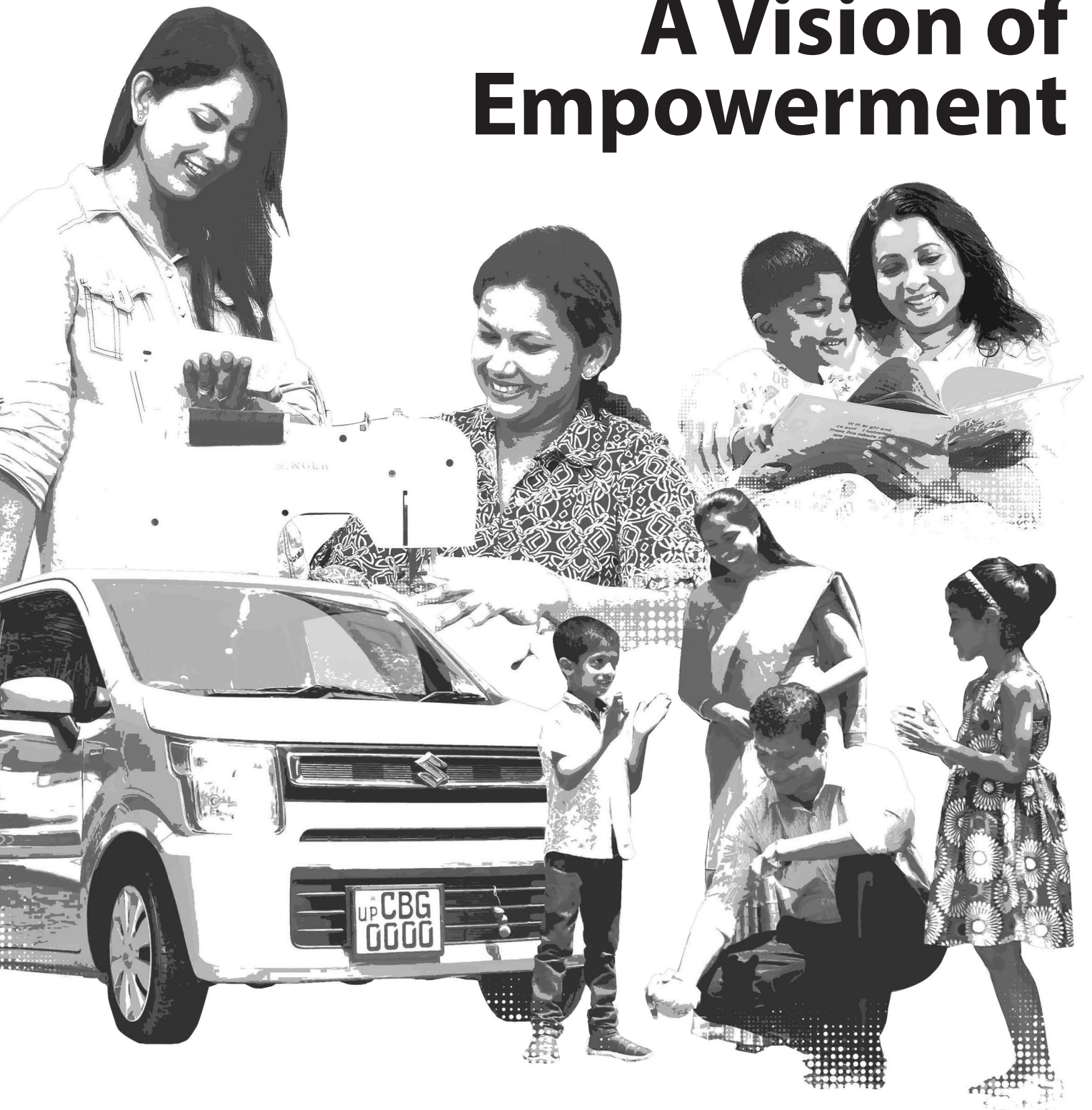


A Vision of Empowerment



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Corporate Information - *Inner Back Cover*

A strength that we possess is our ability to recognise the needs of our customers. And as we have grown, our efforts in creating sustainability has stemmed from our strategy of creating an environment of economic inclusiveness, limitless opportunity and long term sustainability.

This year as we placed our focus on supporting the dreams of the low and middle income groups; a gameplan that sets us apart from the rest, we are seeing things in a new light as we work tirelessly towards ensuring the economic growth of a nation and its people.

We have a vision of empowerment that will benefit all Sri Lankans.

A Vision of Empowerment

Introduction to this Report

HDFC Bank continues aligning its annual report 2019 with the Integrated Reporting Framework 2013 of the International Integrated Reporting Council. The report covers the changes to financial and other material capitals of the Bank during the period 1 January 2019, to 31 December 2019. In addition, this report includes disclosures under the Colombo Stock Exchange and other relevant regulations.

HDFC Bank has not had to re-state any information from the previous annual report.

Basis of preparation and presentation of this report

The contents for this report was decided by identifying the most material topics for the year under review with regards to achieving strategic and sustainable growth objectives. In addition, changes to the Bank's risk profile, and good governance and compliance requirements, were included in deciding what is discussed in this report. The material topics selected for disclosure were decided by the key management personnel, including the General Manager/ Chief Executive Officer (GM/CEO).

The report has taken into consideration stakeholder expectations and the requirements of the Integrated Reporting Framework (in addition to applicable statutory requirements) in deciding topics of disclosure. In this regard, the Chairman's Message and GM/CEO's Review highlights the most material strategic topics pertaining to the current status of the Bank, and both the Chairman and GM/CEO discusses growth strategy and resource allocation in their respective statements.

Stakeholder engagement in formulating this report

The Chairman's Message and the GM/CEO's Review should be consulted for information on how the Bank has met expectations of key stakeholder during the year under review and how the Bank plans to continue to do so. (Future oriented statements contained in this report are subject to change).

As the annual report is an important stakeholder communication tool, this report has been translated into Sinhala and Tamil.

In addition, copies of this report were provided to relevant Government ministries and the report has been uploaded onto the website(www.hdfc.lk) for greater accessibility.

Complying with integrated reporting principles

The financial statements of this annual report have been verified by the Auditor General of Sri Lanka, for accuracy and all other quantitative and qualitative information have been approved by relevant senior managers to ensure information accuracy and reliability.

By identifying material topics for disclosure, we have attempted to present a connected and complete, but concise report that focuses on the most material matters for the year under review.

In addition, through the direct involvement of the Chairman, CEO and senior management in compiling this report, we have attempted to present a strategic and future oriented picture.

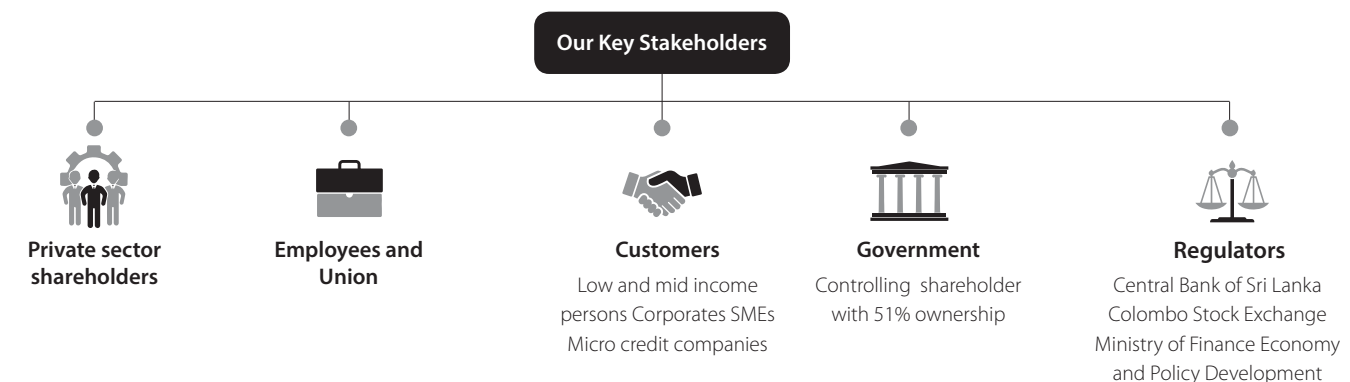
Feedback on this annual report should be directed to:

The chief Financial Officer
Mr D Vidana Pathirana
Email: cfo@hdfc.lk
Phone: +9411 235 6802/ 9411 235 6829



Feedback on this annual report should be directed to:

The chief Financial Officer
Mr D Vidana Pathirana
Email: cfo@hdfc.lk
Phone: +9411 235 6802/ 9411 235 6829



Our Vision, Mission & Our Values

Our Vision

“To become the market leader in Housing Development Finance in Sri Lanka”

Our Mission

We define our mission in the broader context of our shareholders, customers, staff, the national economy, regulators, and the natural environment.

