEO, at least annually.		
30. Financial targets for GM/ CEO	A 11.1	Complied. The financial targets for the GM / CEO are set on the commencement of each year by the Board, in line with medium and long term objectives of the Bank.
31. Evaluation of the performance of the GM/ CEO	A 11.2	Complied. The GM/CEO is responsible for discharging day to day operational matters of the Bank by providing leadership and guidance to achieve the financial and non-financial targets fixed by the Board for the respective year. The Board adopts an ongoing performance evaluation process of the GM/CEO during year, against the targets set out at the commencement of the financial year.
B. DIRECTORS REMUNERATION		
B. 1 Remuneration Procedures Establishment of a formal and transparent procedure for developing a policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.		
32. Remuneration / Human Resources Committee	B 1.1	Complied. The Human Resource and Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy.
33. Composition of the Remuneration Committee	B 1.2	Complied. The Human Resource and Remuneration Committee of the HDFC Bank comprise of the following 02 Non- Executive Independent Directors and 02 Non- Executive Non Independent Directors. 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. K. W. P. Dayarathne 04. Mr. W. D. R. D. Goonaratne Please refer the Board Human Resource and Remuneration Committee on page 195 of the Annual Report for further details.

Corporate Governance *contd.*

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
34. Remuneration of the Non-Executive Directors	B 1.4	<p>N/A The Board of HDFC Bank comprises only of Non-Executive Directors and they are not entitled for any remuneration package other than participation fees for the Board meetings / Committee Meetings / interview boards.</p> <p>The Chairman is entitled for a monthly allowance applicable to chairmen of state sector institutions.</p>
35. Consultation of the Chairman and access to professional advice	B 1.5	<p>Complied. External professional advice is sought, on need basis.</p>
<p>B.2 Level and make-up of the Remuneration It is required under the code that the levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the bank successfully. A proportion of Executive Directors remuneration should be structured to link rewards to corporate and individual performance.</p>		
36. Level and make-up of the remuneration of both Executive and Non-Executive Directors	B 2.1	<p>N/A Please refer comments for B 1.4.</p>
37. Comparison of remuneration with other companies	B 2.2	<p>N/A Please refer comments for B 1.4.</p>
38. Comparison of remuneration with other companies in the group	B 2.3	<p>N/A Please refer comments for B 1.4.</p>
39. Performance related payment to executive and Non-Executive Directors	B 2.4	<p>N/A Please refer comments for B 1.4.</p>
40. Executive share option for Directors	B 2.5	<p>N/A Please refer comments for B 1.4.</p>
41. Designing the Executive Directors remuneration	B 2.6	<p>N/A Please refer comments for B 1.4.</p>
42. Early termination benefits of Directors	B 2.7	<p>N/A Please refer comments for B 1.4.</p>

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
43. Early termination benefits of Directors (not included in the initial contract)	B 2.8	N/A Please refer comments for B 1.4.
44. Level of remuneration of the Non-Executive Directors	B 2.9	N/A Please refer comments for B 1.4.
B. 3 Disclosure of Remuneration		
The statement of the remuneration policy of the bank and details of remuneration of the Board as a whole in the Annual Report.		
45. Disclosure of remuneration	B 3.1	Complied. The details of the total remuneration/ emoluments of the Directors are disclosed on page 195 of the Annual Report. The remuneration policy of the Bank is given under the report of the Human Resource and Remuneration Committee.
C. RELATIONS WITH SHAREHOLDERS		
C.1 Constructive use of the Annual General Meeting and conduct of General Meetings.		
Use the AGM to communicate with shareholders and encourage their participation.		
46. Use of proxy votes	C 1.1	Complied. The Bank has a method of recording all proxy votes and proxy votes lodged by the shareholders on each resolution.
47. Separate resolution for all separate issues	C 1.2	Complied. HDFC propose a separate resolution at the AGM on each substantially separate issue, giving shareholders the opportunity vote on each such resolution.
48. Availability of all Board Sub Committee Chairman at the AGM	C 1.3	Complied.
49. Adequate notice of the AGM	C 1.4	Complied. The Annual Report including financial statements and the notice of the meeting are circulated to shareholders at least 15 working days prior to the date of the AGM.
50. Procedure of voting at General Meeting	C 1.5	Complied.

Corporate Governance contd.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
C.2 Major transactions Further to compliance with the requirements under the Companies Act, Directors should disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter/vary the bank's net assets base or in the case of a bank with subsidiaries, the consolidated group net asset base.		
51. Major transactions	C 2.1	Complied. During 2011 there were no major transactions as defined by section 185 of Companies Act No. 07 of 2007 which materially affected HDFC Bank's net asset base. Transactions, if any which materially affect the net assets of HDFC Bank are factored in and disclosed in the quarterly / annual financial statements.
D. AUDIT AND ACCOUNTABILITY		
D. 1 Financial Reporting. It is required under the code, to present a balanced and understandable assessment of the bank's financial position, performance and prospects.		
52. Statutory and regulatory reporting	D 1.1	Complied. HDFC has reported a balanced and fair assessment of its financial position for the year ended 31st December and at the end of each quarter of 2011. In preparation and presentation of quarterly and annual financial statements, HDFC prepares and presents financial reports in conformity with Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing standards Act No 15 of 1995, the Banking Act No. 30 of 1988 and amendments there to. In addition the Bank has complied with the reporting requirements prescribed by the regulatory authorities such as the Securities and Exchange Commission and the Central Bank under Banking Act No 30 of 1988. The financial statements for the year ended 31st December 2011 and for the respective quarters ended have been published in newspapers in all three languages. The External Auditor of the HDFC is the Auditor General of Sri Lanka.
53. Directors' report in the Annual Report	D 1.2	Complied. The Director's Report is given from pages 188 to 192 of the Annual Report.
54. Statement of Directors' Responsibility for the Financial Statement	D 1.3	Complied. The Statement of Directors' Responsibility for Financial Reporting is given on page 199 of the Annual Report.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
55. Management Discussions and Analysis	D 1.4	Complied. The report forms a part of the GM/CEO's Review of Operations and is given on pages 18 to 22 of the Annual Report.
56. Declaration by the Board that the business as a going concern	D 1.5	Complied. This is given on the Directors' Report on pages 188 to 192 of the Annual Report
57. Summoning an EGM to notify serious loss of capital	D 1.6	N/A.
D.2 Internal Control It is the required under the code, to maintain a sound system of internal control to safeguard shareholders' investments and the bank's assets.		
58. Annual evaluation of the internal control system	D 2.1	Complied. The Board is responsible for establishing and maintaining a sound system of internal control, while monitoring and reviewing their effectiveness continuously. Through such an effective internal control system HDFC manages the business risks expose to the industry and ensure the reliability of the financial information on which business decisions are made. The Board of Directors of the bank are satisfied with the effectiveness of internal control systems. Please refer the Board's Statement on Internal Control Systems published on pages 186 to 186 of the Annual Report.
59. Need for internal audit function	D 2.2	Complied. The Bank has a separate internal audit department to carry out relevant auditing functions, independently. The Chief Internal Auditor functions as the head of the particular department and reports directly to the Chairman and the Board Audit Committee.
D. 3 Audit Committee Formal and transparent arrangements for considering on how to select and apply accounting policies, financial reporting and internal control principles and maintain an appropriate relationship with the bank's external Auditors.		
60. Composition and terms and conditions of the Audit Committee	D 3.1	Complied. The Audit Committee of the Bank comprises of one Non-Executive/Independent Director and three Non Executive/Non Independent Directors. The Chief Internal Auditor, functions as Secretary to the Audit Committee.
61. Duties of the Audit Committee	D 3.2	Complied. HDFC's external auditor is the auditor general and is bound by law to display independence, objectivity and efficacy in ensuring the audit process takes into account all relevant regulatory requirements. The relevant details pertaining to the above is discussed in the Audit Committee Report.

Corporate Governance contd.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
62. Terms and reference of the Audit Committee	D 3.3	<p>Complied. The Audit Committee has a committee charter including relevant terms of reference of the said committee. The Chief Internal Auditor functions as the head of the internal audit department and submits relevant reports to the Audit Committee as mandated under the audit charter.</p> <p>For further details please refer the Report of the Audit Committee, on pages 193 to 194 of the Annual Report.</p>
63. Disclosures of the Audit Committee	D 3.4	<p>Complied. The Audit Committee of HDFC Bank comprise of the following 01 Non-Executive Independent Director and 03 Non- Executive Non Independent Directors.</p> <p>01. Mr. A. M. Chandrasagara (Chairman of the Committee) 02. Mrs. C. Wijayawardhane 03. Mr. W. D. K. Jayewardene 04. Mr. W. D. R. D. Goonaratne</p> <p>Please refer the Board Audit Committee Report on pages 193 to 194 of the Annual Report for further details.</p>
<p>D. 4 Code of business conduct & ethics It is required under the code to adopt a code of business conduct and ethics for Directors and members of the Senior Management Team and must promptly disclose any waivers of the code for Directors or others.</p>		
64. Code of business conduct and ethics	D 4.1	<p>To be completed.</p> <p>However, the relevant areas were already covered under different policies adopted by the Bank and these polices will be compiled in a separate policy, as code of business conduct and ethics, under the sustainability development program.</p> <p>HDFC being a Licensed Specialized Bank maintains a high level of confidentiality on its customers and other stakeholders. Therefore, HDFC has adopted a policy that prevents the disclosure of confidentiality of customer information to any external party.</p>
65. Affirmation of the code of conduct & ethics	D 4.2	As mentioned above in D 4.1.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
E. INSTITUTIONAL SHAREHOLDERS		
E.1 Shareholding voting Institutional shareholders are required to make use of their votes and translate their voting intentions into practice.		
66. Institutional Shareholders	E 1.1	Complied. Institutional shareholders are encouraged to use of their votes. Further they are encouraged to execute their votes and also seek independent advice on investing or divesting decisions
E.2 Evaluation of Corporate Governance initiatives When evaluating banks' governance arrangements, particularly those relating to Board structure and composition, institutional investors are encouraged to give due weightage to all relevant factors.		
F. OTHER INVESTORS		
F.1 Investing / Divesting decision Individual shareholders, investing directly in shares of companies are encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.		
F.2 Shareholder Voting It is required under the code that individual shareholders to be encouraged to participate in General Meetings of companies and exercise their voting rights.		
67. Individual Shareholder Voting	F 2.1	Individual shareholders are encouraged to participate and exercise their voting rights at General Meetings.

Corporate Governance *contd.*

SECTION THREE

Corporate Governance

HDFC Bank's compliance statement with the continuing listing requirements under section 7.10 on Corporate Governance Rules for listed companies issued by the Colombo Stock Exchange.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
Disclosures regarding the Board of Directors		
(i) The correct number of Non-Executive Directors	7.10.1 (a) to (c)	Complied. HDFC confirms that, The Board of Directors of HDFC Bank comprises of the mandated number of Non-Executive Directors in accordance with Rule 7.10.1 (a) of the CSE listing rules.
(ii) The correct number of Independent Non-Executive Directors	7.10.2 (a)	Complied. The Board of Directors of HDFC consists of the required number of independent Non-Executive Directors in accordance with Rule 7.10.2 (a).
(iii) Directors annual declaration of his / her independence or non-independence to the Board of Directors.	7.10.2 (b)	Complied. Mr. W. J. L. U. Wijayaweera, Mrs. K. W. P. Dayarathne and Mrs. C. Wijayawardhane submitted their declarations as Non - Executive / Independent Directors. Mrs. S. N. Wickramasighe (Chairman), Mr. A. M. Chandrasagara, Mr. W. D. K. Jayawardena, Mr. A. J. Aloysius Mr. S. A. J. Samaraweera and Mr. W. D. R. D. Goonaratne submitted their declarations as Non-Executive / Non-Independent Directors. All Non-Executive Directors have submitted their confirmations on independence in accordance with the criteria set by the Bank, which is in line with the regulatory requirements. Rule 7.10.2 (b) of the CSE listing rules. Note : According to the HDFC Act No. 07 of 1997 amended by Act No. 15 of 2003, the Director Board comprises only with Non-Executive Directors.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
(iv) Annual determination of the Board as to the independency or non-independence of the Directors.	7.10.3 (a)	Complied.
(v) The qualifications not met by the Directors	7.10.3 (b)	N/A Circumstances did not arise for the Board to specify a Director as independent beyond the criteria set by CSE, as the Board has adequate number of Independent Directors.
(vi) Brief resume of each Director	7.10.3 (c)	Complied. Please refer Directors' Profiles on pages 28 to 29 of the Annual Report.
Disclosures relating Remuneration & the Remuneration Committee		
(vii) The correct number of Independent Non-Executive Directors in the Remuneration Committee	7.10.5 (a)	Complied. HDFC Confirms that, the Remuneration Committee comprises of the correct number of Independent Non-Executive Directors in accordance with Rule 7.10.5 (a)
(viii) Separate Remuneration Committee	7.10.5 (a)	Complied. A separate Remuneration Committee for the HDFC Bank was formed. Note : The HDFC Bank Remuneration Committee was named as Human Resource and Remuneration Committee. In addition to the CSE listing rules, this committee complies with the requirements of Corporate Governance rules of CBSL.
(ix) Names of the Directors in the Remuneration Committee	7.10.5 (c)	Complied. The Human Resource and Remuneration Committee comprised of the following Directors. 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. K. W. P. Dayarathne 04. Mr. W. D. R. D. Goonaratne Please refer the Board Human Resource and Remuneration Committee on page 195 of the Annual Report for further details.

Corporate Governance contd.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
(x) Functions of the Remuneration Committee	7.10.5 (b)	Complied. The function of the Committee is to determine remuneration packages applicable to the CEO/GM and other Corporate Management members of HDFC.
(xi) Chairman of the Remuneration Committee	7.10.5.(a)	Complied. Mrs. S. N. Wickramasighe (a Non-Executive Director Non Independent Director) was appointed as the Chairmen of the Committee by the Board of Directors in accordance with (Rules 7.10.5(a))
(xii) Remuneration Policy	7.10.5 (c)	Complied. Please refer the report of the Human Resource and Remuneration Committee on page 195 of the Annual Report.
(xiii) Aggregate remuneration paid to the Executive and Non-Executive Directors (including cash and all non-cash benefits)	7.10.5 (c)	Complied. Please refer note no 08 of the financial statement on page 211 of the Annual Report.
Contents under the Audit Committee Report		
(xiv) The correct number of Independent Non-Executive Directors	7.10.6 (a)	Complied. HDFC confirms that, Audit Committee comprised of the required number of Independent Non-Executive Directors in accordance with Rule 7.10.6(a).
(xv) Separate Audit Committee	7.10.6 (a) and 7.10.6 (c)	Complied. A separate Audit Committee for HDFC Bank was formed.
(xvi) Names of the Directors in the Audit Committee	7.10.6 (c)	The Audit Committee of HDFC Bank comprised of the following Directors. 01. Mr. A. M. Chandrasagara (Chairman) 02. Mrs. C. Wijayawardhane 03. Mr. W. D. K. Jayawardena 04. Mr. W. D. R. D.Goonaratne Please refer the Board Audit Committee report on pages 193 to 194 of the Annual Report for further details.