- To our shareholders, our mission is to optimise returns.
 - To our customers, our mission is to provide a caring service by anticipating their requirements and innovatively satisfying them beyond their expectations.
 - To our staff, our mission is to identify their multi-faceted talents, develop, motivate, recognise and reward them towards fulfilment of the institutional and national housing vision.
 - To the national economy and the industry regulator, we are the key driver and thought leader, shaping and financing the national housing policy.
 - To our natural environment, we enforce sustainable practices across all our activities.
-

Our Values

Our values are what feeds our organisation culture and shapes the attitudes and behaviour of our employees. Therefore, we consider it important that our values are communicated clearly to all employees and are upheld when developing strategy, at times of decision making, daily operations and when dealing with external stakeholders.

- Honesty in all transactions at all times.
- Flexibility and ability to meet market changes.
- Friendly and helpful services always.
- Build skills, knowledge and experience to achieve our vision.

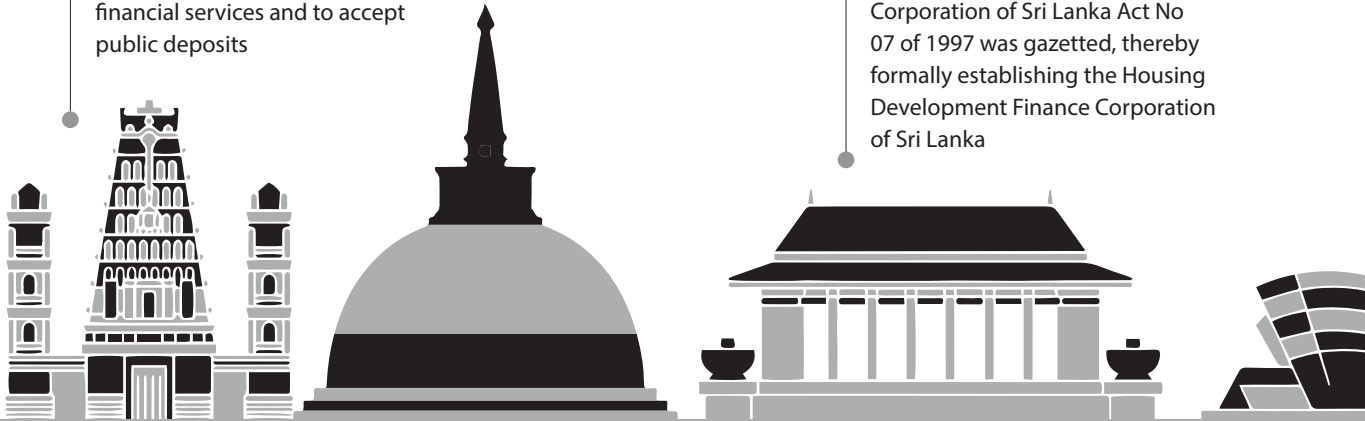
Our Story

1997

The Housing Development Finance Corporation of Sri Lanka Act No. 7 of 1997 was passed by Parliament to form a public corporation with the authority to provide housing related financial services and to accept public deposits

2000

The Housing Development Finance Corporation of Sri Lanka Act No 07 of 1997 was gazetted, thereby formally establishing the Housing Development Finance Corporation of Sri Lanka



Incorporated as a Building Society registered under the National Housing Act

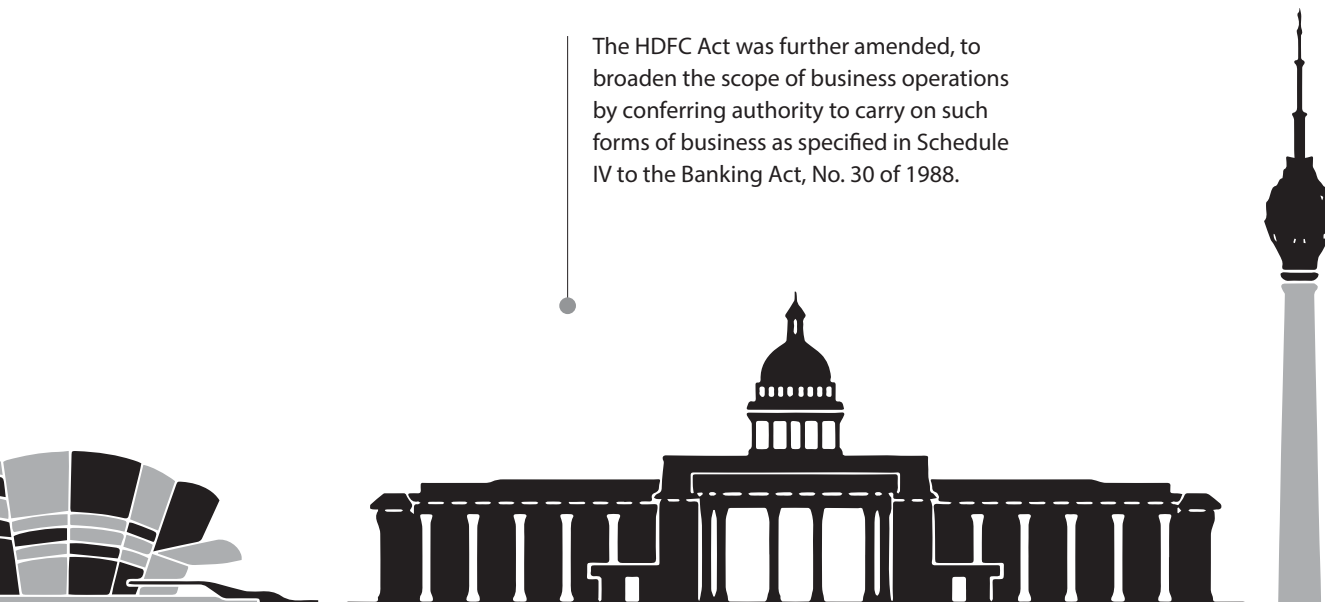
1984

The Housing Development Finance Corporation of Sri Lanka Act No. 7 of 1997 was amended to form a specialised bank. The name was changed to "Housing Development Finance Corporation Bank of Sri Lanka" (hereinafter referred to as the "HDFC Bank of Sri Lanka")

2003

2011

The HDFC Act was further amended, to broaden the scope of business operations by conferring authority to carry on such forms of business as specified in Schedule IV to the Banking Act, No. 30 of 1988.



Listed in the Colombo Stock Exchange, which resulted in private sector investment in the Bank