Corporate Governance principles	SEC & ICASL code reference	Compliance Status
(xvii) Functions of the Audit Committee	7.10.6 (b)	Complied. In addition HDFC Bank, being a License Specialized Bank functioning under the Ministry of Finance, the Audit Committee engages in the functions mandated under Rule 3(6) of the CBSL and Finance Circular No 1A1/ 2000/1.
(xviii) Chairman of the Audit Committee	7.10.6.(a) and 7.10.6 (c)	Complied. Mr. A. M. Chandrasagara (a Non-Executive Non-Independent Director) was appointed as the Chairman of the Committee by the Board of Directors in accordance with (Rules 7.10.6(a) and 7.10.6.(c))
(xix) Chairman's qualifications	7.10.6 (a) and 7.10.6 (c)	Complied. Please refer the Directors Profiles on pages 28 to 29 of the Annual Report.
(xx) Attendance of CEO and CFO for the committee meetings	7.10.6 (a) and 7.10.6 (c)	Complied. The GM/CEO and DGM (Finance) attended the committee meetings.
(xxi) External Auditors independence	7.10.6 (c)	N/A. The External Auditor of the Bank is the Auditor General of Sri Lanka.

Corporate Governance *contd.*

Attendance for Board Meetings - 2011

Names	Directorship Status	Number of Meetings held -2011	Number of Meetings Entitled	Number of Meetings participated
Mrs. S. N. Wickramasinghe	Non - Executive / Non- Independent Director (Chairman)	13	13	13
Mr. W.J.L.U. Wijayaweera	Non - Executive / Independent Director	13	13	08
Mrs. K. W. P. Dayarathne	Non - Executive / Independent Director	13	13	13
Mrs. C. Wijayawardhana	Non - Executive / Independent Director	13	13	10
Mr. S. A. J. Samaraweera	Non – Executive / Non- Independent Director	13	13	11
Mr. W. D. R.D. Goonaratne	Non- Executive / Non-Independent Director	13	13	11
Mr. A. M. Chandrasagara	Non -Executive /Non- Independent Director	13	13	13
Mr. W.D.K. Jayawardena	Non -Executive /Non- Independent Director	13	08	06
Mr. A.J. Aloysius	Non -Executive /Non- Independent Director	13	08	04
Dr. D. S. Wijesinghe (Retired Director)	Non -Executive / Independent Director	13	05	05

Attendance for Board sub Committee Meetings - 2011

Recovery Sub Committee Meeting

Names	Directorship Status	Number of Meetings held -2011	Number of Meetings Entitled	Number of Meetings participated
Mrs. S. N. Wickramasinghe	Non- Executive / Non - independent Director (Chairman)	04	04	04
Mr. W. J. L. U. Wijayaweera	Non- Executive / Independent Director	04	04	02
Mrs. K. W. P. Dayarathne	Non- Executive / Independent Director	04	04	04
Mr. S. A. J. Samaraweera	Non- Executive / Non-independent Director	04	04	02
Mr. W.D.R.D. Goonaratne	Non- Executive / Non-independent Director	04	04	04

Nomination Committee Meeting

Names	Directorship Status	Number of Meetings held -2011	Number of Meetings Entitled	Number of Meetings participated
Mrs. S. N. Wickramasinghe	Non- Executive / Non- Independent Director (Chairman)	03	03	03
Mr. W. J. L. U. Wijayaweera	Non- Executive / Independent Director	03	03	03
Mrs. K. W. P. Dayarathne	Non - Executive / Independent Director	03	03	03

Human Resource / Remuneration Committee Meeting

Names	Directorship Status	Number of Meetings held -2011	Number of Meetings Entitled	Number of Meetings participated
Mrs. S.N.Wickramasinghe	Non- Executive / Non - Independent Director (Chairman)	05	05	05
Mr. W.J.L.U.Wijayaweera	Non- Executive / Independent Director	05	05	04
Mrs. K.W.P.Dayarathne	Non- Executive / Independent Director	05	05	05
Mr. W.D.R.D. Goonaratne	Non- Executive/ Non - independent Director	05	03	03

Corporate Governance contd.

Integrated Risk Management Committee Meeting

Names	Directorship Status	Number of Meetings held -2011	Number of Meetings Entitled	Number of Meetings Participated
Mrs. S. N. Wickramasinghe	Non - Executive / Non - independent Director (Chairman)	02	02	02
Mrs. K. W. P. Dayarathne	Non - Executive / Independent Director	02	02	02
Mr. A. M. Chandrasagara	Non - Executive / Non - independent Director	02	02	02
Mr. S. Dissanayake	Acting General Manager	02	02	02
Mr. S. A. Alahakoon	Head of Credit	02	02	02
Mr. A. J. Athukorala	Chief Internal Auditor	02	02	02
Mr. I. Nisantha	Risk Officer	02	02	02

Audit Committee Meeting

Names	Directorship Status	Number of Meetings held -2011	Number of Meetings Entitled	Number of Meetings participated
Mr. A.M. Chandrasagara	Non- Executive / Non - independent Director (Chairman)	11	11	11
Mrs. C. Wijayawardhana	Non- Executive / Independent Director	11	11	08
Mr. W.D.R.D. Goonaratne	Non- Executive / Non - independent Director	11	07	06
Mr. W.D.K. Jayawardena	Non- Executive / Non - Independent Director	11	07	06

Statement of Internal Control

requirement

The Board of Directors provides this statement, in compliance with the requirements of the Banking Act Direction No. 12 of 2007, on corporate governance for Licensed Specialized Banks in Sri Lanka.

Responsibility

The Board acknowledges that it is responsible for the bank's system of internal control and for reviewing its design and effectiveness. However it acknowledges that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and therefore can only provide reasonable and not absolute assurance against material misstatements of loss.

Board's Review Process

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to the business environment or regulatory guidelines.

The process is regularly reviewed by the Board and accords with the guidelines on the 'Directors' Statement of Internal Control' issued by the Institute of Chartered Accountants of Sri Lanka. As per the said guidance, significant processes affecting significant accounts of the Bank were assessed along with the key risk areas of the Bank.

The key processes that have been established for reviewing the design and effectiveness of the system of internal control and for identifying, evaluating and managing the significant risks include the following:

The Board Sub Committees assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

The Audit Committee reviews internal control issues identified by the Internal Audit Division, the external auditors, regulatory authorities and the management and evaluates the adequacy and effectiveness of the risk management and internal control systems. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 193 to 194.

The Board Integrated Risk Management Committee (BIRMC) is established to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Corporate Management implements the directives advocated at the BIRMC.

Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Assets and Liability Committee, the Credit Committee, the Investment Management Committee, and the Information Technology Steering Committee.

Confirmation

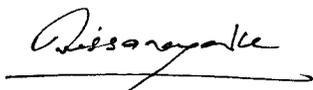
During the year internal controls over significant accounts and processes were documented and tested considering the ICASL illustrative guidance in relation to the CBSL direction.

Based on the results of the aforesaid testing, Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.

Statement of Internal Control contd.

Review of The Statement By External Auditors

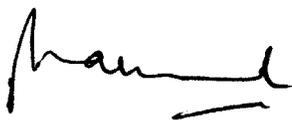
The external auditors have reviewed the above Directors' Statement on Internal Control for the year ended 31 December 2011 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.



S. Dissanayaka
CEO/General Manager (Acting)



A. M. Chandrasagara
Chairman of the Audit Committee



Mrs. Siromi Wickramasinghe
Chairman

FINANCIAL REPORTS

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Report of the Board of Directors

1. General

The Board of Directors of the HDFC Bank have pleasure in presenting to the members the Annual Report for the financial year 2011 together with the Audited Financial Statements and Audit Report thereon of the Housing Development Finance Corporation Bank (HDFC BANK) for the relevant year.

Housing Development Finance Corporation Bank of Sri Lanka, (hereinafter referred to as the HDFC Bank) is a licensed specialized bank incorporated in Sri Lanka under the provisions of Housing Development Finance Corporation Act No. 07 of 1997. The said Act was amended by Act Nos.15 of 2003 and 45 of 2011 by which the HDFC Bank is empowered to engage in banking functions as a licensed specialized bank. The HDFC Bank was quoted in the Colombo Stock Exchange in year 2005.

2. Principal Activities

The principal activities of the Bank continued to be financing for housing and housing development projects. There have been no significant changes during the financial year under review in the nature of the principal activities of HDFC Bank.

3. Review of Business

The Acting General Manager / Chief Executive Officer's Review contained on pages 18 to 22, and the Business and Financial Performance Review contained on pages 46 to 56 provide an overall assessment of the Bank's financial position, performance, state of affairs and significant events taken

place during the financial year. These Reports form an integral part of the Directors' Report.

4. Vision, Mission and Corporate Conduct

The Bank's Vision and Mission were aligned with the Corporate Plan. The operations of the Bank are conducted effectively with the highest level of ethical standards in achieving its Vision and Mission.

5. Future Developments

The Bank intends to further strengthened its operations by penetrating to different segments through its expanded branch network by introducing customer oriented low cost products and services. An overview of future development is given in the Acting General Manager / Chief Executive Officer's Review on pages 18 to 22 of this Annual Report.

6. Financial Statements

The Financial Statements of the Bank was duly signed and certified by the Assistant General Manager (Finance and Planning) and the Acting General Manager / CEO and approved by the Chairman and a Director of the HDFC Bank and are given on pages 202 to 205 of this Annual Report.

7. Significant Accounting Policies

The significant accounting policies adopted in preparation of Financial Statements and the impact of the changes in Sri Lanka Accounting Standards during the year are given on pages 206 to 209 of the Annual Report.

8. Audit and Assurance Reports

The Auditor General of Sri Lanka is the auditor of HDFC Bank. The audit is performed on the Financial Statement of HDFC Bank for the year ended 31st of December 2011 and the relevant Auditors Report is contained in pages 200 to 201 of the Annual Report.

Other qualitative information of this Annual Report is assured by an independent assuarer, BDO Chartered Accountants Charter House Sir Chittempalam A Gardiner Mw, Colombo 02. The Assurance Report is Contained in pages 234 to 235 of this Report.

9. Going Concern

The Board of Directors are satisfied that HDFC Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

10. Income

The income of the Bank for the year ended 31st December 2011 was LKR. 2,374 million. An analysis of the income is given in Notes 02 and 04 to the Financial Statements.

11. Profit and Appropriation

The profit before income tax of the Bank for the year ended 31st December 2011 was LKR. 414 million and the profit after tax for the year ended 31st December 2011 was LKR. 309.65 million.

The details of profit of the HDFC Bank, is given in the table below:

For the year ended 31st December 2011 LKR	2011	2010
Operating profit on ordinary activities before VAT	495.30	291.10
VAT on financial services	81.00	102.18
Provision for taxation	104.64	53.57
Profit on ordinary activities after tax	309.65	135.34
Retained profit /(accumulated losses) b/f	781.60	679.00
Profit available for appropriation	1058.98	834.31
Appropriation First & Final Dividend proposed	-	32.35
Transfer to Reserve Funds	100.30	20.30
Retained Profit carried forward	958.68	781.66

12. Reserves

The Bank's total Reserves as at 31st December 2011 amounted to LKR. 2125 million. The details are given on Notes 27 and 28 of the Financial Statements.

13. Donations

During the year the Bank made donations amounting to LKR. 1,791,557.00

14. Statutory Payments

The Board of Directors are satisfied that all statutory payments in relation to the Government, other regulatory institutions and employees have been paid up to date, to the best of their knowledge and belief.

15. Provision for Taxation

Income tax for 2011 has been provided at 20% on the taxable income arising from the operations of the Bank and has been disclosed in Note 11 to the Financial Statements on page 212 of this Annual Report.

16. Dividend

In considering the fact that, the Bank has to comply with the mandatory Capital requirement of Rupees Two Billion (LKR 02 Billion) the Board did not recommend any dividend (final) for financial year 2011.

17. Property, Plant and Equipment, Freehold Property

Capital expenditure on property, plant and equipment amounts to LKR. 92.37 million, the details of which are given in Note 22 of the Financial Statements.

Details of freehold properties are given on Note 22.1 of the Financial Statements on page 218.

18. Market Value Of Freehold Properties

Details of the market value of freehold properties are given on Note 22.1 of the Financial Statements on page 218.

19. Events after The Balance Sheet Date

There have been no material events occurring after the Balance sheet date that would require adjustments or disclosure in the financial statements.

20. Stated Capital

The stated capital of the Bank as at 31st of December 2011 was LKR 962,092,936/-, consisting of 6,41,052 ordinary shares.

21. Share Information

Details of share related information (earnings, dividends, net assets and market value per share) are given on pages 73 to 79 and 230 to 232 of this Annual Report.

All shareholders have been treated equitably in accordance with the original terms issued to them.

22. Issue of Shares and Debentures

No shares or debentures were issued by the bank during the year under review.

23. Equitable Treatment to All Stakeholders

While appreciating the contribution of all stakeholders, towards the progress of HDFC Bank has made all endeavors to ensure equitable treatment to all our shareholders. Stakeholder engagements in 2011 are described in pages 69 to 136 of this Report

24. The Board of Directors

The Director Board of the HDFC Bank consists of well qualified and, experienced professionals. They possess the relevant skills and experience to provide leadership for the Bank.

The Present Board of Directors was appointed under the chairmanship of Mrs. S. N. Wickramasinghe.

Report of the Board of Directors *contd.*

The Directors of the Bank during the period under review are as follows.

01. Mrs. S. N. Wickramasinghe (Chairman) appointed in May 2010
- Non-executive/ Non-independent
02. Mr. W. J. L. U. Wijayaweera appointed in June 2010
- Non-executive/ independent
03. Mrs. K. W. P. Dayarathne appointed in June 2010
- Non-executive/ independent
04. Mrs. C. Wijayawardhane appointed in June 2010
- Non-executive/ independent
05. Mr. A. M. Chandrasagara elected in June 2010
- Non-executive/ Non-independent
06. Mr. S. A. J. Samaraweera elected in June 2010
- Non-executive/ Non-independent
07. Mr. W. D. R. D. Goonaratne elected in June 2010
- Non-executive/ Non-independent
08. Mr. W. D. K. Jayawardena elected in May 2011
- Non-executive/ Non-independent
09. Mr. A. J. Aloysius elected in May 2011
- Non-executive/ Non-independent
10. Dr. D. S. Wijesinghe elected in June 2010
- Non-executive/ Independent

Resignations from the Board of HDFC Bank during the period under review

Dr. D. S. Wijesinghe - with effect from May 2011

Appointments to the Board

01. Mr. W. D. K. Jayawardena - with effect from 09/05/2011
02. Mr. A. J. Aloysius - with effect from 09/05/2011

The qualifications and the experience of the Directors

The qualifications and the experience of the Directors are given in the Board of Directors profile on pages 28 to 29 of this Annual Report.

The following were the Directors of the HDFC (RED) during the financial year, under review.

01. Mrs. S. N. Wickramasinghe (Chairman)
02. Mr. A. M. Chandrasagara
03. Mr. S. Dissanayake

25. Board Sub Committees

The Board while ensuring the overall responsibility and accountability in the administration and the management of HDFC Bank has taken necessary measures

to appoint relevant Board sub Committees, such as Audit Committee, Human Resource and Remuneration Committee, Nomination Committee and Integrated Risk Management Committee. The relevant reports of the Board Sub Committees are given on pages 193 to 198 of the Annual Report.

26. Directors Meetings

During the period under review 13 Board Meetings were held. The attendance of Directors at these meetings is given on page 182. In addition there were Board Sub Committee Meetings, the details of which are given separately with the reports of Board Sub Committees, on pages 183 to 184 of this Annual Report.

27. Director' Responsibility for Financial Reporting

The Directors are responsible for the preparation of financial statements of the Bank in such manner that it will reflect a true and fair view of the state of affairs of the HDFC Bank. The statement of Directors' responsibility for Financial Reporting is given on page 199 which form an integral part of the Annual Report of the Board of Directors.

28. Entries In The Interest Register

The HDFC Bank is regularly maintaining the Interest Register in accordance with the Companies Act. The Directors have made declarations as required and the related entries were made in the interest register during the year under review.

29. Directors' Interest In Shareholding

Directors shareholdings are as follows:

	31/12/2011	01/01/2011
Mrs. S. N. Wickramasinghe (Chairman)	Nil	1000
Mr. W. J. L. U. Wijayaweera	300	300
Mrs. K. W. P. Dayarathna	Nil	Nil
Mrs. C. Wijayawardhana	Nil	Nil
Mr. A. M. Chandrasagara	500	800
Mr. W. D. R. D. Goonaratne	Nil	Nil
Mr. S. A. J. Samaraweera	Nil	Nil
Mr. W. D. K. Jayawardena	Nil	Nil
Mr. A. J. Aloysius	Nil	Nil

30. Directors' Interests In Contracts And Proposed Contracts

Directors had no direct or indirect interest in any contract or proposed contract entered by the HDFC Bank during the year ended 31st December 2011. Further information is given on page 221 of this Annual Report.

The Directors disclosed their interest (if any) to ensure that they would refrain from voting on issues they have an interest in.

31. Directors' Interests In Debentures

There were no debentures registered in the name of any director as at the beginning and at the end of the year.

32. Related Party Transactions

Related party transactions were given in Note 32 of the financial statement of this Annual Report.

33. Directors' Remuneration

Directors' remuneration, for the financial year ended 31st December 2011 is given on Note 8 to the financial statement on page 221.

34. Employee Share Option Plan

The Employee Share Ownership Plan was introduced by the Bank at the time of the Initial Public Offering (IPO), with the approval of the shareholders. The total number of shares issued to the Trustee under the above category was 348,552 shares and the above shares were allocated among the beneficiaries. The above mentioned Share Trust was set up by the Bank acquiring 5% of the voting ordinary shares.

35. Environmental Protection

The Directors, to the best of their knowledge and belief, are satisfied that the Bank has not engaged in any activities, which have caused adverse effects on the environment and has complied with the relevant environmental regulations.

36. Risk Management and System of Internal Controls

A continuous process is in place to identify, evaluate and manage the risk exposure of the HDFC Bank while an effective and comprehensive system of internal controls are in place to safeguard the assets of the Bank.

The Board Audit Committee reviews the internal control process of the Bank on a regular basis and the committee forwards necessary recommendations directly to the Board to ensure that the Bank has a comprehensive Internal Control Framework, in place for smooth functioning of its operations.

More details are given in Board Audit Committee Report on pages 193 to 194 Risk management report given on page 197 and Board statement on Internal Controls.

37. Corporate Governance

A statement of compliance, pertaining to Corporate Governance practices of the Bank are set out in pages 151 to 184 of this Annual Report.

Report of the Board of Directors *contd.*

38. Compliance With Applicable Laws and Regulations

There has been no direct or indirect violation of laws or regulations in any jurisdiction which the Bank is bound to disclose nor has there been any irregularities involving management of employees that could have been a material financial effect.

39. Appointment of Auditors

The Auditor General continues to be the Auditor of the bank as stipulated in the HDFC Act No.07 of 1997, (amended by Act Nos. 15 of 2003 and 45 of 2011)

40. Auditors Remuneration and Interest In Contract With The Bank

The Auditors were paid Rs. 327,800 for the year ended 31st of December, 2011 as audit fees by the Bank. The auditors do not have any other relationship or interest in contracts with the Bank.

41. Audit Committee

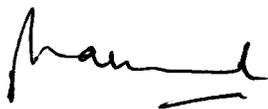
The composition of the Audit Committee and their report is given on page 193 to 194 of this Annual Report.

42. Notice of Meeting

The 27th Annual General Meeting of the Bank will be held at 10.30 a.m. on 31st May 2012 at Hotel Booker, No. 10, Hedges Court, Colombo 10.

The Notice of the meeting is given on page 245 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors



Mrs. S. N. Wickramasinghe
Chairman



Mrs. Dharshani De Silva
Company Secretary

Reports of the Board Sub Committees

Report of the Board Audit Committee

The Audit Committee is appointed by the Board of Directors and it held 11 meetings during the year 2011. The membership and composition of the audit committee, its terms of reference and its procedures are described more fully in the Corporate Governance section of the annual report.

Execution of functions

The audit committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference in relation to the Bank's accounting, internal auditing, internal control and financial reporting practices.

During the year under review the committee, amongst other matters, considered the following:

In respect of the external auditors and the external audit:

- obtained assurances from the external auditors that adequate accounting records were being maintained and financial statements represents a true and fair view of state of affairs of the bank;
- obtained assurances on the compliance with corporate governance directions issued by CBSL;
- obtained assurances on the effectiveness of the internal control mechanism in respect of financial reporting system and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements;

In respect of the financial statements:

- examined and reviewed the interim and annual financial statements as well as financial information disclosed to the public prior to submission and approval by the board;
- ensured that the annual financial statements fairly present the financial position of the Bank as at the end of the financial year;
- considered the appropriateness of accounting treatments, significant unusual transactions and accounting judgments;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed and discussed the external auditors' audit report;
- noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, contents of annual financial statements, internal controls and related matters.

In respect of internal control and internal audit:

- reviewed and approved the risk based annual internal audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its mandate;
- considered reports of the internal and external auditors on the Bank's system of internal control, including internal financial controls and maintenance of effective internal control systems;
- reviewed significant issues raised by the internal audit and the adequacy of corrective action in response to such findings;
- assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and made arrangements to fill the gaps;
- received assurance that proper and adequate accounting records were maintained and that the assets were safeguarded against unauthorized use or disposal thereof; and
- based on the above, the committee formed the opinion that at the date of this report there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the Bank.

Reports of the Board Sub Committees *contd.*

In respect of legal and regulatory requirements and their impact on the financial statements:

- reviewed with the Management, matters that could have a material impact on the Bank;
- monitored compliance with the Companies Act, Banking Act, the CSE Listings Requirements, all other applicable legislation and reviewed reports from the internal and external auditors detailing the extent of compliance; and
- noted that no complaints were received concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters.

In respect of risk management and information technology:

- the chairman is a member of the Integrated Risk Management Committee and attended the meetings held during the year under review;
- considered and reviewed reports on risk management, including fraud risks and information technology risks pertaining to the financial reporting and the going concern assessment;
- in respect of the coordination of assurance activities, the committee reviewed the plans and performance of internal audit and risk management and concluded that they were adequate to address all significant financial risks facing the business;
- considered the expertise, resources and experience of the finance staff and the senior members of management responsible for this function and concluded that they were appropriate.

On behalf of the Board Audit Committee



A. M. Chandrasagara

Chairman

29th February 2012

Board Human Resource and Remuneration Committee Report

The HDFC Bank believes that a close link between Human Resource practices and business strategies is important, if a great measure of success is to be achieved. This important aspect is focused by assessing the emerging HR issues in the context of a dynamic business environment.

The people factor at HDFC is a strong contributor to organizational performance. The Human Resources is driven by one of our core beliefs in creating an inspiring work environment for our staff, with objectives of

- Ensure excellence in customer satisfaction through staff.
- Attract, recruit, select and retain the best talent
- Utilize and continuously develop our staff with the view to achieving optimum productivity.
- Motivate, recognize and reward our employees.
- Ensure credibility, integrity, honesty and high ethical standards among the workforce.
- Promote harmonious Industrial Relations within the enterprise.

Composition of the Human Resource and Remuneration Committee

The Human Resource and Remuneration Committee comprises of four Directors namely, Mrs. S. N. Wickramasinghe (Chairman of the committee, non-executive, non independent Director), Mr. W. J.

L. U. Wijayaweera (non-executive, independent Director), Mrs. K. W. P. Dayarathne (non-executive, independent Director) and Mr. D.W.D. Goonaratne (non-executive, non independent Director).

The appointment to the above Committee is made by the Board, and the Committee is responsible and report directly to the Board of Directors.

The core-responsibilities and duties of the Human Resource and Remuneration Committee

The Committee is empowered to recommend to the Board of Directors any matter related to Human Resource Management of the Bank and during the period under review the Committee has taken necessary measures to strengthen the relevant area by paying special attention to the following.

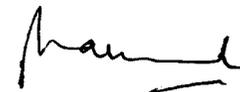
- (a) Implementation of a Remuneration policy relating to Chief Executive Officer and other key management personnel of the Bank.
- (b) Setting up goals and targets for the Directors, CEO and other key management persons.
- (c) Evaluating the performance of CEO and other key management personnel against the set targets and goals periodically and determine the basis for revising remuneration benefits and other

payments of performance base incentives.

- (d) Making necessary recommendation to the Board pertaining to the salary revisions, Prerequisites, Recruitments, Cadre Determination, Promotions / Change of Designation / Creation of new Posts or positions / Placements / Cadre and Cadre Budget, Training and attending to overseas Seminars by the Staff Members of the Bank.

Human Resource and Remuneration Committee Meetings

During the year under review the Committee held 05 meetings. The attendance of the Directors are given at the end of this report. The General Manager / CEO attended the meetings by invitation, except in relation to matters connected to his position. The members of the Corporate Management team were invited for participation at the Committee meetings as and when required by the committee.



Mrs. S. N. Wickramasinghe
Chairman



Mrs. Dharshani De Silva
Company Secretary

Reports of the Board Sub Committees *contd.*

Nomination Committee

The main purpose of the Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process when making or renewing appointments of Directors, Chief Executive Officers and Key Management. It also advises the Board on issues of Directors' conflicts of interest and independence. The Chairman and the members of the Nomination Committee are appointed by the Board of Directors.

Composition of the Nomination Committee

The Nomination Committee comprises of three Directors namely, Mrs. S. N. Wickramasinghe (Non-Executive, Non Independent Director), Mr. W. J. L. U. Wijayaweera (Non-Executive, independent Director) and Mrs. K. W. P. Dayarathne (Non-Executive, Independent Director).

Mrs. S. N. Wickramasinghe was appointed as the Chairman of the Committee, immediately after her appointment to the Board.

The Committee is responsible to report directly to the Board of Directors.

The core-responsibilities and duties of the Nomination Committee

The Committee has taken necessary measures to strengthen the relevant area by paying special attention to the following.

- (a) Implementation of a procedure for selection / appointment of new Directors, CEO and key management personnel.
- (b) Making necessary recommendations for re-election of Directors taking into account the performance and the contribution made by the Director concerned towards the overall discharge of the Boards responsibilities.
- (c) Setting up criteria, such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management position.
- (d) Ensuring the Directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in the Central Bank directions and as setout in the relevant statutes.

- (e) Making necessary recommendations from time to time pertaining to the requirements of additional/new expertise and succession arrangements for retiring Directors and key management personnel.

Nomination Committee Meetings

During the year under review the Committee held 03 Committee Meetings.



Mrs. S. N. Wickramasinghe
Chairman



Mrs. Dharshani De Silva
Company Secretary

Integrated Risk Management Committee

The achievement of our strategic and operating objectives will necessarily involve taking risks. Our risk management process is intended to ensure that risks are taken knowingly and with forethought. Our ability to identify, assess, monitor and manage each type of risk to which the Bank is exposed is an important factor in our stability, performance, reputation and future success.

Our approach to risk management is built on the day -to- day business process and relies on individual responsibility and collective oversight, informed by comprehensive reporting at regular meetings, the Bank's results and attendant opportunities and risks are discussed, and targets and necessary actions agreed upon. The Risk management frame work of the Bank is further strengthened through the Risk Working Committee.

Composition of the Risk Management Committee

The Integrated Risk Management Committee comprises of three Directors namely, Mrs. S. N. Wickramasinghe (Chairman of the Committee, Non-Executive, non independent Director), Mrs. K. W. P. Dayaratne (Non-Executive, Independent Director), and Mr. A.M. Chandrasagara (Non-Executive, Non Independent Director) and officers of the Bank namely, Mr. S.Dissanayeke (Acting General Manager), Mr. A.J. Athukorala (Chief Internal Auditor)

and Mr. I. Nishantha (Risk Officer) The appointments to the above Committee are made by the Board.

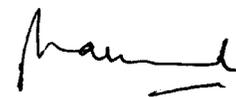
The core-responsibilities and duties of the Integrated Risk Management Committee

During the period under review the Committee has taken necessary measures to strengthen the Risk Management of the Bank by paying special attention to the following.

- (a) Assessing of Credit, Market, Liquidity, Operational and Strategic Risk through appropriate risk indicators and management information received, by the Committee, periodically.
- (b) Reviewing the adequacy and effectiveness of all management level committees.
- (c) Taking prompt corrective action to mitigate the effects of specific risk which are at levels beyond the prudent level decided by the committee, on the basis of the Banks policies and regulatory and supervisory requirements.
- (d) Taking appropriate action against the officers responsible for failure to identify specific risk and take necessary corrective action as recommended by the Committee and or directed by the Director Bank Supervision of the Central Bank of Sri Lanka.
- (e) Establishing a compliance function to assess the Banks compliance on all areas of business operations by appointing a Compliance Officer who shall carryout the compliance functions and report to the Committee, periodically.

Integrated Risk Management Committee Meetings

During the year under review the Committee held 02 committee meetings. In addition to the above, more information with regard to Risk management area, were given under the Risk Management Report of this Annual Report.



Mrs. S. N. Wickramasinghe
Chairman



Mrs. Dharshani De Silva
Company Secretary

Reports of the Board Sub Committees *contd.*

Recovery Sub Committee

Composition of the Recovery Sub Committee

The Recovery Sub Committee comprises of five Directors namely, Mrs. S. N. Wickramasinghe (Non-Executive, Non Independent Director), Mr. W. J. L. U. Wijayaweera (Non-Executive, independent Director), Mrs. K. W. P. Dayaratne (Non-Executive, Independent Director), Mr. S.A.J. Samaraweera (Non-Executive, Non Independent Director) and Mr. W.D.R.D. Goonaratne (Non-Executive, Non Independent Director).

Mrs. S. N. Wickramasinghe is the Chairman of the Committee.

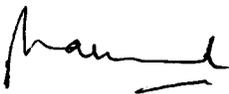
The appointment to the above Committee is made by the Board, and the Committee is responsible and report directly to the Board of Directors.

The core-responsibilities and duties of the Recovery Sub Committee

The Committee is responsible for taking appropriate decision pertaining to HDFC acquired properties.

Recovery Sub Committee Meetings

During the year under review the Committee held 04 meetings. The General Manager / CEO, Deputy General Manager (Finance) and Assistant General Manager (Recovery) attended the meetings by invitation.



Mrs. S. N. Wickramasinghe
Chairman



Mrs. Dharshani De Silva
Company Secretary

Statement of Directors' Responsibility in Relation to Financial Statement

The following statement, which should be read in conjunction with the Auditors' Statement of their responsibilities, as set out in their report, is made with a view to distinguish the respective responsibilities of the Directors and the Auditors, in relation to the financial statement.

The Directors are required by the Companies Act No. 07 of 2007, to prepare and present the financial statements for each financial year, which give a true and fair view of the state of affairs of the HDFC Bank as at the end of the financial year and of the Profit and Loss for the financial year. The Directors are required to prepare these financial statements on the going concern basis, unless it is not appropriate.

Since the Directors are satisfied that the HDFC Bank has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the said basis.

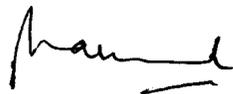
The Directors consider that in preparing the financial statements of the HDFC Bank has used appropriate accounting polices, consistently applied, and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The HDFC Banks financial statement for the year ended 31st December 2011 prepared and presented in this Annual Report in conformity with the requirements of Sri Lanka Accounting standard, the Banking Act No. 30 of 1988, amendments, companies Act No. 07 of 2007, thereto and HDFC Act No. 07 of 1997 and amendment Acts (15 of 2003, 45 of 2011).