Commencement of product and market diversification

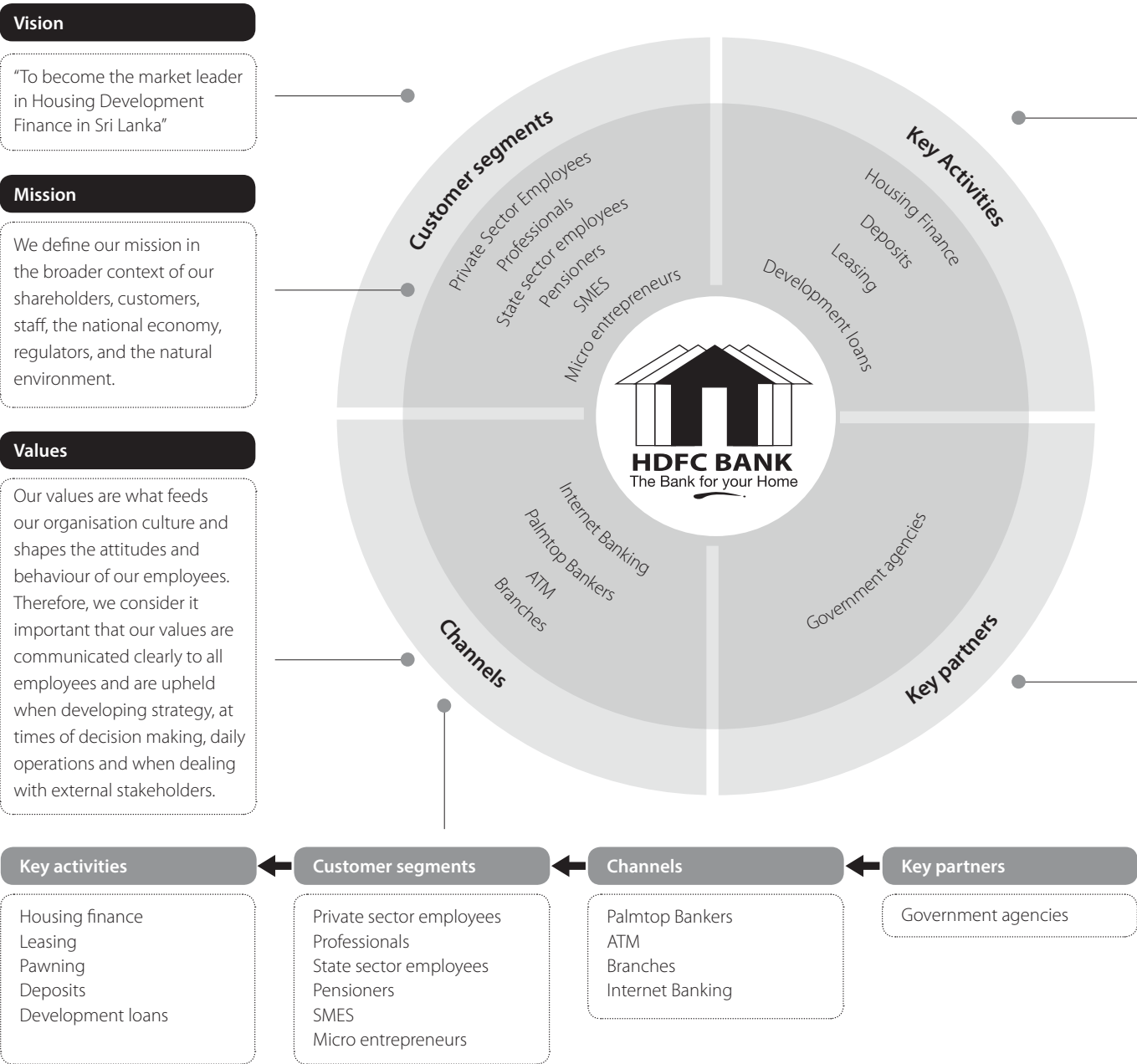
2005

2012

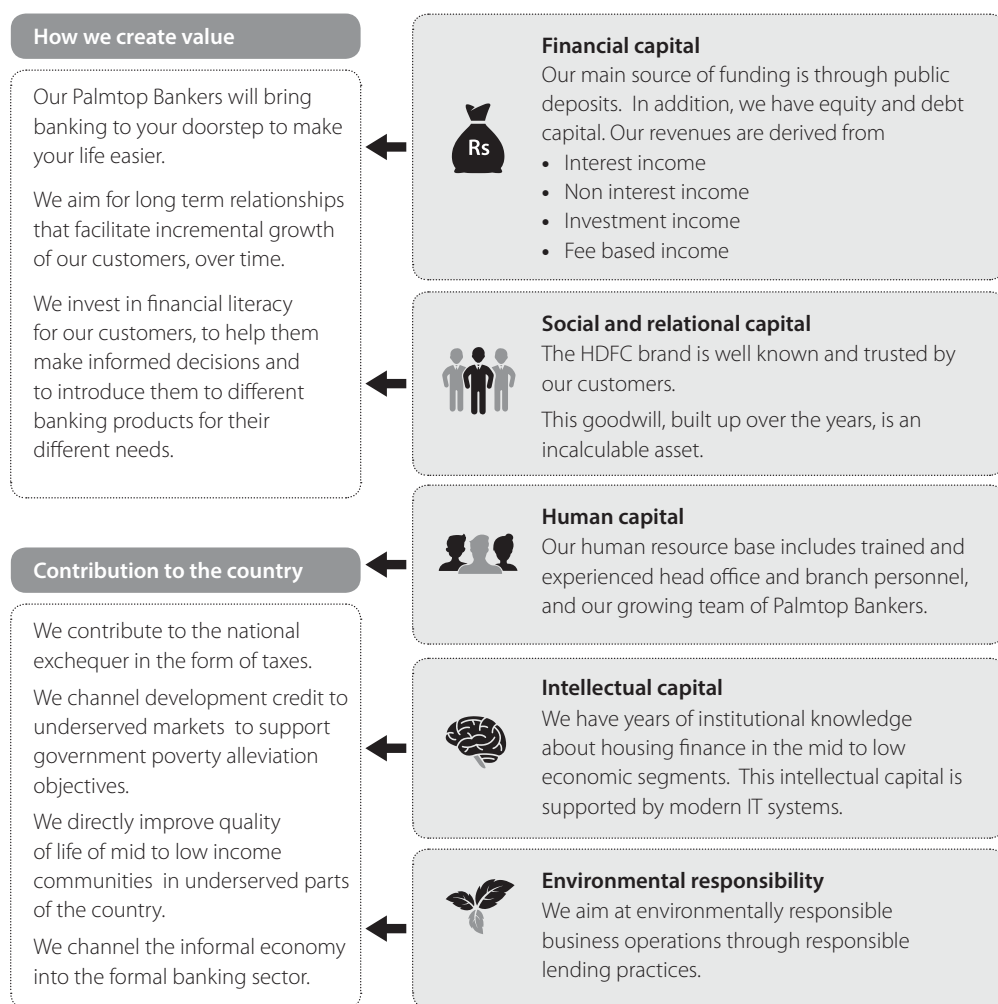
Our Business Model

The most significant change to the HDFC business model is the ongoing transition from a manual business process, to a digital platform. HDFC is integrating modern ICTs across its business processes to dramatically change its operational aspects. The modernisation of HDFC’s operating model will see the Bank introducing new, modern, ICT based products and services.

HDFC remained primarily a housing finance bank in 2019 with 73.7% of total lending coming under housing mortgages, EPF backed housing loans and loans for other housing related activities. However, the Bank has continued to make headway in other financial markets, including corporate lending, SME lending, gold loans and leasing, which has contributed towards greater resilience to external shocks. Public deposits, through a range of savings products, remained an important source of funding.



The primary service delivery channel of HDFC Bank remained its Head Office in Colombo and physical branch network of 39 branches island wide. The Bank has also built a highly effective palmtop banking channel reaching to the customer's doorstep. The palmtop channel has enabled rapid market penetration by tapping small and informal businesses scattered across the country. In addition, the Bank is part of the island wide ATM network and is upgrading its e-banking facility to provide enhanced online services. In 2020, the Bank will also invest in a mobile-phone based payment application through the JustPay network.



Product Portfolio

Loans



Kedella

Home loan scheme on primary mortgage of the property.



Shrama Udana

Home loan for EPF members against EPF balance.



Lifestyle Loan

To purchase home appliances through nominated suppliers.



Situ Sevana

A value added home loan to fit your lifestyle.



Educational Loans

Loan scheme for the students willing to pursue their higher education



Vehicle Leasing

Vehicle Leasing for individuals and businesses



Sirisara Home Loan

A upgraded home loan for existing customers to improve the living standards.



Diriya and Virudiriya

This is a unique loan scheme to assist the government pensioners and beneficiaries of deceased war heroes in their various financial needs



Gold Loan

Loans are granted against the value of gold for immediate financial needs.



Corporate & Development Finance

Unique loan schemes to assist SME and Corporate Sector.

Savings



Prathilaba

Regular savings account with special benefits and cash withdrawals via island-wide ATM network and with online banking facilities and access to mobile banking service.



Vishrama Rekewarana

A Pension plan designed with unbeatable benefits with a flexible deposit option and highest possible interest rate in the market.



Set For Life

Unique wealth creation scheme for the young people that helps to plan for their future. Set For Life yields 'above the market' interest earnings greater than the deposit rates prevalent in the market



Arumbu

First ever financial product exclusively designed by a Bank for Tamil speaking community with similar features of Thilina Rekewarana.



Vishrama Udana

A fixed deposit scheme for senior citizens to earn an interest above market rates.