The Directors have general responsibility for taking such steps as necessary, to safeguard the assets of the HDFC Bank and to prevent and detect fraud and other irregularities.

The Directors confirm that to the best of their knowledge all taxes, duties and levies payable by the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known Statutory dues as were due and payable by the Bank as at the Balance Sheet date have been paid, or where relevant, provided for.

On behalf of the Board



S.N. Wickramasinghe
Chairman

Colombo
22th April 2012

Audit Report



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கணக்காய்வாளர் தலைமை அறிபுதி
திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය }
My No } EF/L/HDFC/FA/2011
துலைவா }

මගේ අංකය }
No }
உமது இல }

දිනය }
திகதி } 3rd March 2012
Date }

The Chairman,
Housing Development Finance Corporation Bank of Sri Lanka.

Report of the Auditor General on the Financial Statements of the Housing Development Finance Corporation Bank for the year ended 31 December 2011 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971

The audit of financial statements of the Housing Development Finance Corporation Bank of Sri Lanka for the year ended 31 December 2011 comprising the balance sheet as at 31 December 2011 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with section 13(1) of the Finance Act, No. 38 of 1971 and Section 26(2) of the Housing Development Finance Corporation of Sri Lanka Act, No. 7 of 1997.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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කොළඹ 07, ශ්‍රී ලංකාව

දුරකථනය }
தொலைபேசி } 2691151
Telephone. }

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை

ලැක්ස් අංකය }
பக்ஸ் இல } 2697451
Fax No. }

INDEPENDENCE SQUARE,
COLOMBO 07, SRI LANKA

ඉලෙක්ට්‍රොනික් තැපෑල }
#- மெயில் } oaggov@slt.net.lk
E-mail. }

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Housing Development Finance Corporation Bank of Sri Lanka as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other Legal and Regulatory Requirements

These financial statements present the information required by the Banking Act, No. 30 of 1988 and subsequent amendments.

2.3 Report to Parliament

My report to parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

..........

H.A.S. Samaraweera

Auditor General

Income Statement

For the year ended 31st December

	Notes	2011 LKR.	2010 LKR.
For the year ended 31st December			
INCOME	01	2,374,387,904	2,250,285,534
Interest Income	02	2,249,751,663	2,164,980,599
Interest Expenses	03	(1,354,293,472)	(1,339,354,916)
Net Interest Income		895,458,190	825,625,683
Non Interest income	04	124,636,242	85,304,935
NET INCOME		1,020,094,432	910,930,618
LESS : NON INTEREST EXPENSES			
Personnel Costs	05	302,479,261	271,032,362
Provision For Staff Retirement Benefits	06	42,154,539	43,534,101
Premises Equipment & Establishment Expenses	07	132,405,372	102,417,624
Operating Expenses	08	126,382,120	95,960,949
Provision For Loan Losses	09	(78,620,333)	106,895,284
		-	-
		524,800,958	619,840,320
PROFIT BEFORE TAX		495,293,474	291,090,298
Less : VAT On Financial Services	10	81,005,187	102,183,159
PROFIT BEFORE CORPORATE TAX		414,288,287	188,907,139
Less : Provision For Income Tax	11	104,636,708	53,566,201
PROFIT FOR THE YEAR		309,651,579	135,340,938
Earnings Per Share (LKR)	12	47.85	20.90
Dividend Per Share (LKR)			5.00

Balance Sheet

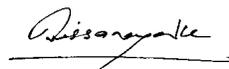
As At 31st December

	Notes	2011 LKR.	2010 LKR.
ASSETS			
Cash and Short Term Funds	13	199,097,283	84,272,237
Balance With Central Bank		328,979,397	322,639,397
Investment in Government Securities & Others	14	2,371,317,068	1,512,767,857
Investment in Commercial Papers	15	1,060,429,214	-
Loans And Advances	16	14,594,237,447	12,519,441,011
Interest Receivable	17	43,610,758	48,794,664
Investment Securities	18	30,600	30,600
Investment in Subsidiaries	19	-	-
Deferred Tax	20	17,569,657	16,906,527
Other Assets	21	319,203,468	126,503,441
Property, Plant & Equipment	22	763,249,335	755,666,901
TOTAL ASSETS		19,697,724,227	15,387,022,634
LIABILITIES			
Deposits from customers	23	12,336,016,318	8,526,333,710
Borrowings	24	3,555,867,320	3,629,132,443
Taxation Payable	25	45,573,142	13,185,967
Other liabilities	26	1,635,183,666	1,369,707,836
		17,572,640,446	13,538,359,956
SHAREHOLDERS' FUND			
Stated Capital	27	962,092,936	962,092,936
Reserves	28	1,162,990,845	886,569,740
		2,125,083,782	1,848,662,676
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS		19,697,724,227	15,387,022,634
Net assets value per ordinary share Rs.		328.40	285.70

The Significant Accounting policies and Notes on pages 206 to 222 form an integral part of these Financial Statements. These financial statements have been prepared in accordance with the Sri Lanka accounting standards.

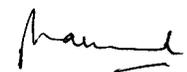


D. Vidana Pathirana
AGM - Finance & Planning



S. Dissanayake
CEO/General Manager (Acting)

The Board of Directors are responsible for the preparation and presentation of these Financial Statements, which were approved by the Board of Directors and signed on their behalf,



Ms. S. N. Wickramasinghe
Chairman



A. J. Aloyius
Director

Cash Flow Statement

For the year ended 31st December

	2011 LKR	2010 LKR
Cash flows from operating activities		
Interest Received	2,254,935,569	2,184,172,183
Interest payments	(1,054,218,343)	(1,490,839,784)
Receipt from other operating activities	113,011,850	85,299,935
Cash payments to employees & suppliers	(423,404,161)	(379,413,862)
Payments on other operating activities	(195,781,542)	(199,549,014)
Operating profit before changes in operating assets	694,543,373	199,669,458
(Increase)/Decrease in operating assets :		
Funds Recovered from customers	2,676,093,783	1,895,824,198
Funds advanced to customers	(4,672,588,403)	(2,925,210,203)
Subsidiary - HDFC RED Loans		(2,786,509)
Other Assets	(192,700,027)	36,478,225
	(2,189,194,647)	(995,694,289)
Increase / (Decrease) in operating liabilities		
Deposits from customers	3,809,682,607	1,588,125,908
Others	(42,941,518)	(96,372,376)
	3,766,741,089	1,491,753,532
Net cash from operating activities before income tax	2,272,089,816	695,728,701
Income tax & deemed dividend tax paid	(84,535,283)	(29,012,868)
Net cash from operating activities	2,187,554,533	666,715,833
Cash flows from investing activities		
Dividends received	15,000	5,000
(Purchase)/Sale of investment securities	(1,060,429,214)	94,061,196
Purchase of property, plant and equipments (Refer Note 22)	(92,375,555)	(78,407,472)
Disposal of property, plant and equipment (Refer Note 22)	50,535,077	573,484
Net cash from Investing activities	(1,102,254,692)	16,232,208
Cash flows from financing activities		
Issue/(Redemption) of Shares		-
Redemption of Contribution towards Share Capital	-	-
Repayment of Borrowings	(1,479,553,229)	(1,052,077,646)
Proceeds from Borrowings	1,406,288,106	682,860,459
Dividends paid	(32,320,460)	(32,409,560)
Net cash from financing activities	(105,585,583)	(401,626,748)
Net increase in cash & cash equivalents	979,714,258	281,321,293
Cash & cash equivalents at beginning of the period	1,919,679,491	1,638,358,198
Cash & cash equivalents at the end of the period	2,899,393,749	1,919,679,491
Reconciliation of cash and cash equivalents		
Cash & short term funds	199,097,283	84,272,237
Government of Sri Lanka Treasury Bills, Bond / Bank Placements	2,700,296,466	1,835,407,254
	2,899,393,749	1,919,679,491

Statement of Change in Equity

LKR	No of Shares	Share Capital	Share Premium	General Reserve	Revaluation Reserve	Statutory Reserve Fund	Special Reserves	Investment Fund	Profit & Loss Accounts	Total
Balance as at 01.01.2010	6,471,052	647,105,200	314,987,736	5,645,040	43,767,910	39,621,771	3,451,125	-	698,976,292	1,753,555,074
Net Profit for the period									135,340,939	135,340,939
Surplus on Revaluation					(7,878,228)					(7,878,228)
Dividend Paid (Refer No 29)									(32,355,110)	(32,355,110)
Issue/(Redemption) of Shares										-
Transfer to Reserve				13,534,094		6,767,047			(20,301,141)	-
Balance as at 31-12-2010	6,471,052	647,105,200	314,987,736	19,179,134	35,889,682	46,388,818	3,451,125	-	781,660,980	1,848,662,675
Balance as at 01.01.2011	6,471,052	647,105,200	314,987,736	19,179,134	35,889,682	46,388,818	3,451,125	-	781,660,980	1,848,662,675
Net Profit for the period									309,651,579	309,651,579
Surplus on Revaluation					(875,364)					(875,364)
Dividend Paid (Refer No 29)									(32,355,110)	(32,355,110)
Issue/(Redemption) of Shares										-
Transfer to Reserve				30,965,158		15,482,579		53,826,761	(100,274,498)	-
Balance as at 31-12-2011	6,471,052	647,105,200	314,987,736	50,144,292	35,014,318	61,871,397	3,451,125	53,826,761	958,682,951	2,125,083,781

Accounting Policies

Corporate Information

1. Reporting Entity

HDFC Bank of Sri Lanka has been incorporated in Sri Lanka as a Building Society in 1984 under section 11 of the National Housing Act of 1956. Subsequently converted to a corporation under the Housing Development Finance Corporation of Sri Lanka Act.No.7 Of 1997 and obtained the status of a specialized bank under Housing Development Finance Corporation Bank of Sri Lanka (Amendment) Act No 15of 2003. HDFC bank's Head office is located at NHDA secretariat Colombo-02, Sri Lanka.

2. Principal Activities and Nature of Operations

The principal business activities of HDFC Bank during the year were granting loans and other forms of financial assistances related to housing purposes.

3. Accounting Convention

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement are drawn up in conformity with Generally Accepted Accounting Principles and the Accounting Standards laid down by The Institute of Chartered Accountants of Sri Lanka applied consistently on a historical cost basis, with no adjustments being made for inflationary factors affecting these accounts. The financial statements are presented in Sri Lanka Rupees.

Sri Lanka Accounting Standards with the international Financial reporting standards ,all exiting Sri Lanka accounting standard will be prefixed as

SLFRS or LKAS which refer to SLAS corresponding to IFRS or IAS, respectively .The council of The Institute of Chartered Accountants of Sri Lanka has mandated all specified business enterprises to adopt these new Accounting

Standards effective for financial periods beginning on or after January 1,2012.

Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard No – 3 (Revised 2005) on "Presentation of Financial Statements"

Format of Accounts and Prior year Figures

Financial statements are presented in accordance with the format of accounts prescribed by the Central Bank of Sri Lanka and The Accounting Policies adopted by the bank is consistent with those of the previous financial year as permitted by the Sri Lanka Accounting Standard No .03 (Revised 2005) on "Presentation of Financial Statements" However,when the presentation or classification of items in the Financial Statements is amended, comparative amounts are also re-classified to conform with the current year in order to provide a better presentation.

4. Valuation of Assets

4.1 Loans and Advance to Customers:

Loans and Advances to customers are stated in the balance sheet net of provisions for possible loan losses, and net of interest which is not accrued to revenue.

4.2 Provision for Loan Losses

Provision for possible loan losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of the Banks' and the Directions issued by The Central Bank of Sri Lanka as detailed below.

4.2.1 Specific Provisions

Specific provisions for possible loan losses are made in accordance with the aforesaid Directions issued by The Central Bank of Sri Lanka and disclosures are made as required by the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of Banks'. As per the above Directions, the Banks are required to make specific provisions as shown in the table below.

Period Outstanding	Classification	Provisioning %
6 - 12 months	Substandard	20%
12- 18 Months	Doubtful	50%
18 Months and over	Loss	100%

In addition, the value of security is further discounted on the 'Hair Cut Rule' imposed by the Central Bank of Sri Lanka, i.e., the extent up to which the Forced Sale Value (FSV) of immovable property that can be considered (as is given below) to arrive at the value of security in determining the provisioning for non-performing advances.

EPF& Cash Margin Loans

No Special provision made for the loans granted against the EPF & cash deposit Balances.

Acquired Properties for Sale

Properties mortgaged by HDFC Bank are auctioned if the customers default and the properties which are not disposed at such auctions are recognized as acquired properties of which are presented under the loans & advances.

4.2.2 Statutory General Provisions

General provision is reduced at the rate of 0.1% per quarter on the total of performing and special mention loans and advances portfolio net of interest in suspense and advances secured by cash deposits, gold or Government Securities with the Bank, over 5 quarters commencing from fourth quarter 2010, as per paragraph 6 (1) (l) of the Direction No. 03 of 2010, issued by the Central Bank of Sri Lanka. Accordingly, the Bank will fulfill the above requirement to reduce the general provision to 0.5% on total performing and special mention loans and advances portfolio by January 1, 2012.

4.2.3 Provision for Investment

The full provision has been made for investment in share on which dividends or interest has not been received for the last three consecutive years. as per SLAS 33.

4.2.4 Treasury Bills & Bonds

Investment in treasury bills and Bonds are stated at cost plus interest receivable

4.3 Property, Plant & Equipment

Sri Lanka Accounting Standard No. 18 (Revised 2005) on 'Property, Plant & Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used during more than one year.

4.3.1 Basis of Recognition

Property, Plant & Equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the bank and cost of the asset can be reliably measured.

4.3.2 Basis of Measurement

Fixed Assets are recorded at cost or at valuation together with any directly attributable cost of bringing the assets to working condition. The property and equipments are stated at cost less accumulated depreciation, which is provided for on the basis specified in (4.3.3) below. No fresh valuations called during the year under review,

4.3.3 Depreciation Policy

Depreciation is provided at the following rates on a straight-line basis over the estimated lives of different types of assets.

Class of Assets	% per Annum
Buildings	6 2/3
Office Equipment	12.50
Furniture & Fittings	10.00
Motor Vehicles & Bicycles	20.00
Plant and Machinery	25.00
Tools & Equipment	12.50
Computer Equipment & ATM	12.50
Computer software -Foreign	25.00
Computer software -Local	25.00

Total annual depreciation is provided on the assets which are purchased and used for the year and no depreciation is provided for the year of disposal. Depreciation is not provided for the freehold lands

Accounting Policies *contd.*

5. Liabilities and Provisions

5.1 Deposits From Customers

Deposits from customers include non-interest bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. They are stated in the Balance Sheet at amounts payable. Interest paid/payable on these deposits is charged to the Income Statement.

5.2 Borrowings

Borrowings include refinance borrowings, call money borrowings, and borrowings from financial institutions and are shown at the gross value of the outstanding balance. They too are stated in the Balance Sheet at amounts payable. Interest paid/payable on these borrowings is charged to the Income Statement.

5.3 Gratuity

Provision is made in the accounts for retirement gratuities payable under the Payment of Gratuities Act No.12 of 1983 for employees from the time of joining the bank. The item is grouped under other liabilities in the Balance Sheet. The Special Gratuity provision as per the collective agreement with CBEU for Special employees who have completed more than 15 years staff at HDFC Bank has been provided on actual basis and the future increases will be provided for the accounts from 2012. No actuarial valuation has been obtain for the year 2011.

5.4 Employees' Provident Fund

The Bank and employees contribute to the employees' Provident Fund at 12% and 8% on the salaries of each employee, respectively.

5.5 Employees' Trust Fund

The Bank contribute at the rate of 3.0% of the salaries of each employee to the Employees Trust Fund .

5.6 Other Liabilities

Other liabilities include interest, fees and expenses and amounts payable for gratuity/pensions and other provisions. These liabilities are recorded at amounts expected to be payable at the Balance Sheet date.

06. Revenue Recognition

6.1 Interest Income on Loans and Advances

Interest income is recognized on an accrual basis. Interest ceases to be taken to revenue when loans are in performing.

6.2 Revenue Recognition on Non-Performing Loans

When loans and advances are classified as non-performing as per the CBSL guidelines. The interest ceases to be recognized and thereafter, interest income on these loans and advances is recognized on a cash basis, until the facility is reclassified as performing. Interest falling due on non-performing loans and advances is credited to interest in suspense account which is netted in the Balance Sheet against the relevant interest receivable

6.3 Over due Interest Income

Over due interest for late payment of loan installment is recognized on a cash basis for the loans.

6.4 Income from Government Securities and

Investment

Discounts/premiums on Treasury Bills and Treasury Bonds are amortized over the period to reflect a constant periodic rate of return.

6.5 Other Income

Commission income are recorded on accrual basis and Other incomes are recognized on the cash basis.

7. Expenses

7.1 Interest on Deposits, Borrowings

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks', the Interest on Deposits and Borrowings and other fund-based expenses payable are recognized on an accrual basis in the Income Statement.

7.2 Other Expenses

All expenditures incurred in operations and in maintaining the Properties, Plants and Equipment's in a state of efficiency are charged to the Income statement in arriving at the profit or loss for the year are recognized on accrual basis.

8. Taxation

Income tax expense comprises current and deferred income tax and Social Responsibility Levy. Income tax expense is recognized in the Income Statement except to the extent it relates to items

recognized directly in Equity, in which case it is recognized in Equity

8.1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, the note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard No. 14 (Revised 2005) on 'Income Taxes'

8.2 Deferred Taxation

Deferred taxation is provided on the liability method. The tax effect of timing differences which occur where items are allowed for income tax purposes in a period different from that when they are recognized in financial statements is included in the provision for deferred taxation at current rate of taxation.

8.3 Social Responsibility Levy (SRL)

As per the provisions of the Finance Act No. 5 of 2005, and amendments thereto, the SRL was introduced with effect from January 01, 2005. Currently, the SRL is payable at the rate of 1.5% on the Corporate tax liability.

8.4 Value Added Tax on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of Value Added Tax charged in determining the profit for the period is given in the Financial Statements.

9. Cash Flow Statement

The Cash Flow Statement has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard No. 9 on 'Cash Flow Statements', whereby gross cash receipts and gross cash payments on operating activities, investing activities and financing activities are recognized. Cash and Cash Equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

10. Statutory Reserve Fund

5% of the net profit after tax is transferred to the Statutory Reserve fund as per CBSL Direction.

General Reserve Fund

10% of the net profit after tax is transferred to the General Reserve fund as per the HDFC Act.

11. Dividends on Ordinary Shares

Dividends on Ordinary Shares are recognized as a liability and deducted from equity when they are approved by the Bank's Shareholders.

Dividends on Ordinary Shares for the year that are recommended by the Directors after the Balance Sheet date for approval of the Shareholders at the Annual General Meeting are disclosed in Note 29 to the Financial Statements.

12. Earnings Per Share

Basic EPS is calculated by dividing the profit or loss attributable to Ordinary Shareholders of the Bank by the weighted average number of Ordinary Shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to the Ordinary Shareholders by the weighted average number of Ordinary Shares outstanding adjusted for the effects of all dilutive potential Ordinary Shares.

Notes to the Financial Statements

	2011 Rs.	2010 Rs.
01 Income		
Interest income (Refer Note 02)	2,249,751,663	2,164,980,599
Other income (Refer Note 04)	124,636,242	85,304,935
	2,374,387,904	2,250,285,534
02 Interest Income		
Loans & advances	2,044,175,779	1,971,071,127
Treasury Bills ,Bonds & Central Bank Deposits	77,875,633	133,995,449
Placements With Banks & Financial Institutions	127,700,251	59,914,023
	2,249,751,663	2,164,980,599
03 Interest Expenses		
Interest on Subordinate Loans	7,911,715	12,176,464
Interest on Special Scheme Loans	42,521,820	46,429,904
Interest on Refinanced Loans	73,921,223	104,756,889
Interest on Borrowings from the Market	144,586,993	191,220,086
Interest on Dhananidana / Ashcharya	282,345,054	210,973,428
Interest on Deposits	803,006,666	773,798,145
	1,354,293,472	1,339,354,916
03.1 Long Term Borrowing		
Debentures	259,289,588	323,711,195
Deposits	9,652,164	30,872,148
	1,085,351,720	984,771,573
	1,354,293,472	1,339,354,916
04 Non interest Income		
Dividend income	15,000	5,000
Fee and commissions income	72,392,707	50,474,818
Unit Trust Income	-	24,500,040
Assets Disposal Profit	48,518,517	2,692,914
Miscellaneous	3,710,017	7,632,163
	124,636,242	85,304,935
05 Personnel Cost		
Salaries	229,679,854	206,275,779
Overtime & Officers Allowance	10,584,466	7,089,920
Bonus	34,436,050	33,809,173
Staff Medical	16,305,476	14,218,218
Encashment of Annual Leave	8,006,379	7,972,149
Incentive Payments	3,467,036	1,667,123
	302,479,261	271,032,362

	2011 Rs.	2010 Rs.
06 Provision for Staff Retirement Benefit		
Gratuity provision	9,441,555	14,699,258
EPF & ETF	32,712,985	28,834,843
	42,154,539	43,534,101
06.1 Remuneration of Key Management		
Total Salary of Key Management	19,564,946	18,285,018
Provision for Retirement Benefits	2,527,971	2,907,970
	22,092,917	21,192,988
07 Premises Equipment & Establishment Expenses		
Electricity & Water	14,490,009	12,599,018
Telephone Charges	17,959,332	14,330,521
Computer maintenance	10,996,715	6,688,201
Rent	40,872,204	34,906,665
Repairs & Maintenance	2,584,318	2,099,484
	86,902,578	70,623,890
Depreciations		
Building	372,566	407,136
Office Equipment	4,789,001	5,426,643
Furniture & Fittings	9,402,112	6,199,920
Plant & Machinery	3,169,802	1,468,461
Motor Vehicles	8,125,439	5,040,997
Automated Teller Machine	2,541,875	2,541,870
Computer Software - Local	581,196	
Computer Software - Foreign	7,118,383	3,906,782
Computer Equipment	9,402,420	6,801,925
	45,502,793	31,793,734
	132,405,372	102,417,624
08 Operating Expenses, among others, include the following		
Chairman's Emoluments	630,000	510,667
Directors' Emoluments	1,744,900	563,000
Auditors' Remuneration	327,800	211,312
Donations	1,791,557	547,100
Business Dev. & Advertising	21,501,684	18,560,548
Legal Expenses	1,523,161	285,431
Professional Charges	777,500	2,441,320
Others Operating Expenses	98,085,518	72,841,571
	126,382,120	95,960,949
09. Provision for losses		
General Provisions for Loans	(31,643,637)	(4,823,847)
Special Provisions for Loans	(46,976,696)	111,719,131
	(78,620,333)	106,895,284

Notes to the Financial Statements contd.

	2011 Rs.	2010 Rs.
10 VAT on Financial Servises		
Total Value Addition	712,347,633	554,246,546
Value Addition Attributable for Financial Services	674,959,628	533,235,894
Finance VAT %	12.00%	20.00%
VAT on Financial Servises For Current year	80,995,155	106,647,179
Under (Over) Provision in Previous Years	10,032	(4,464,019)
	81,005,187	102,183,159
11 Taxation on Profits on Ordinary Activities		
Current year income tax	79,441,776	56,155,585
Transfer To / from Differed taxation	(663,130)	(374,684)
(Over) / Under provision in previous year	25,858,062	(2,214,700)
	104,636,708	53,566,201
11.1 Reconciliation of Effective Tax Rate		
Accounting Profit	414,288,287	188,907,140
Add :Disallowable Expenses	154,289,347	155,138,935
Less :Allowable Expenses	177,238,837	67,417,579
Adjusted Profit Before Tax	391,338,797	276,628,496
Income tax	104,636,708	53,566,201
Effective tax rate	25.26%	28.36%
11.2 Relationship Between Tax Expense and Accounting Income		
Profit Before Tax as per the Income Statement	495,293,474	291,090,298
Add :Disallowable Expenses	73,284,160	57,779,623
Less :Allowable Expenses	(177,238,837)	(72,241,426)
Taxable Income	391,338,797	276,628,496
Tax @ 20%	78,267,759	55,325,699
Social Responsibility levy @ 1.5%	1,174,016	829,885
Under (Over) Provision	25,858,062	(2,214,700)
Less : Differed Tax Adjustments	(663,130)	(374,684)
Provision for income Tax	104,636,708	53,566,201
12 Earnings Per Share		
Basic Earnings Per Share is Calculated by Dividing the Net Profit After Tax by the Weighted Average Number of Ordinary Shares.		
Net Profit After Tax	309,651,579	135,340,938
Weighted Average Number of Ordinary Shares	6,471,052	6,471,052
Basic Earnings per Share (Rs.)	47.85	20.91

	2011 Rs.	2010 Rs.
13. Cash and Short Term Funds		
Cash in Hand	91,605,426	51,728,475
Balances With Banks	107,491,857	32,543,762
	199,097,283	84,272,237
14. Investment in Government Securities & Others		
Treasury Bonds/ Treasury Bill	34,913,933	
Treasury Bills Under Repurchase Agreement	50,000,000	1,173,934,598
Fixed Deposits	2,286,403,135	338,833,259
	2,371,317,068	1,512,767,857
15. Investment Securities		
Investment in Commercial Papers	1,060,429,214	
	1,060,429,214	-
16. Loans & Advances		
Housing Loans Secured by Primary Mortgage Over Residential Properties	7,018,613,577	6,745,717,227
Housing Loans Against EPF	6,026,594,390	4,332,516,006
Housing Loans on Guarantors & Others	1,082,310,072	958,569,934
Staff Loans	415,015,203	270,753,657
Acquired Properties	46,931,529	56,627,423
HDFC RED Loan	-	243,444,099
Loan to NHDA	-	42,744
Project Loans / Block Loans	125,200,952	215,889,498
Gross Loans & Advances (Refer Note 16.6 ,16.7 &16.8)	14,714,665,721	12,823,560,588
Less : Loan loss provision -General (Refer Note 16.1)	58,007,306	89,650,943
-Specific (Refer Note 16.2)	62,420,968	214,468,634
	14,594,237,447	12,519,441,011
Movements in the Provisions for Loan Losses		
16.1 General Provision		
Balance as at 1st January	89,650,943	94,474,789
Amount Provided	(31,643,637)	(4,823,846)
Balance as at 31st December	58,007,306	89,650,943
16.2 Specific Provision		
Balance as at 1st January	214,468,634	104,513,757
Amount Provided	9,983,914	126,793,155
Amount Reversed	(162,031,580)	(16,838,278)
Balance as at 31st December	62,420,968	214,468,634

Notes to the Financial Statements *contd.*

	2011 Rs.	2010 Rs.
16.3 Non performing assets including loans and advances		
Loans and advances	3,281,423,584	2,840,383,217
Less : Loan loss provision - General	58,007,306	89,650,943
- Specific	62,420,968	214,468,634
	3,160,995,309	2,536,263,640
16.4 Provision Cover - Gross (Excluding EPF Loans)		
Loan Loss provision	120,428,274	304,119,577
Non Performing Loans & Advances X 100	1,006,526,116	1,098,483,597
Provision Cover - Gross	11.96%	27.69%
16.5 Provision Cover - Net (Excluding EPF Loans)		
Loan Loss provision	120,428,274	304,119,577
Net Non Performing Loans & Advances X 100	886,097,841	794,364,020
Provision Cover - Net	13.59%	38.28%
16.6 Purpose Wise Analysis of Gross Lending Portfolio		
Construction	10,874,592,766	9,438,369,969
Purchase & Construction	34,403,565	35,900,580
Purchase of House	2,522,169,053	2,410,101,367
Redemption & Constructions	353,416,178	288,488,092
Redemption	158,550,238	139,235,681
Renovation	281,407,049	182,260,741
Other	490,126,872	329,204,158
	14,714,665,721	12,823,560,588
16.7 Province Wise Analysis of Gross Lending Portfolio.		
Western	8,026,303,474	7,335,337,260
Central	1,579,996,836	1,265,809,684
Southern	1,318,534,868	1,117,042,535
North Western	1,234,045,996	1,001,770,783
Sabaragamuwa	1,197,717,248	1,063,570,761
Uva	538,850,894	453,480,536
North Central	424,070,278	383,458,988
Eastern	349,097,488	187,999,338
Northern	46,048,640	15,090,703
	14,714,665,721	12,823,560,588

	2011 Rs.	2010 Rs.
16.8 Year Wise Analysis of Gross Lending Portfolio .		
Over 10 Years	421,114,995	615,473,013
9 - 10 Years	374,816,042	337,966,996
7 - 8 Years	1,344,456,176	1,102,004,998
5 - 6 Years	2,638,359,372	2,133,981,052
3 - 4 Years	2,556,387,344	3,831,941,884
1 - 2 Years	3,194,123,586	2,284,449,592
Current Year	4,185,408,206	2,517,743,053
	14,714,665,721	12,823,560,588
17. Interest Receivable		
Interest Receivable	353,843,080	380,533,582
Less : Interest in Suspense	(310,232,322)	(331,738,918)
	43,610,758	48,794,664
17.1 Movements in the Provisions for Loan Losses & Interest in Suspense		
Balance as at 1st January	331,738,618	330,263,153
Interest Suspended During the Year	434,552,900	401,820,421
Amount Recovered	(456,059,195)	(400,344,956)
Balance as at 31st December	310,232,322	331,738,618
18 Investment Securities		
Credit Information Bureau of Sri Lanka	30,600	30,600
	30,600	30,600
19. Investment in Subsidiaries -		
HDFC Real Estate Development Ltd.	25,000,000	25,000,000
Less : Provision End of previous Year	(25,000,000)	(25,000,000)
	-	-
20 Deferred Tax		
Balance as at 1st January	16,906,527	16,535,402
Amount Originating / (Reversing) During the Year	663,130	371,125
Balance as at 31st December	17,569,657	16,906,527

Notes to the Financial Statements *contd.*

	2011 Rs.	2010 Rs.
21. Other Assets		
Stationery and Consumable Items Stock	5,170,810	5,883,175
Deposits and prepayments	30,464,443	31,353,409
Avisawella Housing Project	179,310,709	-
Legalinc Trustee Service Pvt Ltd (ESOP)	49,842,936	49,842,936
Receivable	54,414,569	39,423,921
	319,203,468	126,503,441

The Avisawella Housing project has been stated at cost or market value whichever is lower.