Thilina Rekawarana

Unique investment plan to guarantee the future financial security of children



Thilina

Minors savings account with attractive gift scheme, on increasing savings balance.



Sri Ratnabhimani

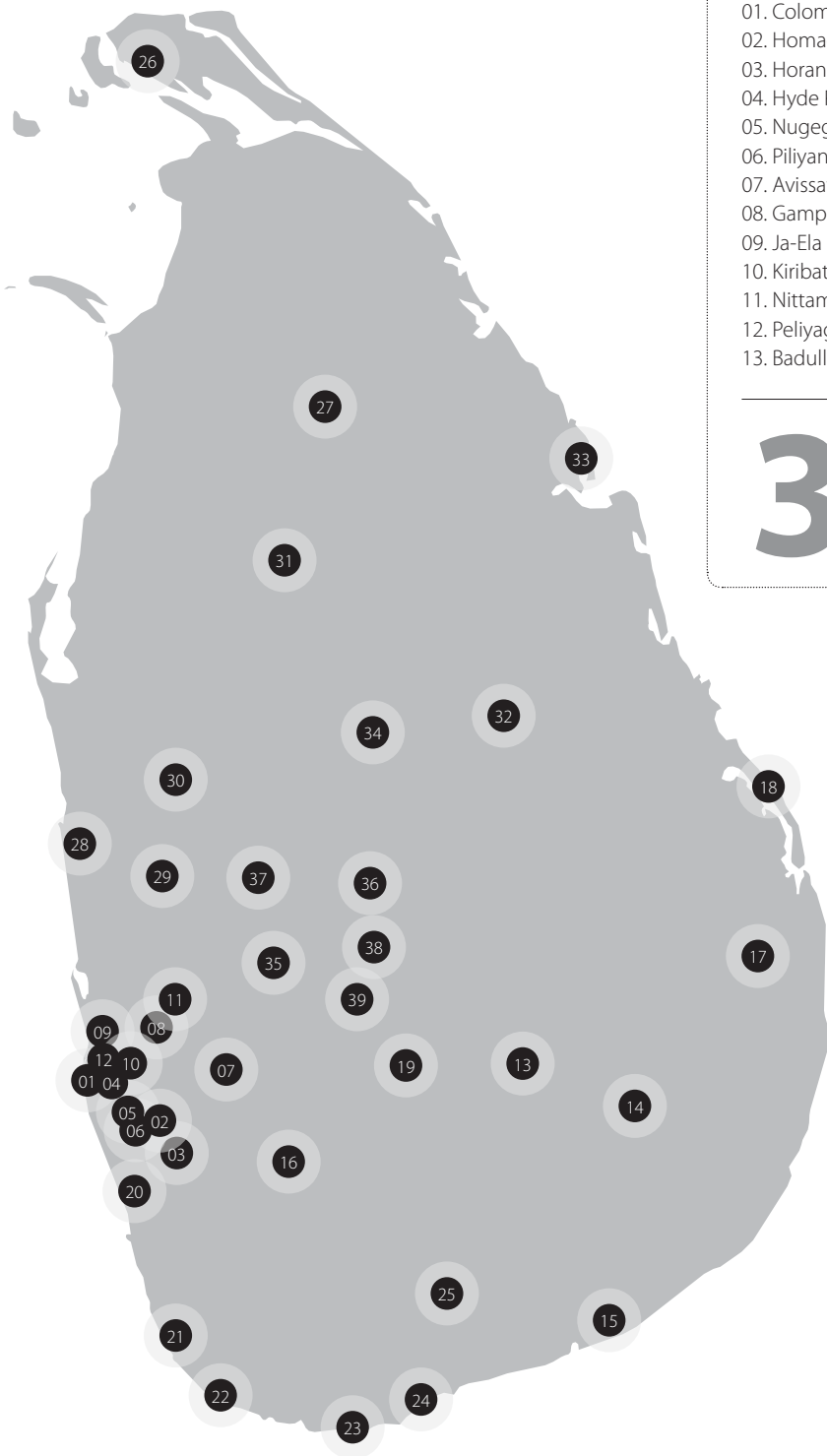
An insurance backed pension plan uniquely designed to protect the account holder and the family before as well as after the retirement



Smart Goals

A savings product which is ideal for those who want to achieve their aspirations in a relatively short period

Network Map



- | | | |
|------------------|-------------------|-------------------|
| 01. Colombo | 14. Monaragala | 27. Vavuniya |
| 02. Homagama | 15. Tissamaharama | 28. Chilaw |
| 03. Horana | 16. Ratnapura | 29. Kuliyaipitiya |
| 04. Hyde Park | 17. Ampara | 30. Nikaweratiya |
| 05. Nugegoda | 18. Batticaloa | 31. Anuradhapura |
| 06. Piliyandala | 19. Nuwara Eliya | 32. Polonnaruwa |
| 07. Avissawella | 20. Kalutara | 33. Trincomalee |
| 08. Gampaha | 21. Ambalangoda | 34. Dambulla |
| 09. Ja-Ela | 22. Galle | 35. Kegalle |
| 10. Kiribathgoda | 23. Matara | 36. Matale |
| 11. Nittambuwa | 24. Tangalle | 37. Kurunegala |
| 12. Peliyagoda | 25. Embilipitiya | 38. Kandy |
| 13. Badulla | 26. Jaffna | 39. Gampola |

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**We have
a vision of**
enhancing
the lives of
Sri Lankans
all over the
island

Home Loans

Comprehensive housing loan schemes for middle
and low income earners



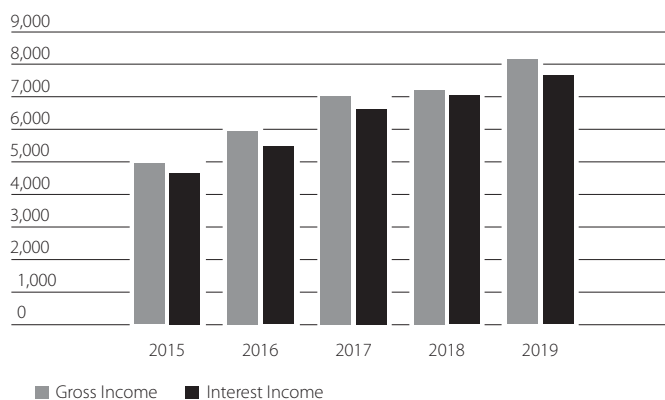


Financial Highlights

	2019 LKR.Mn	2018 LKR.Mn	Change %
Results for the year			
Income	8,090	7,120	14
Profit before Taxation	1,244	919	35
Provision for Taxation	769	354	117
Profit after Taxation	476	564	(16)
Revenue to the Governments	774	359	116
At the year end			
Shareholders, Fund	5,119	4,757	8
Deposits from Customers	42,504	37,016	15
Gross Loans & Advance to Customers	42,360	38,827	9
Total Assets	55,955	49,285	14
Information per Ordinary share			
Earnings (Basic) (Rs.)	7.35	8.72	(16)
Financial Ratios			
Return on Average shareholders' Fund (%)	9.63	12.56	(23)
Return on Average Assets (%)	0.91	1.14	(20)
Share Holders Equity to Total Assets (%)	9.15	9.65	(5)
Statutory Ratios			
Liquid Assets (%)	26.07	20.56	27
Common Equity Tier 1 -Minimum Required -7.0%	18.21%	16.41%	
Tier I (%) - Minimum Required - 8.5%%	19.14%	16.41%	
Tier II (%) - Minimum Required - 12.5%	19.14%	16.41 %	
Other Information			
Branches	39	39	-
Employees (No of Staff)	558	561	(1)
Credit Rating - Fitch/Lanka Rating	BB+(lka)	BB+(lka)	