22. Property, Plant & Equipment

	Balance as at 1st January 11	Additional For the Period	Disposal During the Period	2011 Rs.	2010 Rs.
Freehold Lands (Refer Note 22.1)	549,740,000	-	36,503,000	513,237,000	549,740,000
Leasehold Lands	54,121,772	0	875,364	53,246,408	54,121,772
Office Equipment	36,906,411	6,717,127	1,175,070	42,448,468	36,906,411
Building	6,106,808	-	259,129	5,847,679	6,106,808
Furniture & Fittings	60,010,389	34,264,855	701,385	93,573,859	60,010,389
Plant & Machinery	6,148,797	6,752,939	-	12,901,735	6,148,797
Motor Vehicles	34,222,630	19,292,680	10,984,130	42,531,180	34,222,630
Tools	33,446	0	-	33,446	33,446
Automated Teller Machine	20,334,978	0	-	20,334,978	20,334,978
Computer Software - Local	-	2,324,784	-	2,324,784	-
Computer Software- Foreign	15,627,130	12,846,400	-	28,473,530	15,627,130
Computers	84,950,884	10,176,770	37,000	95,090,654	84,950,884
	868,203,244	92,375,555	50,535,077	910,043,722	868,203,244

Accumulated Depreciations	Balance as at 1st January 11	Additional For the Period	Disposal During the Period	2011 Rs.	2010 Rs.
Freehold Lands	-	-	-		
Leasehold Lands	3,281,776	364,642	-	3,646,418	3,281,776
Office Equipments	16,559,879	4,789,001	800,003	20,548,877	16,559,879
Building	624,889	372,566	-	997,455	624,889
Furniture & Fittings	13,023,660	9,402,112	357,822	22,067,950	13,023,660
Plant & Machinery	3,154,958	3,169,802	-	6,324,760	3,154,958
Motor Vehicles	24,108,127	8,125,439	10,426,130	21,807,436	24,108,127
Tools	33,446	-	-	33,446	33,446
Automated Teller Machines	5,382,989	2,541,875	-	7,924,864	5,382,989
Computer Software - Local	-	581,196	-	581,196	-
Computer Software- Foreign	3,906,782	7,118,383	-	11,025,165	3,906,782
Computers	42,459,839	9,402,420	25,438	51,836,822	42,459,838
	112,536,344	45,867,435	11,609,391	146,794,387	112,536,344
Net Book Value as at 31st December				763,249,335	755,666,901

Property, Plant & Equipments	Balance as at 1st January 10	Additional For the Period	Disposal During the Period	2010 Rs.
Freehold Lands	549,740,000	-	-	549,740,000
Leasehold Lands	62,000,000	-	7,878,228	54,121,772
Office Equipment	37,589,702	7,241,829	7,925,121	36,906,411
Building	3,266,621	2,840,187	-	6,106,808
Furniture & Fittings	40,530,587	23,151,024	3,671,222	60,010,389
Plant & Machinery	3,783,707	2,367,790	2,700	6,148,797
Motor Vehicles	37,964,406	-	3,741,776	34,222,630
Tools	33,446	-	-	33,446
Automated Teller Machine	12,092,936	8,242,042	-	20,334,978
Computer Software - Local	-	-	-	-
Computer Software- Foreign	15,627,130	-	15,627,130	-
Computers	71,838,005	18,656,153	5,543,273	84,950,884
	818,839,410	78,126,155	28,762,320	868,203,245
Accumulated Depreciations	Balance as at 1st January 10	Additional For the Period	Disposal During the Period	2010 Rs.
Freehold Lands	-	-	-	-
Leasehold Lands	3,281,776	-	3,281,776	-
Office Equipments	20,200,989	5,426,643	9,067,753	16,559,879
Building	217,753	407,136	-	624,889
Furniture & Fittings	10,424,856	6,199,920	3,601,116	13,023,660
Plant & Machinery	1,676,087	1,478,871	-	3,154,958
Motor Vehicles	23,025,007	5,040,996	3,957,876	24,108,127
Tools	33,446	-	33,446	-
Automated Teller Machines	2,841,119	2,541,870	-	5,382,989
Computer Software - Local	-	-	-	-
Computer Software- Foreign	3,906,782	-	3,906,782	-
Computers	39,760,321	6,801,925	4,102,408	42,459,838
	98,179,578	35,085,919	20,729,153	112,536,344
Net Book Value as at 31st December				755,666,901

Notes to the Financial Statements *contd.*

22.1 Information on the Freehold Land.

Location	Extent (Perches)	Deed No	2011	2010
No. 441 Sangarajah Mw, Aluthkade East	59.2	1127	153,919,000	153,919,000
No.192 Srimath Bandaranayake Mw, Kotahena Colombo 13.	123.2	1124	320,319,000	320,319,000
No.192 (Part) Sri Sangarajah Mawatha, Kotahena Colombo 13.	15	1126	38,999,000	38,999,000
No 9,47th Lane A, Wellawatta.	27	1125	-	36,503,000
			513,237,000	549,740,000

23. Deposits from Customers

Savings Deposits			1,544,965,604	1,042,180,827
Fixed Deposits			9,183,123,090	6,659,585,274
Certificate -Dhananidana			1,607,263,623	823,405,609
Others Deposits			664,000	1,162,000
			12,336,016,318	8,526,333,710

23.1 Analysis of Deposits

Deposits From Non-Bank Customers			9,215,252,364	7,626,333,710
Deposits from Banks			3,120,763,954	900,000,000
			12,336,016,318	8,526,333,710

24. Borrowings

Re-Finance & Subordinate			2,135,730,904	2,402,613,327
Debentures (Refer Note 24.2)			195,000,000	395,000,000
Borrowing from the Market			1,164,156,085	773,347,499
Bank Overdraft			60,980,330	58,171,616
			3,555,867,320	3,629,132,443

24.1 Due Within One year

1-5 Years			565,222,212	1,303,652,945
After Five Years			1,744,357,056	2,134,087,501
			1,246,288,051	191,391,997
			3,555,867,320	3,629,132,443

24.2 Allotment	Date Maturity Date	Interest Payable Frequency	Interest Rate	2011	2010
Fixed Rate :					
December 2005	December 2015	Annually	2.50%	85,000,000	85,000,000
December 2005	December 2020	Annually	2.50%	110,000,000	110,000,000
Floating Rate :					
June 2007	June 2011	Semi - Annually	WAGTB + 1.75%	-	200,000,000
				195,000,000	395,000,000

	2011 Rs.	2010 Rs.
25. Provision For Taxation and Deemed Dividend Tax		
Taxation - current	37,915,772	1,480,321
VAT Payable	22,243,950	8,988,265
Debit & PAYE Tax	1,084,316	2,717,381
WHT Received	(15,670,895)	-
	45,573,142	13,185,967
26. Other Liabilities		
Provision for Gratuity (Refer Note 26.1)	108,993,663	102,707,663
Accrued expenditure	1,290,188,726	988,057,380
Dividend Payable	-	(34,650)
Long Term Funds (LLPS/TPF/PHDA)	23,493,062	25,511,000
Advance Received against Loan	176,208,009	180,935,000
Unidentified Customer Deposit Account	4,074,880	6,163,000
Lease Creditors	3,483,419	5,301,000
Other Creditors	28,741,907	61,067,443
	1,635,183,666	1,369,707,836
26.1 Provision for Gratuity		
Balance as at 1st January	102,707,663	91,045,684
Provisions Made During the Year (Refer Note 6)	9,441,555	14,699,258
Payments Made During the Year	3,155,554	3,037,279
Balance as at 31st December	108,993,663	102,707,663
	-	-
27. Share Capital		
Authorized capital (20,000,000 ordinary shares of Rs. 100/- each)	2,000,000,000	2,000,000,000
Stated Capital (6,471,052 ordinary shares of Rs. 100/- each)	962,092,936	962,092,936

27.2 Share holding of Staff under ESOP

The number of shares being held by Legalinc Trustee Services (Pvt) Ltd, Colombo 10 as the trustee of Employees Share Option Plan (ESOP) is 348,552, for which Rs, 49,842,976 is receivable.

The above number of shares under ESOP had been understated by 30 shares and upon advice of Trustee via CSE it was restate together with the comparative figures in 2010.

Notes to the Financial Statements *contd.*

	2011 Rs.	2010 Rs.
28. Reserves		
Statutory Reserve Fund	61,871,397	46,388,818
Investment fund	53,826,761	-
General Reserve	50,144,292	19,179,134
Special Reserve	3,451,125	3,451,125
Revaluation Reserve	35,014,318	35,889,682
Other Reserves	958,682,952	781,660,981
	1,162,990,845	886,569,740

29. Dividends

	(Paid during 2011)	(Paid during 2010)
Net Dividends Paid to the Ordinary Shareholders	29,119,599	29,119,599
Withholding Tax Deducted at Source	3,235,511	3,235,511
Gross Dividends	32,355,110	32,355,110

30. Maturity Analysis

An analysis of the interest bearing assets and liabilities based on the remaining period at the Balance sheet date to the respective contractual maturities as at 31st December 2011 is as follows.

(LKR.000')	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Assets						
Cash	91,605					91,605
Due from Banks	107,492					107,492
Investments	547,512	3,179,446			33,798	3,760,756
Loans & Advances	709,026	974,284	3,059,509	2,752,779	7,142,250	14,637,848
Fixed Assets					763,249	763,249
Other Assets	35,895	67,010	26,447	8,749	198,672	336,773
Total Assets	1,491,530	4,220,740	3,085,956	2,761,528	8,137,966	19,697,724
Percentage 31st Dec 2011	7.57	21.43	15.67	14.02	41.31	100.00
Percentage 31st Dec 2010	16.11	8.20	16.35	15.04	44.30	100.00
Liabilities						
Total Capital Fund					2,125,079	2,125,083
Deposits	3,957,724	6,019,808	1,938,591	166,447	253,446	12,336,016
Borrowings	182,003	383,219	909,671	834,686	1,246,288	3,555,867
Other Liabilities	385,969	367,473	733,770	28,976	164,569	1,680,757
Total Liabilities	4,525,696	6,770,500	3,582,033	1,030,109	3,789,382	19,697,724
Percentage 31st Dec 2011	22.98	34.37	18.19	5.23	19.24	100.00
Percentage 31st Dec 2010	25.88	30.12	16.48	4.57	22.95	100.00

31. Directors Interests in Contracts with the Bank

None of the Directors possess any material interest on any transaction or proposed contract involving HDFC Bank of Sri Lanka except for the disclosures in Note 32 of the Accounts.

32.1 Related Party Transactions

Further the HDFC Bank (the Parent) has purchased the Avissawella Housing project at book value of Rs.178Mn which was set off against the receivable amount of Rs 246Mn from the subsidiary and further Rs.37.3Mn was paid to NHDA for their land ownership which is also a related party of the Bank. The Market Value of the property is Rs.181Mn.

Name	Related party	Office Holding	Transactions	Nature of Transactions	% Regulatory Capital
Mr. S. Dissanayake (GM/CEO)	HDFC RED Ltd.	Managing Director	Rs. 178 Mn	01/ Acquisition of Avissawella Housing Project	8.55%
Mr. A.M. Chandrasagara		Director	Rs. 246 Mn	02/HDFC current account balance which was set off against the Avissawella housing project Rs. 178 Mn	11.82%
Mr. S.A.J. Samaraweera - Director HDFC	National Housing Development Authority	Chairman	Rs. 17 Mn	Rent paid for Head office Building.	0.82%
Mr. W.D.R.D. Goonaratne - Director HDFC		Director	Rs. 37.3 Mn	Purchase the land of Avissawella housing Project.	1.92%

32.2.1 Liquidation of the Subsidiary –HDFC RED Ltd.

The HDFC RED Ltd was incorporated in 2005 with the objective of diversifying the bank operation into housing construction and enhance group profitability through constructions profit and end buyer Financing. However, since the company faced the challenges of crisis in the real estate market, it was not functioning effectively.

Therefore, the Board of Directors of the bank decided to discontinue the operation of the company and liquidate its assets and liabilities. On this ground, the financial statement of the company is not consolidated in 2011, As estimated below, the net impact to the bank from liquidation is not material.

Maximum Expected Realizable Value	Rs. 2,211,392
Less : Total External Liabilities payable	Rs. (4,830,065)
Maximum Expected loss to the HDFC –Bank	Rs. (2,618,673)

Notes to the Financial Statements *contd.*

33. The Events Occurring After the Balance Sheet Date:

There has been no material event after the balance sheet date that requires adjustments or disclosure in the financial statements.

34. Assets Pledged:

The assets pledged as security for credit facilities obtained are as follows:

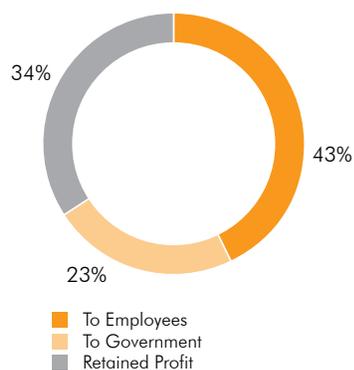
Type of facility	Amount of facility Rs.Mn	Nature of security	Value of security Rs.Mn	Balance as at 31/12/2011 Rs.Mn.
(1) Overdraft (Sampath Bank)	100.00	Part of Loan portfolio	150.00	0.00
(2) Borrowings (Term Loan) (HNB)	143.82	Part of Loan portfolio	BMC Land	125.00
(3) Borrowings (Term loan) (Sampath Bank)	500.00	Part of Loan portfolio	625.00	450.00
(4) Borrowings (Term loan) (Bank Of Ceylon)	500.00	Part of Loan portfolio	1,000.00	495.83

Value Added Statement

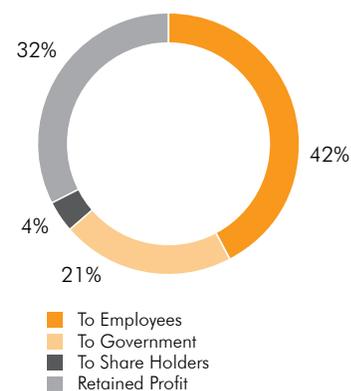
For the period ended 31st December

	%	2011	%	2010
Interest Income		2,249,751,663		2,164,980,599
Other Income		124,636,242		85,304,935
Gross Income		2,374,387,904		2,250,285,534
Cost of Service		1,564,326,430		1,503,586,181
Total Value Additions		810,061,475		746,699,353
Value Distributed				
To Employees (Remuneration & Benefits)	42.5	344,633,800	42.1	314,566,463
To Government				
Income Tax	12.9	104,636,708	7.2	53,566,201
Value Added Tax	10.0	81,005,187	13.7	102,183,159
Stamp Duty	0.4	3,131,517	0.3	2,317,278
Debit Tax	0.0	120,223	0.0	36,296
	23.3		21.2	
To Share Holders (Dividend)			4.3	32,355,110
Retained in the Business				
Retained Income	38.2	309,651,579	13.8	102,985,828
Depreciation	5.6	45,502,793	4.3	31,793,734
Loan Loss Provision	(9.7)	(78,620,333)	14.3	106,895,284
Total Value Distributions	100.0	810,061,475	100.0	746,699,353

2011



2010



Quarterly Performances

For the three months ended	2011				2010			
	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th	March 31st
Balance Sheet Data								
Rs.Mn								
Total Assets	19,680	17,470	16,277	15,981	15,374	15,034	15,106	14,963
Gross Loans & Advances	15,068	14,656	13,912	13,757	13,530	12,614	12,313	12,218
Deposits	12,336	10,717	8,121	8,252	7,703	7,238	7,436	7,102
Shareholder's funds	2,125	2,014	2,006	1,918	1,849	1,838	1,822	1,825
Income Statements Data								
Rs.'000								
Net Interest Income	178,005	133,094	349,002	235,357	111,427	118,420	104,501	491,277
Other Income	60,204	23,241	20,711	20,481	14,610	47,971	9,527	13,198
Total Revenue	238,209	156,335	369,713	255,838	126,037	166,391	114,028	504,475
Provision for loan losses	60,925	12,894	(1,718)	6,519	33,328	(3,503)	23,494	(142,858)
Non Interest Expenses	(129,251)	(150,086)	(175,078)	(149,006)	(123,582)	(134,834)	(111,292)	(160,592)
Provision for tax	(58,260)	(11,338)	(72,624)	(43,420)	(25,194)	(11,538)	(22,001)	(97,019)
Net Profit after tax	111,623	7,805	120,293	69,931	10,589	16,516	4,229	104,006
Ordinary share information								
Market price per share (Rs.)								
High	1,850.00	1,869.90	1,900.00	1,190.00	600.00	456.00	323.00	164.75
Low	1,250.00	1,350.00	1,028.00	546.00	420.00	263.00	143.00	135.00
Closing	1,400.30	1,850.00	1,480.00	1,125.90	550.00	434.60	281.25	143.00
Financial measures								
Profitability								
Return on Assets-After Tax %	1.77	1.48	1.73	1.98	0.91	0.88	0.74	0.71
Return on Equity %	15.58	12.58	14.19	16.51	7.58	7.24	6.11	5.87
Capital Risk weighted capital ratios								
Tier 1 %	19.60	20.83	20.24	22.11	19.98	19.15	18.91	18.26
Tier 11 %	20.24	21.65	21.18	23.15	21.10	20.31	20.08	19.47
Assets Quality								
Net assets value per share - Rs	328.40	311.20	310.00	296.50	285.70	284.10	281.60	282.10
Earning per Ordinary share -Rs.	47.90	30.60	29.40	10.80	20.90	19.30	16.70	16.10

Capital Adequacy

CAPITAL BASE As at 31st December	2011 (Rs.000')	2010 (Rs.000')
Core Capital (Tier 1)		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	647,105	647,105
Share Premium	314,988	314,988
Statutory Reserve Fund	61,871	46,389
Published Retained Profits/(Accumulated Losses)	958,683	781,661
General and Other Reserves	107,422	22,630
Sub Total	2,090,069	1,812,773
Deductions/Adjustments-Tier 1		
Net deferred tax assets	17,570	16,907
Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	49,839	49,839
Total Core Capital (Tier 1)	2,022,661	1,746,028
General Provisions	58,007	89,651
Total Tier 2 Capital	2,080,668	1,835,679
Total risk adjusted balances (credit risk, market risk, operational risk)	9,478,549	8,277,969
Risk adjusted capital ratios		
Tier 1 (Eligible Tier 1 capital / Total risk adjusted balances) *	21.34%	21.09%
Tier 11 (Capital base / Total risk adjusted balances) **	21.95%	22.18%

* Statutory minimum 5 ** Statutory minimum 10%

Capital Adequacy contd.

Risk Adjusted on - Balance Sheet Exposure -Rs.000'

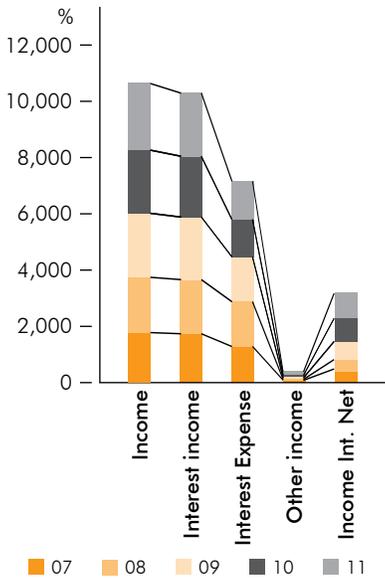
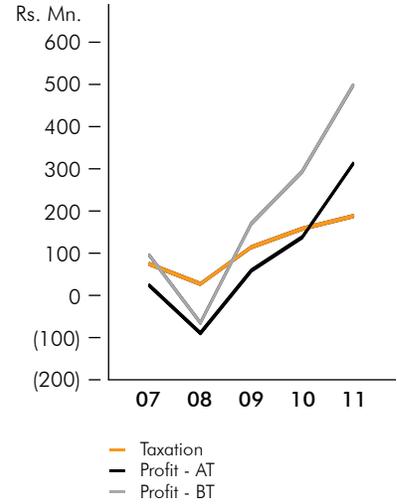
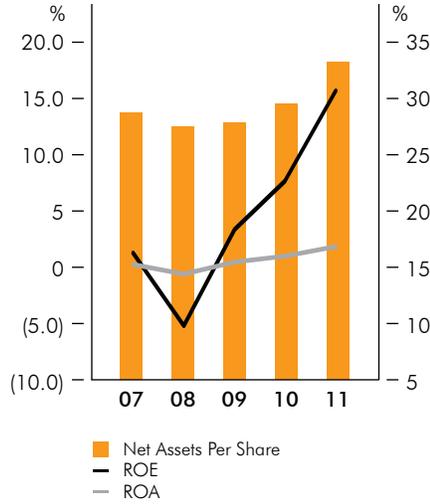
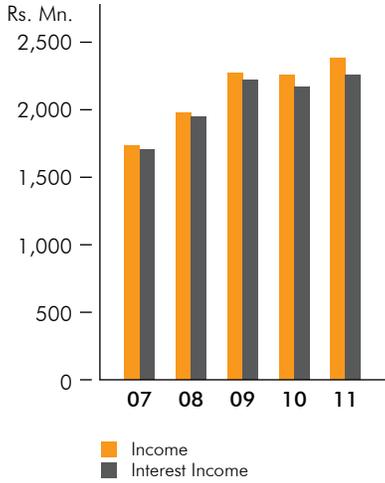
As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2011	2010		2011	2010
Exposures					
Cash- Local Currency	91,605	51,728	0%		
Sri Lanka Govt Treasury Bills & Bonds	84,914	1,070,935	0%		
Central Bank of Sri Lanka	328,979	322,639	0%		
Claims on Public Sector Entities (PSEs)	31	31	100%	31	31
Loan & Advances					
Claims Secured by Residential Property					
Claims that qualify for regulatory capital purposes	4,937,042	3,015,542	50%	2,468,521	1,507,771
Claims that not qualify for regulatory capital purposes	1,750,695	3,628,783	100%	1,750,695	3,628,783
Housing loans against EPF.	6,062,872	4,408,820	0%		
Cash Margin Loans	262,596	278,331	0%		
Retail claims that qualify for regulatory capital purposes	785,085	624,105	75%	588,814	468,079
Non Performing Assets					
Past Due Residential Mortgage Loans					
Specific provisions are more than 20%	13,653	14,702	50%	6,827	7,351
Specific provisions are less than 20%	842,422	606,286	100%	842,422	606,286
Housing loans on Guarantors & others					
Specific provisions are more than 20%	14,361	109,208	100%	14,361	109,208
Specific provisions are less than 20%	27,128	25,332	150%	40,692	37,998
Due From local Commercial Banks (AAA to BBB-)	1,171,517	474,377	20%	234,303	94,875
Claims on Financial Institutions/Primary Dealers /Finance Companies (A+ to BBB)-	2,219,824		50%	1,109,912	
Claims on Financial Institutions/Primary Dealers /Finance Companies (BB+ to B-)	62,983		100%	62,983	
Fixed Assets	763,249	755,667	100%	763,249	755,667
Other Assets	286,930	76,997	100%	286,930	76,997
Total Risk Weighted Assets	19,705,888	15,463,483	10.95	8,169,741	7,293,046
Total risk adjusted balance for operational risk				1,308,808	984,923
Total risk adjusted balances (credit risk, market risk, operational risk)				9,478,549	8,277,969

Ten year Statistical Summary

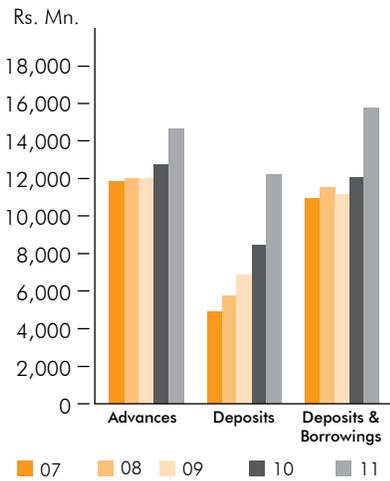
Year ended 31st December (LKR. Mn)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
OPERATING RESULTS										
Income	631	830	947	1,056	1,286	1,741	1,974	2,269	2,250	2374
Interest income	620	797	908	1,024	1,203	1,696	1,941	2,216	2,165	2250
Interest expense	326	401	444	568	699	1,247	1,602	1,582	1,339	1354
Other income	11	33	39	32	82	46	33	52	85	125
Operating expenses	131	168	197	253	272	359	385	439	513	603
Provision for loss	-	7	14	17	5	43	54	79	107	(79)
Profit before tax	174	254	291	217	309	93	(67)	168	291	495
Income Tax & Finance VAT	32	56	109	101	136	72	25	112	156	186
Profit after taxation	142	198	183	117	172	21	(92)	56	135.	310
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer deposits	115	312	1,140	1,537	2,501	4,960	5,777	6,929	8,526	12,336
Borrowings	3,289	4,107	4,314	4,966	5,783	6,067	5,840	4,336	3,629	3,556
Other liabilities	789	783	909	688	621	666	867	1,315	1,383	1,681
Shareholders' funds	803	885	1,013	1,643	1,800	1,789	1,697	1,721	1,849	2,125
Total	4,996	6,087	7,376	8,834	10,705	13,482	14,181	14,301	15,387	19,698
ASSETS										
Loans and advances	4,766	5,826	7,119	8,100	10,134	11,869	12,149	11,913	12,519	14,594
Cash, short term funds and statutory	104	85	173	561	352	1280	1091	1410	1,920	3,960
Property, plant and equipment	29	33	42	85	85	111	671	721	756	763
Other assets	97	143	42	88	134	222	270	257	192	380
Total	4,996	6,087	7,376	8,834	10,705	13,482	14,181	14,301	15,387	19,698
RATIOS										
Return on average shareholders funds (%)	18.61	23.46	19.28	8.81	9.99	1.17	(5.28)	3.28	7.58	15.58
Income growth (%)	40.5	31.5	14.1	11.5	21.8	35.4	13.4	14.9	(0.8)	5.5
Return on average assets(%)	3.26	3.57	2.72	1.44	1.76	0.17	(0.67)	0.39	0.91	1.77
Advance to deposits and borrowings (%)	71.4	75.8	76.6	80.3	81.7	92.9	95.6	94.6	97.1	108.9
Property, plant and equipment to Shareholders funds (%)	3.6	3.7	4.1	5.2	4.7	6.2	39.5	41.9	40.9	35.9
Total assets to shareholders funds (times)	6.22	6.88	7.28	5.38	5.95	7.54	8.36	8.31	8.32	9.27
SHARE INFORMATION										
Market Value per Share (Rs)										
High (Rs)	-	175.00	195.00	401.00	235.25	192.00	135.00	191.75	600.00	1900
Lower (Rs)	-	-	-	165.00	153.00	125.75	54.00	49.5	135.00	546
Close (Rs)	-	-	-	191.00	174.75	128.00	56.00	147.75	550.00	1400
Earnings per Share (Rs)	34.35	48.03	44.39	26.71	27.39	3.26	(3.94)	16.94	26.30	47.9
Net Assets per Share(Rs) **	194.78	214.68	245.68	268.19	278.16	276.44	262.26	265.99	285.68	328.50
PROFILE										
Ownership - Government %	-	-	-	56	51	51	51	51	51	51
- Private %	-	-	-	44	49	49	49	49	49	49
No of employees	277	278	276	290	300	286	289	364	425	505
No of branches	20	20	20	20	20	21	21	26	28	31
No of ATM (Access)*	0	0	0	0	0	0	4	10	225	310

* Including Network Linked ATM Machines with Sampath Bank.

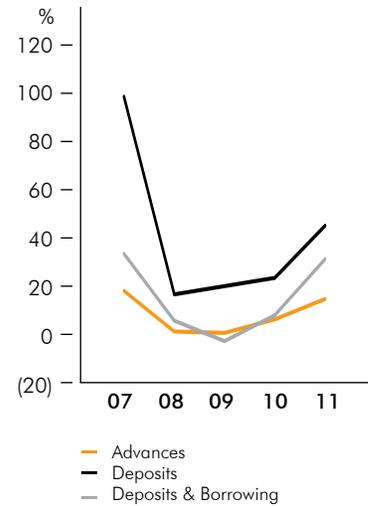
Graphical Review



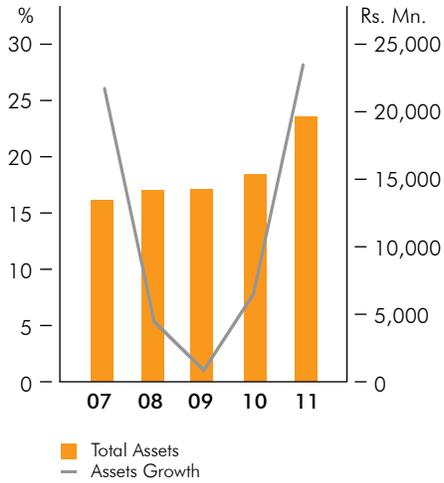
Advances Vs Funding



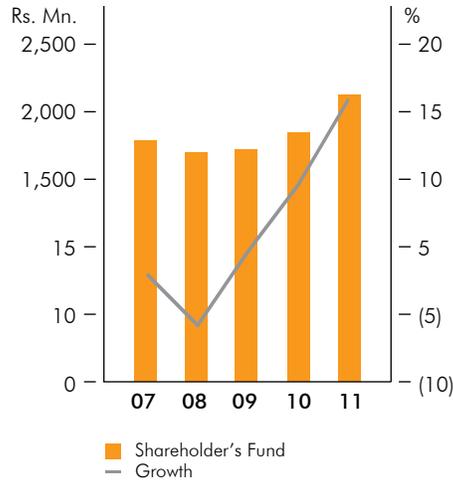
Advances Vs Funding Growth



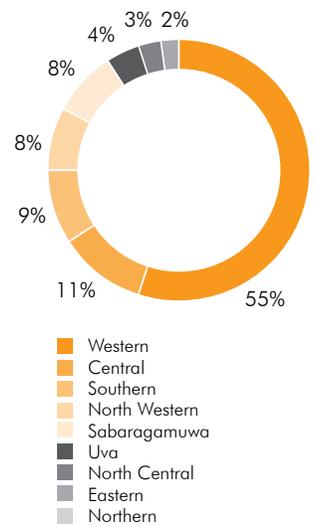
Balance Sheet Growth



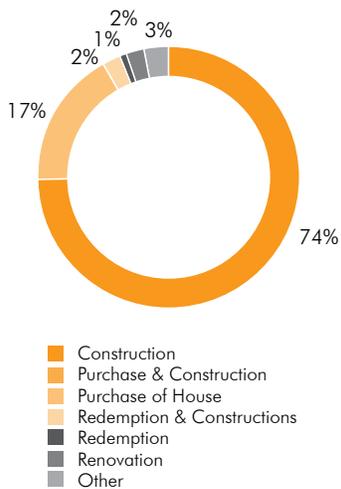
Balance Sheet Growth



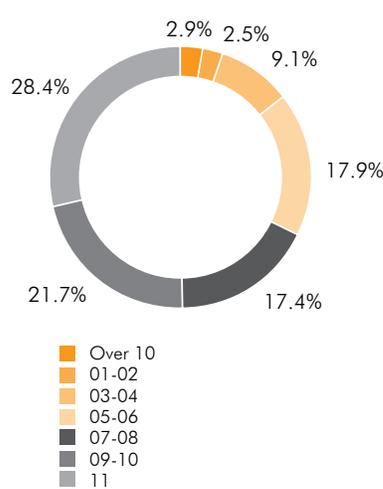
Loans and Advances Province Wise



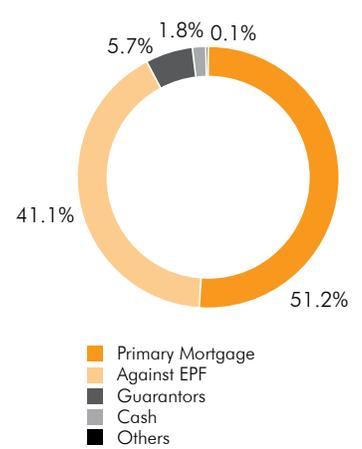
Loans and Advances Purpose Wise Analysis