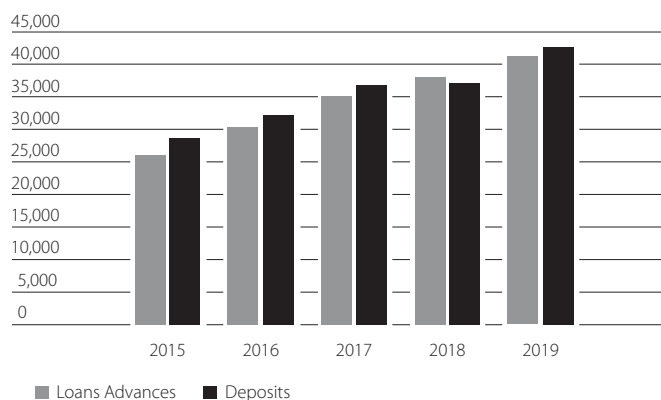
Income

Mn



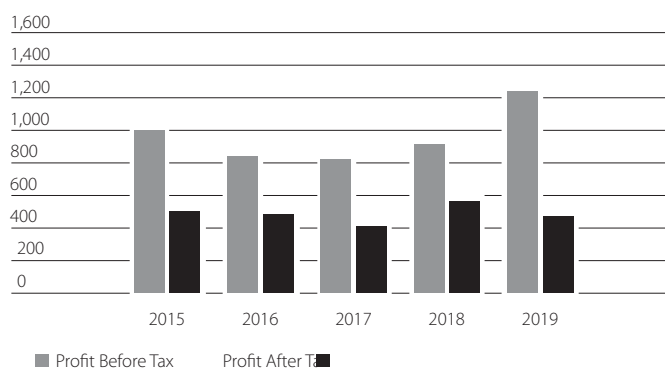
Loans Advances & Deposits

Mn



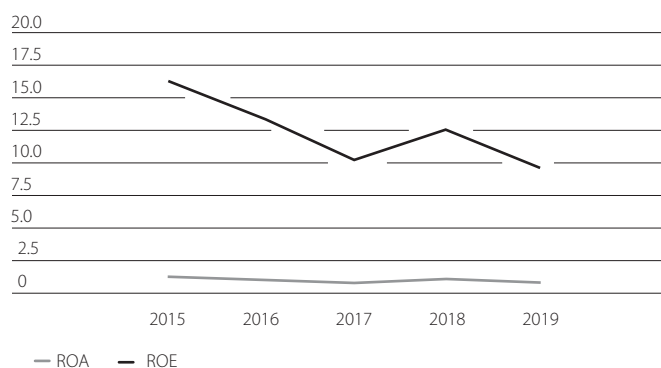
Profitability

Mn



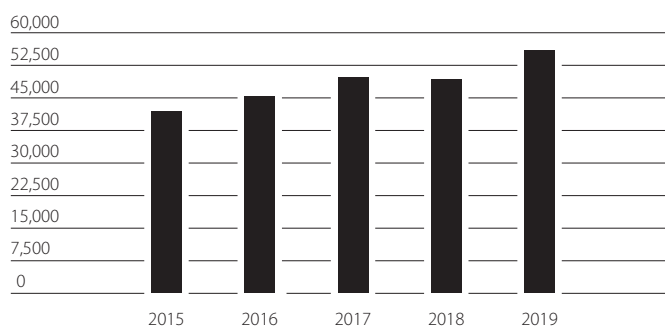
ROA & ROE

Mn



Total Assets

Rs. Mn



PBT

35 %
Increase

Chairman's Message

The Bank continued its efforts to facilitate customer convenience and customer aspirations in the provision of services, and introduced improvements to its IT systems across the branch network, to provide faster and better quality services for customers.

Dear Shareholders,
Having formally assumed duties as the Chairperson of HDFC Bank on January 02, 2020, it is my pleasure to present the audited accounts and integrated annual report of HDFC Bank, for the financial year 2019.

As our shareholders are aware, 2019 was a difficult year for the Sri Lankan economy and the banking and financial services sector as a whole. Nevertheless, I am happy to announce a commendable financial performance by HDFC during the 12 months under review, recording a net profit of Rs 476 million. While this is a decline from the profit of Rs 564 million for 2018, this decline is due to the 117% increase in tax outflows. I urge all stakeholders to please refer the CEO's Review for a more comprehensive assessment of the Bank's operational performance.

Governance and compliance

The primary compliance challenge of 2019 was to enhance the Bank's minimum capital base by an additional Rs 250 million to comply with Central Bank directives. Having acquired the additional capital through an AT1 bond issued to the Treasury, the Bank is now compliant with the Rs 5.0 billion capital adequacy requirement. With the new capital, HDFC Bank, as at end December 2019, had a Capital Adequacy Ratio of 19.14%, which is well above the regulatory minimum of 12.5%.

However, with the latest revision of minimum regulatory capital to Rs 7.5 billion by end 2020, HDFC is again faced with a challenge. As HDFC's current capital adequacy ratio is well above the regulatory minimum, the Bank has requested the Central Bank to grant time till end-2022, to comply with this latest capital enhancement. Strengthening compliance and risk management systems remained a priority in 2019, to address the Bank's overall asset quality and value creation process. In this regard, I am pleased to report a very effective outcome. The Bank has reviewed its entire policy

environment in line with Central Bank directives and updated its operational policies, including 10 human resource policies. I believe, the current policy environment will support productivity in the future. In addition, many improvements have already been effected to the Bank's risk management system, and in particular, the Bank's credit risk management procedures. Meanwhile, ongoing investments towards upgrading the IT systems will enable greater productivity, information flows and faster management decision making.

In 2019, HDFC also became a signatory to, and has commenced adopting, the Sri Lanka Banks' Association's Sustainable Banking Principles, which will provide further impetus towards internal improvements.

Meeting stakeholder expectations

The Board could not approve dividends for HDFC shareholders for the financial year 2019 due to the capital challenge mentioned already. However, the Bank has seen an appreciation in its share price during the 12 month period of January to December, from Rs 26.00, to Rs32.00 per share, which has created value for shareholders.

In addition, the ultimate major shareholder of HDFC Bank, which is the Government of Sri Lanka, holding a total of 51% of ownership, benefited from a total tax payment of Rs 770 million. This is an increase of Rs 416 million, against the tax payout of Rs 354 million in 2018.

The Bank continued its efforts to facilitate customer convenience and customer aspirations in the provision of services, and introduced improvements to its IT systems across the branch network, to provide faster and better quality services for customers.

As agreed in the 2018 Collective Agreement with the HDFC Bank union, the Bank granted the third and final salary increment



Going forward, we anticipate continued operational improvements and enhanced employee productivity.

Chairman's Message

promptly, in January 2020. A number of grievances presented by the union were resolved, and cordial relations were maintained during the year. The revision of human resource policies have also contributed towards employee satisfaction.

Strategy and resource allocation

Over the short to medium term, the Bank will continue to invest in an IT based growth strategy to contain costs, while expanding the customer base and increasing business volumes. As HDFC is a relatively small and specialised Bank, with a higher cost structure due to the smaller average loan size, modern ICT solutions are the most cost effective option to grow the business, compared to the traditional brick-and-mortar branch expansion model.

Based on this modernisation strategy, the Bank will allocate funds for new digital products, such as card based financial services, a mobile app, and an improved online banking service. The core banking system and branch connectivity, will be upgraded to facilitate a far reaching transformation.

As HDFC is looking at a significant transition from a manual business model to a digital model, it is necessary to upgrade the Bank's competencies in IT skills and modern banking systems. Therefore, the financial allocation for training and development will continue to remain a priority.

The adoption of a business diversification strategy has reduced HDFC's concentration on housing. It is expected that housing will contribute 70% of total portfolio by end 2020, compared to the current 73.7%. The diversification strategy, which will continue, can be expected to rebalance the risk profile, which will support asset quality improvement.

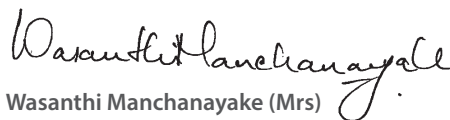
HDFC Bank has undergone significant changes to its operations due to its diversification strategy. Therefore, the Board is in the process

of reviewing the Bank's corporate vision and mission that were developed years ago, with a purely housing finance focus.

Going forward, we anticipate continued operational improvements and enhanced employee productivity.

I would like to conclude by thanking the Honourable President and Minister of Finance for their confidence in me and for my appointment as the Chairperson of HDFC Bank. I take this opportunity to welcome all new members to the HDFC Board and extend a warm note of appreciation to the rest of the Board for their commitment during the year. The advice and guidance provided by regulatory authorities have been invaluable in strengthening the Bank, and I thank all of them. I fully recognise the contributions made by the HDFC team and I look forward to working with the HDFC team to build a stronger, more modern Bank in 2020.