Loans and Advances Year Wise Analysis



Loans and Advances Security Wise Analysis



Share Information

As at 31-12-2011

Distribution and Composition of Shareholders (As per rule No. 7.6(X) of the Colombo Stock Exchange)

December 31, 2011									
Share holders	Resident			Non Resident			Total		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
1 - 1,000	1,513	216,601	3.35	12	2701	0.04	1525	219,302	3.39
1,001 - 10,000	65	208,473	3.22	1	5500	0.08	66	213,973	3.30
10,001 - 100,000	19	471,151	7.28	0	0	0.00	19	471,151	7.28
100,001 - 1000,000	4	2,348,626	36.29	0	0	0.00	4	2,348,626	36.29
Over 1,000,000	1	3,218,000	49.73	0	0	0.00	1	3,218,000	49.73
Total	1,602	6,462,851	99.88	13	8,201	0.12	1,615	6,471,052	100.00

December 31, 2010									
Share holders	Resident			Non Resident			Total		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
1 - 1,000	1,986	334,986	5.18	12	2,501	0.04	1,998	337,487	5.22
1,001 - 10,000	93	290,144	4.48	3	5,400	0.08	96	295,544	4.56
10,001 - 100,000	20	509,700	7.88	0	0	0.00	20	509,700	7.88
100,001 - 1000,000	3	2,110,321	32.61	0	0	0.00	3	2,110,321	32.61
Over 1,000,000	1	3,218,000	49.73	0	0	0.00	1	3,218,000	49.73
Total	2,103	6,463,151	99.88	15	7,901	0.12	2,118	6,471,052	100.00

Composition of Shareholders (As per rule No. 7.6(X) of the Colombo Stock Exchange)

	December 31, 2011				December 31, 2010			
	No of Share holders	%	No of Shares	%	No of Share holders	%	No of Shares	%
Individuals	1519	94.06	595,114	9.20	2,001	94.48	655,276	10.13
Institution	96	5.94	5,875,938	90.80	117	5.52	5,815,776	89.87
Total	1615	100.00	6,471,052	100.00	2,118	100.00	6,471,052	100.00

Twenty Largest Shareholders (As per rule no. 7.6 (III) of the Colombo Stock Exchange)

	Name Of Shareholder	No. of Shares 2011	Percentage (%) 2011	No. of Shares 2010	Percentage (%) 2010
1	National Housing Development Authority	3,218,000	49.73	3,218,000	49.73
2	Lanka ORIX Leasing Company PLC	970,774	15.00	853,769	13.19
3	Perpetual Capital (Pvt.) Limited	908,000	14.03	908,000	14.03
4	Legalinc Trustee Services (Pvt.) Ltd.	348,552	5.39	348,552	5.39
5	Dr. T. Senthilverl	121,300	1.87	-	-
6	DFCC Vardhana Bank Ltd./ Mr. Chandaka Haren Ranil De Soysa	75,400	1.17	49,900	0.77
7	Mr. C. H. R. De Soysa	46,850	0.72	51,000	0.79
8	Mr. D. G. Wijemanne	39,501	0.61	-	-
9	DFCC Vardena Bank Ltd/A, Sithampalam	39,000	0.60	-	-
10	Urban Development Authority	30,000	0.46	30,000	0.46
11	Condominium Management Authority	30,000	0.46	30,000	0.46
12	Seylan Bank PLC/ Rurev Capital(Pvt.) Ltd	26,900	0.42	-	-
13	National Development Bank PLC/ C. H. R. De Soysa	26,000	0.40	-	-
14	Union Commodities (Pvt.) Ltd.	20,000	0.31	-	-
15	Finco Holding (Pvt.) Ltd.	18,500	0.29	-	-
16	The Associated Newspapers of Ceylon Ltd.	18,000	0.28	18,000	0.28
17	Mr. D. A. De Soysa	17,000	0.26	-	-
18	Mr. V. S. Gunasekara	14,200	0.22	-	-
19	State Engineering Corporation	12,000	0.19	12,000	0.19
20	Road Development Authority	12,000	0.19	12,000	0.19
	Total	5,991,977	92.60	5,531,221	85.48

Share Information contd.

Market Prices (As per rule No. 7.6(XI) of the Colombo Stock Exchange)

	2011 Rs.	2010 Rs.
Highest	1,900.00	600.00
Lowest	546.00	135.00
Year end	1,400.30	550.00

Information on Ratios (As per rule No. 7.6(XI) of the Colombo Stock Exchange)

	2011	2010
Net Assets value per share (Rs.)	328.40	285.70
Earning per Share (Rs.)	47.90	20.90

Directors and General Manager /CEO Shareholding (as at 31st of December)

Name	2011	2010
Mrs. S. N. Wickramasinghe (Chairman)	Nil	1000
Mr. W. J. L. U. Wijayaweera	300	300
Mrs. K. W. P. Dayarathna	Nil	Nil
Mrs. C. Wijayawardhana	Nil	Nil
Mr. A. M. Chandrasagara	500	800
Mr. W. D. R. D. Goonaratne	Nil	Nil
Mr. S. A. J. Samaraweera	Nil	Nil
Mr. W. D. K. Jayawardena	Nil	Nil
Mr. A. J. Aloysius	Nil	Nil
Mr. S. Dissanayake - GM/CEO (Actg.)/ through the Spouse	100	Nil

The percentage of public holding as at December 31, 2011 was 21.22% (23.01% as at December 31, 2010)

Assurance Report and GRI Index

Assurance Report



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Independent Assurance Report to the Stakeholders of HDFC Bank on the Sustainability Reporting within the Integrated Annual Report - 2011.

Introduction and Scope of the Engagement

The management of HDFC Bank ("Bank") engaged us to provide an independent assurance on the following elements of the Sustainability Reporting within the integrated Annual Report 2011.

- Reasonable assurance on the information on Financial Performance presented on sustainability contents in the integrated Annual Report.
- Limited assurance on Key Performance Indicators and other information presented on sustainability contents in the integrated Annual Report.

Responsibility of the Management on the Report

The Management of the Bank is responsible for the preparation and presentation of Sustainability contents in the integrated Annual Report in accordance with the Bank's sustainability practices and policies which are derived from Global Reporting Initiatives (GRI-G3) sustainability reporting guidelines. These responsibilities include among other things, identification of stakeholders and material issues, determining the sustainable performance criteria for reporting and establishing appropriate processes and internal control systems to measure and report the sustainability performance criteria.

Our Responsibility

Our responsibility is to perform a reasonable and limited assurance engagement and express conclusions based on the work performed in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("ICASL").

Reasonable assurance is a high level of assurance. However, reasonable assurance is not an absolute level of assurance because there are inherent limitations of any assurance engagement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

This Report is made solely to the Bank in accordance with our engagement letter dated 19th March, 2012. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for professional Accountants issued by the ICASL.

Assurance Procedures Carried Out Financial Information

We reconciled the information on Financial Performance reported on sustainability contents in the integrated Annual Report with the Audited Financial Statements of the Bank for the years ended 31st December, 2010 and 2011.

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : S. Rajapakse FCA, MBA. Ms. M.S.E.Raymond FCA. S. G. Ranjith ACA. Tishan H. Subasinghe FCA, CISA
H.S.Rathnawera ACA. Ashane J.W. Jayasekara ACA. MBA. H.M. Saman Siri Lal ACA
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 Sri Lanka

Key Performance Indicators

We reviewed the reliability of the data/information on Key Performance Indicators for the year ended 31st December, 2011 based on reviews of:

- the systems used to generate, aggregate and report these information;
- the information reported by the relevant business units to corporate level;
- the information validation processes at corporate and business level;
- the information trends in discussions with management and
- the calculation performed by the Bank on a sample basis through recalculation.

Other Information

We planned and performed the following assurance procedures on Other Information presented on sustainability contents in the integrated Annual Report:

- Inquiring relevant Bank's personnel to understand the process for collection, analysis, aggregation and presentation of the information on sustainability contents in the integrated Annual Report.
- Reviewing the system used to generate, aggregate and report the information on sustainability contents in the integrated Annual Report.
- Interviewing the senior management and relevant staff at corporate level and selected business unit level and obtained the evidence concerning sustainability strategy and policies for material issues and implementation of those across operation of the Bank.
- Reviewing and validating the information contained on sustainability contents in the integrated Annual Report.
- Reading the information presented on sustainability contents in the integrated Annual Report to determine whether that information is in line with our overall knowledge of, and experience with, sustainability performance of the Bank.

Conclusion

Based on the procedures performed, as described above, we conclude that:

- The information on Financial Performance is properly derived from the Audited Financial Statements of the Bank for the years ended 31st December, 2010 and 2011.
- Nothing has come to our attention that causes us to believe that Key Performance Indicators and Other Information presented on sustainability contents in the integrated Annual Report are not presented, in all material respects, in accordance with the Bank's sustainability practices and policies which are derived from Global Reporting Initiatives (GRI -G3) Sustainability Reporting Guidelines.

BDO Partners

Chartered Accountants
 05th April, 2012
 Colombo

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : S. Rajapakse FCA, MBA. Ms. M.S.E.Raymond FCA. S. G. Ranjith ACA. Tishan H. Subasinghe FCA, CISA
 H.S.Rathnaweera ACA. Ashane J.W. Jayasekara ACA. MBA. H.M. Saman Siri Lal ACA
 Consultant : V. Sinnadorai FCA

Global Reporting Initiative (GRI) Index

The Global Reporting Initiative (GRI) G3 reporting framework, has been used as the guide in preparation of this Integrated Annual Report of HDFC Bank for the Financial year 2011. This index provides a comprehensive listing of the GRI Indicators reported by HDFC Bank, including the financial service sector supplement on social and environmental performance. On the basis of the reported indicators and disclosure of management approaches on sustainable business practices, HDFC Bank assessed its Integrated Annual Report 2011 as a B+ level report.

		C	C+	B	B+	A	A+
Mandatory	Self declared						
Optional	Third party checked.				V		
	GRI checked						

GRI Index – 2011 PROFILE

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1.2	Description of key impacts, risks and opportunities	Chairman's Statement. CEO's Review Statement. Our Business Strategy, Risk and Challenges Risk Management Report Our Engagement against 2011 targets and focused engagements in 2012 Financial and Operational Review	12-17 18-22 58-68 138-150 135-136 46-56
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2.4	Location of the organization's headquarters	Corporate information	24
2.5	Countries where the organization is active	Sri Lanka.	
2.6	Nature of ownership and legal form	Incorporation and legal background Our Shareholders	34 35
2.7	Markets	Our Market and Market share Social value creation- Customer Economic value creation	37 116-126 80-93
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2.10	Awards received during the period	Social Awards and Recognition	42

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3.2	Date of most recent previous report	The Story of the First Integrated Annual Report	Cover back
3.3	Reporting cycle	12 months period	
3.4	Contact persons for queries on the report	Editorial information	Cover back
	Report Scope and Boundaries		
3.5	Process for defining report content	Reporting framework and guideline	Cover back
3.6	Boundary of the report	Report parameters Accounting policies	3 206-209
3.7	Limitations on the scope or boundary of the report	Report parameters	3
3.8	Basis for reporting on subsidiaries	No Subsidiary operation	
3.9	Data measurement /calculation techniques	Report parameters	3
3.10	Comparability with previous reports	Report parameters	3
3.11	Significant changes from previous reporting	None	
	GRI Content Index		
3.12	GRI Compliance Index	GRI Index	236-244
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4.8	Mission, values, code of conduct, etc.	Mission and vision The Report of the Directors' Socially Responsible Banking	4-5 188 116-122
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Global Reporting Initiative (GRI) Index *contd.*

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4.12	Compliance to external voluntary codes, principles or other initiatives	Our Commitment to External Initiatives Risk Management Report	43 143
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EN28	Fines for non-compliance with applicable environmental laws	No violation or fines paid by the Bank	
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EN29	Environmental impact from transport	Business Travels and Fuel Consumption. Staff Transport and Emission Controls. Key performance indicators - Environment	97 98 102
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SO6	Total value of financial contributions to political parties, etc.	No any contribution made in 2011	
	Ant - Competitive Behavior		
SO7	Total number of legal actions for anti-competitive behavior	No reported incidents	
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FS13	Access points to less populated or economically disadvantaged areas	Assisting to Minimise Development Disparities	85-87
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Notice of the Annual General Meeting

Notice is hereby given that the twenty seventh (27th) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka is convened on Thursday the Thirty first (31st) day of May 2012 at Hotel Booker, No. 10, Hedges Court, Colombo 10. at 10.30 a. m. and the following Ordinary Business will be transacted.

Ordinary Business

1. To read the notice convening the meeting
2. To receive and consider and adopt the Annual Report of the Bank and the Audited Accounts of the bank for the year ended 31st December 2011 together with the Report of the Auditor thereon.
3. To re-appoint the Auditor General of Sri Lanka, as Auditor of the HDFC Bank and authorize the Board of Directors to determine and approve their remuneration.
4. To transact any other business of which due notice shall be given.

By Order of the Board



Dharshani De Silva
Company Secretary
HDFC Bank
Colombo

23rd of April 2012

Form of Proxy

I/We.....

of

Being a member / members of Housing Development Finance Corporation Bank of Sri Lanka hereby appoint.

1. Mr./Ms. of whom failing
2. Mr./Ms. of whom failing
3. Mr./Ms. of whom failing
4. Mr./Ms. of whom failing
5. Mr./Ms. of whom failing

As my/our proxy to vote for me /us on my / our behalf at the Annual General Meeting of the Bank to be held on 31st of May 2012 at 10.30 a.m. and at any adjournment thereof, and at every poll which any be taken in consequence thereof.

Singed this 23rd day of April 2012.

Signature

Note:

1. A shareholder entitled to attend, or attend and vote at the meeting is entitled to appoint a proxy holder to attend, or attend and vote as the case may be, in his / her stead and a shareholder who is entitled only to attend and speak at the meeting is entitled to appoint a proxy holder to attend and speak on his / her behalf.
2. A proxy holder need not be a shareholder of the Bank.
3. The form of proxy should be returned to The Secretary "Housing Development Finance Corporation Bank", P. O. Box 2085, Sir Chittampalam A Gardiner Mawatha, Colombo 02, not less than 48 hours before the time appointed for holding the meeting.

Form of Proxy *contd.*

Instructions for completion

01. To be valid this form must be filled, signed and deposited with the Secretary, HDFC Bank, P.O. Box 2085, Sir Chittampalam A Gardiner Mawatha, Colombo 02, not less than 48 hours before the time appointed for holding the meeting.
02. The form of proxy must be signed by the appointer or by Attorney duly authorized in writing.
03. In the case of a company or corporation or an incorporated body the form of proxy must be either under its common seal or under the hand of an officer or Attorney duly authorized.
04. In the case of joint holder, only one needs sign. The Votes of the senior holder who renders a vote will only be counted.
05. If you wish to appoint any person other than the chairman as your proxy, please insert the relevant details at 1 to 5.

HDFC Bank of Sri Lanka

P.O. Box 2085,

Sir Chittampalam A Gardiner Mawatha, Colombo 02.

Telephone: 2356800, 2446241, 2446239, 2447354, 2451462

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