Sincerely



Wasanthi Manchanayake (Mrs)
Chairperson

15/05/2020

General Manager/ Chief Executive Officer's Review

A major breakthrough was the long overdue capital infusion, which has removed a significant regulatory roadblock from the path of the Bank and reinforced the Bank's financial position.

I am happy to report a good year for HDFC Bank with a number of noteworthy victories that have consolidated the Bank's financial and operational progress for the future.

A major breakthrough was the long overdue capital infusion, which has removed a significant regulatory roadblock from the path of the Bank and reinforced the bank's financial position. In addition, we also made significant progress in Central Bank compliance requirements. As these strategically vital matters are already discussed by the Chairperson, I will limit my statement to the operational aspects of HDFC during the year.

Money matters

On the financial performance front, despite the somewhat lacklustre demand conditions and severe competition among financial services providers, HDFC's loan book and deposit base have both maintained steady growth. This is indicative of the level of acceptance and trust in HDFC Bank by the Bank's traditional customer segments, who have continued to return to the Bank, although there are some 30 banks and over 40 non bank financial institutions operating in the country.

The total assets of the Bank grew from Rs. 49.28 billion, to Rs 55.9 billion, with the loan book growing from Rs.37.9 billion to Rs 41.2 billion and the investment book also growing from Rs 9.6 billion to Rs12.8 billion. The total deposit base expanded from Rs 37.0 billion to 42.5 billion, as we continued to promote our savings products, to remain competitive.

We closed the year with a very satisfactory 35% growth in Profit Before Tax, from Rs 918 million in 2018, to Rs 1,244 million in 2019. However, our Profit After Tax (PAT) declined against 2018, due to tax outflows more than doubling. The PAT reduced from Rs 564 million in 2018, to Rs 476 million. Please refer the Financial Capital section for a more in-depth break down of the Bank's financial status.

In another positive occurrence the LMD Top 100 Ranking of 2019, included HDFC Bank among the country's top 100 corporates. Inclusion in the listing implies that the Bank is now gaining wider recognition as it modernises and becomes more competitive. In addition, the listing will enhance the Bank's brand image and visibility among the corporate community.

Tackling NPLs

Improving the Bank's asset quality remained a priority for the year. In this regard, we made some tangible progress that will, if continued unabated, strengthen asset quality of the Bank in the short to medium term. In fact, we were able to achieve a reduction in NPL ratios during the first quarter of 2019, as we focused relentlessly on recoveries and credit criteria for all new loans. However, following the Easter attacks in April and later political distractions, we again saw a spike in the NPLs. Consequently, our Gross NPL ratio increased marginally from 13.40% by end 2018, to 13.75% by the end 2019.

The entire credit risk management process has been reviewed and restructured, to ensure better asset quality going forward. The loan disbursement process was changed in January 2019 for a 2-tier, centralised approval process, requiring the final approval from the Credit Administration Department, which is under the direct supervision of the Risk Department. The Risk Department involvement was strengthened by bringing the independent risk assessment of all lending above Rs.1.5 million under the Risk Department, from the previous Rs. 2.5 million cut-off level. The new system uses ICTs for fast, online information exchange and approvals, and ensures not only compliance with established lending criteria, but also closer monitoring of all new loans by Head Office. Under the new system, the NPL ratio for new loans disbursed in 2019 fell dramatically to 0.96%, compared to 10% in 2018.

Tackling the difficult task of recoveries was the other aspect of controlling the NPL portfolio. We are in the process of implementing an IT based Delinquency Management System. Gold loans and leasing portfolios across the HDFC branch network are already covered by this system. We hope to extend the system to cover all lending portfolios by the second quarter of 2020.

Talking tech

Introducing technology solutions was an ongoing process to bring HDFC on par with other financial services providers in terms of modern systems. Therefore, we have continued to invest heavily in acquiring new software and hardware for system improvements. The technology transition will also make HDFC more environmentally friendly, due to lower paper consumption, less physical delivery and travelling.

General Manager/ Chief Executive Officer's Review



Also in 2020, HDFC's core banking system will be upgraded to enable POS transaction facilities on the HDFC debit card. These modernisations will enhance HDFC's competitiveness significantly in the market, while increasing customer convenience.

The most far reaching ICT adaptation will be the Bank's transition to a modern SD-WAN (Software-Defined Wide Area Network). Once operational in 2020, the SD-WAN will become the backbone for HDFC's tech-based growth strategy. It will seamlessly interconnect the HDFC Head Office with the 39 branches island wide, for real time, large volume data interchange, and will significantly increase storage capacity through the cloud, where necessary. It will also automate the disaster recovery system to ensure business continuity at all times. A vendor has already been selected for this technology project.

The existing Loan Origination System is being revamped, which is now on a pilot run in one region. This revamped system will be expanded across the island in 2020. Compared to the previous manual process of transporting paper files to the Head Office for approval, the new system is much faster and more transparent.

HDFC's international EMV chip-based ATM card, in collaboration with JCB of Japan and Lanka Clear, will be launched in 2020. HDFC, as a specialised bank, is not authorised to hold dollar accounts to facilitate international transactions, and therefore we have already partnered with a leading commercial bank to overcome this bottleneck.

Also in 2020, HDFC's core banking system will be upgraded to enable POS transaction facilities on the HDFC debit card. These modernisations will enhance HDFC's competitiveness significantly in the market, while increasing customer convenience.

By end 2020, we hope to also launch a mobile payment App by linking with LankaPay's Just Paysy stem. JustPay allows customers to make retail payments of up to Rs. 25,000 by transferring funds from their current or savings account, to a merchant's account directly. The net work can be expected to grow continually in the future, providing a highly competitive payment platform for HDFC customers.

Board and committee meetings have also become paperless by implementing an e-meeting system. Reports and other documentation are uploaded and viewed online.

To communicate with customers, a centrally administered, digital signage system was introduced to every HDFC branch office in 2019, which displays all bank deposit and lending rates, and is also used to promote HDFC products by airing HDFC advertisements.

Shaping our future

HDFC's Gross NPL average for the past 10 years has been higher than the industry average. This is due to higher risks associated with the more financially vulnerable, lower income, populations that HDFC serves - that are generally overlooked by larger banks. HDFC also has a much smaller average-ticket size of Rs 400,000 and therefore has a higher cost structure. The Bank cannot use the simple expedient of charging higher interest rates to counter the higher risks and costs, as this would make formal credit unaffordable to a majority low income population. Therefore, ensuring operational and financial sustainability will be essential for HDFC to remain competitive in the market. All employees are being made aware of this unavoidable reality and a new performance evaluation system was introduced in 2018 to motivate employees.

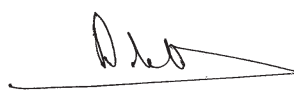
Already, we have successfully initiated improvements to many key areas of internal controls and risk management, and I believe we are on the right track to bring the Bank's NPLs to a manageable level. In addition, we will continue to focus on under performing branches and push the Bank's modernisation drive to enhance productivity and cut costs. This will make it possible for HDFC to continue to bring financial services to its under-served customer segments, thereby supporting the government's development agenda.

I believe the new tax regime will also be beneficial towards rekindling demand for financial services and in particular for housing finance in 2020. Therefore, coupled with HDFC's internal changes, we can look forward to continued improvements in HDFC's performance in the 2020 financial year.

Appreciations

As always, I appreciate the support of the Board, the former Chairman Dr Rajiv Meewakkala and the current Chairperson of HDFC, Mrs. Wasanthi Manchanayake. I also wish to thank the HDFC staff and union for their acceptance of the Bank's change process. Our customers and depositors are our mainstay and I am grateful for their continued patronage and loyalty. As we enter another challenging year, I look forward to the continued support of all stakeholders in HDFC's journey of transformation.

Sincerely



Palitha Gamage
General Manager / CEO

15/05/2020

**We have
a vision of**
making
financial
accessibility
the norm no
matter where
you are

Personal Loans

We offer a diverse range of personal loans to secure every aspect of your life goals.





Changes to Capitals in 2019

Capitals material to HDFC Bank

The senior management has identified the most material capitals to the Bank based on their importance to the Bank's immediate and future sustainability.

These are:

1. Financial capital
2. Intellectual capital
3. Human capital
4. Social capital

Manufactured capital

HDFC Bank does not own significant land or properties.

Manufactured assets are limited to furniture and vehicles, which are accounted for in the financial statements and have not changed significantly during the period under review.

Natural capital

HDFC Bank does not cause significant environmental impacts due to its small size as a service provider. The main environmental impacts of the Bank are indirect environmental impacts due to land clearing, ground water extraction, energy and water consumption, and pollution, stemming from third party activities financed by the Bank, via housing and business loans. However, the Bank does not have a mechanism to measure such impacts and has not reported on this aspect. The Bank attempts to mitigate indirect negative environmental impacts by strictly enforcing environmental regulations when granting credit.

In addition, the Bank monitors resource consumption (water, electricity and paper) within its head office and encourages a conservation mindset among employees. To further reduce environmental impacts the Bank is rapidly digitizing its internal processes.

Financial Review

Operational Profitability

The financial year 2019 has been a year of record profitability for HDFC Bank in terms of profit before taxes. The operational profitability was substantially improved during the year, resulting in a 35% increase in profit before all taxes compared to 2018. The improved operational results for the year can be attributed to expansion in loans and advances and operational improvements. Timely assets and liability management, strict cost controls, while maintaining the liquid assets portfolio at optimum level throughout the year, combined to improve the operational profit before taxes. The Bank's profit before taxes reached Rs. 1,244 Mn, from Rs. 919 Mn in 2018.

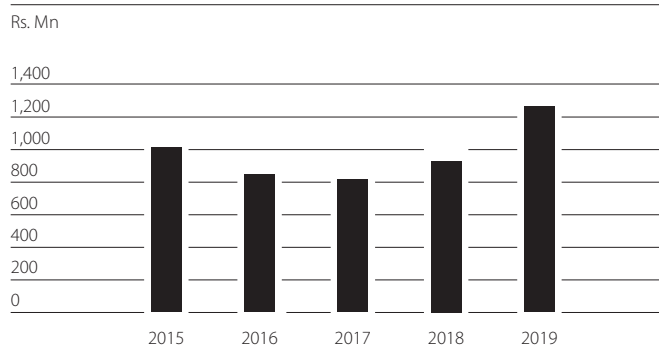
However, the recorded bottom-line is 15.60% down to Rs.476 Mn compared to Rs.564Mn in 2018, mainly due to additional tax of Rs.161Mn on Debt Recovery Levy (DRL) , which was effective from October 2018.

Therefore, the overall profitability of the Bank, as measured by the Return on Average Assets (ROA), has declined from 1.14% to 0.91% and the Return on Shareholders' Equity (ROE) has declined improved from 12.56% to 9.63% . The Bank also benefitted significantly from the change in tax laws pertaining to the leasing business, compared to the financial year 2018.

OPERATING STATEMENT

	2015	2016	2017	2018	2019
Interest Income	4,660	5,472	6,613	6,679	7,683
Less -Interest Expense	(2,539)	(3,509)	(4,742)	(4,441)	(4,783)
Net Interest Income (NII)	2,121	1,963	1,871	2,238	2,899
Add-Other Income	265	454	365	441	407
Operating Income	2,804	2,417	2,236	2,679	3,307
Less-Operating Expenses	1,288	1,409	1,472	1,668	1,740
Less- Impairment loss	89	160	(57)	92	(323)
Profit Before Taxes	1,009	848	821	919	1,244
Profit after all Taxes	509	483	414	564	476
ROA %	1.33	1.10	0.87	1.14	0.91
ROE %	16.30	13.46	10.29	12.56	9.63

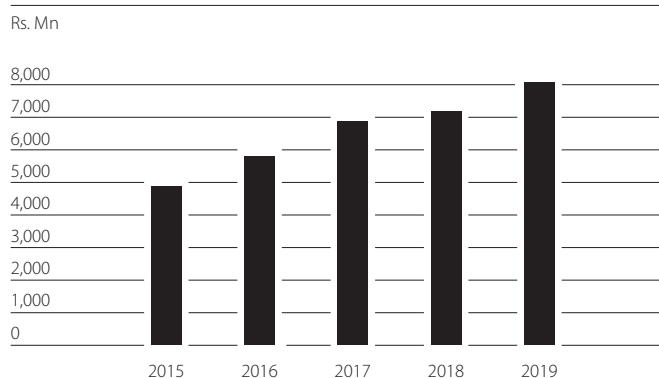
Profit Before VAT, NBT, DRL and Corporate Tax



Interest and non-interest income

Total income (interest and other income), escalated by 14%, reaching Rs. 8,090 Mn in 2019, from Rs. 7,120 Mn in the previous financial year. This sharp increase was mainly due to a rise in interest income by 15%. Interest income for 2018 was Rs. 6,679 Mn and escalated to Rs. 7,683 Mn in the period under review. The loan book growth, combined with high interest earning lending during the year, supported the interest income growth. Financial investments, maintained to support the Statutory Liquid Asset Ratio and Liquidity Coverage Ratio, in line with the Central Bank regulatory minimum, also contributed to the interest income during the year to a great extent, other than the investments maintained in the normal course of business. With the limitation of reprising the existing loan portfolio, all new lending was priced with an appropriate interest spread, in line with the rising interest environment.

Income

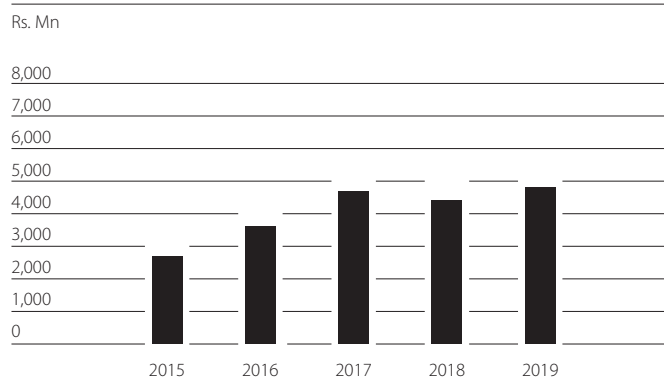


Financial Review

Interest expenditure

While interest income has increased by 15%, interest expenditure has recorded only 7.7% increase compared to the financial year 2018, resulting in a noteworthy improvement in profitability, in absolute terms. This has leveraged the Net Interest Income (NII) ratio from 33.5% to 37.7%, resulting in a significant favourable impact on the bottom line. Descaling the deposit portfolio that was invested in low yielding liquid assets, helped manage the interest cost more favourably, in spite of the challenging financial market environment. Three to six months tenure deposits that represent a substantial portion of the fixed deposit portfolio exerted a significant pressure for upwards reprising of the liability base in the volatile financial market.

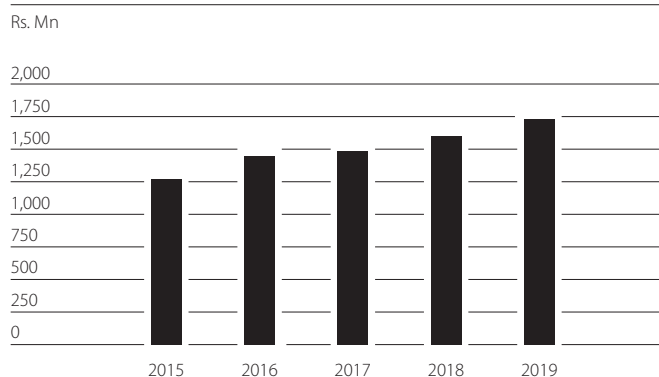
Interest Expenditure



Operating expenditure

Operating expenditure increased by 4.3% year-on-year, from Rs 1,668 Mn to 1,740 Mn. Staff cost has increased from Rs. 1,113 Mn to Rs. 1,164 Mn during the year representing 67% of the operational cost. During the year, staff cost increased by 4.5% with salary increases in line with the collective agreement that came into effect from 1st of January 2018, and promotions, which were the main drivers of the rise in staff cost.

Operating Expenditure



Impairment and SLFRS 9 application.

Impairment charges for loans and advances and other receivables has recorded an alarming increase from Rs. 92.7 Mn to Rs. 322.8 Mn. The Bank has fully complied with the transfer of the impairment model from the provision for incurred loss, to provision for expected loss, as prescribed by the Sri Lanka Financial Reporting Standards 9 (SLFRS9), with effect from 1st January 2018. Accordingly, the impairment provision for the year 2018 and 2019 were calculated in accordance with SLFRS 9 and the adopted policies and assumptions are described under the accounting policies. The Bank made additional provision of Rs. 58.4 million for debenture investment.

Asset Growth

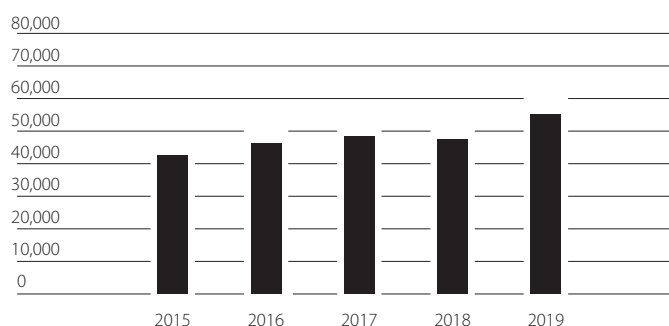
HDFC Bank ended the financial year under review with total assets coming to Rs. 55,954 million, up from Rs. 49,285 million in 2018. It should be noted in terms of year-on-year growth, that the Bank's total assets has grown by 13.53%, supported by 8.6% growth in the core business of loans and advances and receivables. Liquid assets, financial investments and other current assets recorded only a growth of 30%.

Assets and Liabilities

	2015	2016	2017	2018	2019
Loans and advances	26,685	30,259	34,970	37,949	41,215
Liquid assets and investments	13,896	13,142	13,142	9,606	12,861
Property plant, equipment and ROUA	435	478	513	466	731
Other assets	898	1,080	1,101	1,264	1,146
Total Assets	41,913	45,678	49,724	49,285	55,954
Customer Deposits	28,592	32,122	36,654	37,016	42,504
Borrowings	9,037	8,862	7,917	6,653	6,600
Other Liabilities	920	872	920	863	1,731
Shareholders' funds	3364	3,821	4,232	4,756	5,119
Total liabilities	41,913	45,678	49,724	49,285	55,954

Total Assets Growth

Rs. Mn

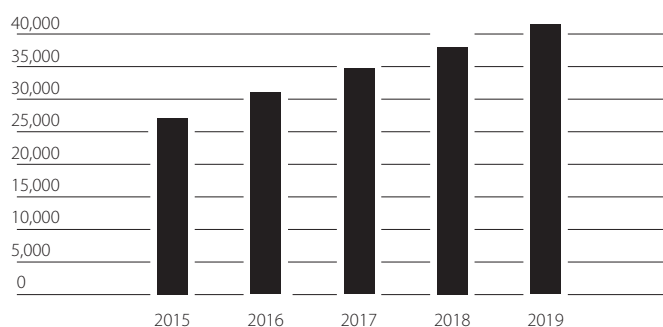


Loans and advances

HDFC's loan books has expanded to Rs. 41,216 Mn in 2019, from Rs. 37,949 Mn in 2015. The loan portfolio was mainly driven by the core business of housing finance, which accounted for over 80% of the loan book as at 31st December 2019. Leasing, micro finance, business and corporate loans also made a substantial contribution towards the growth of the loan portfolio in 2019. The loan book is concentrated throughout the island, backed by diverse collaterals. Over 38% of the loan book is secured against residential mortgages, 24% against the Employees Provident Fund (EPF) balance and around 20% against personal and institutional guarantees.

Loans and Advances (Net)

Rs. Mn



Collateral wise distribution of loan book

	2019	2018
Housing Loans - mortgaged	15,640	15,014
Housing Loans - EPF backed	10,064	8,441
Housing loans - Guarantor	8,067	6,691
Gold loans	271	259
Business - mortgage and secured against receivables	1,704	2,040
Leasing	1,284	1,092
Hire Purchase	6	16
Staff loans -mortgage and secured against salary	1,576	2,236
Cash Margin	1,662	1,470
Interest and other receivables	2,085	1,568
Total	42,359	38,826

Investment portfolio

The record financial performance was further supported by other strategic investments. Other than the compulsory liquid assets portfolio, to maintain the Statutory Liquid Assets Ratio (SLAR) and Liquidity Coverage Ratio (LCR), the Bank took a strategic decision to diversify its investment portfolio by investing in placement with other banks, government bonds, commercial Papers etc.

Financial Review

Investment Portfolio Rs. Bn

	2019	2018
Placements with banks	7,540	5,396
Financial Assets – debts and other instruments	4,880	3,981
Financial Assets- -measured at fair value	19	19
Cash and cash equivalent	421	210
	12,861	9,606

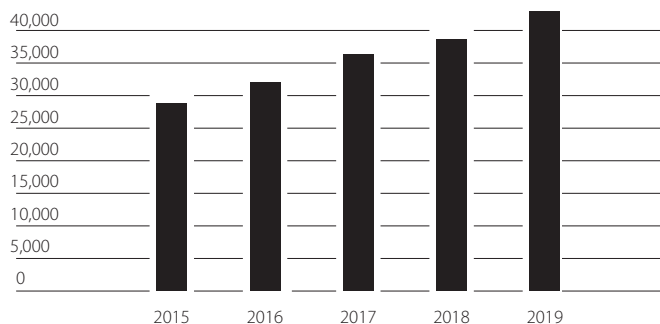
HDFC has, historically been burdened with a mismatch between its long term lending and short term liabilities. Realising the need to increase short term assets to manage the asset and liability maturity gap, we accelerated prudent short term investments during the period under review.

Deposit Mobilisation

The Bank has successfully expanded its deposit base from Rs. 37,016 Mn to Rs. 42,504 Mn during the year representing a robust year-on-year growth as much as 15% by maintaining a strong focus on attracting fixed deposits. Savings deposits, which represented 15.57% of the total deposits in 2018, has marginally declined to 15.46% in 2019. However, in absolute terms, the savings base has grown by 14% from Rs. 5,764 Mn to Rs. 6,572 Mn during the year. HDFC mobile banking operations, which contributes largely towards savings mobilisation recorded a successful year mobilising low cost funds from peripherals regions, by targeting the lower and middle income group.

Deposits Growth

Rs. Mn



Borrowing and corporate debentures

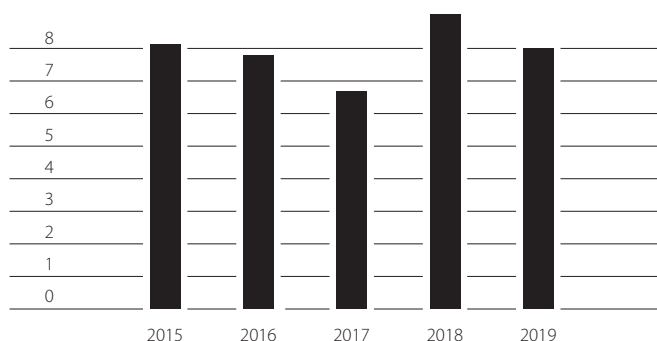
The Bank floated a successful debenture in 2013 and another debenture amounting to Rs. 4,000 Mn in 2015. Rs 2,000 Mn worth of debentures which were issued in 2013 were settled in 2016, 2017 on due date and another Rs,1,080 Mn in debentures, was settled in 2018. From the balance debenture borrowings, Rs, 2,591 million is due payable in 2020.

Earnings per share

Value creation for our shareholders was our uppermost priority and shareholder funds increased by 7.6% in the period under review. Net asset value per share grew from Rs. 73.51 to Rs. 79.11 in 2019, which marks a 7.6% increase. However, the earning per share declined from Rs. 8.72 to Rs.7.35 during the year due to enhanced tax liabilities from the Debt Recovery Levy (DRL) and corporate tax, compared to 2018. DRL was payable with effect from October 2018. In addition, the corporate tax component also increased due to the non availability of tax benefits for leasing.

Earning per share

Rs.



Capital adequacy and minimum capital requirement

The Core Capital Ratio (Tier 1) and Total Capital ratios are remain above the minimum requirement at 18.21% and 19.14% as against the regulatory minimum requirements of 7.00% , 8.50% and 12.50%. As per the Central Bank direction No. 02/17/402/0073/002 issued in conjunction with the Master Plan on Consolidation of the Financial Sector, dated 17th January 2014, the Bank had to maintain an Rs. 5,000 Mn core capital balance as on 1st January 2016. However, by the letter dated 30th July 2015, CBSL gave an extension for fulfilment

of the minimum capital with a time bound action plan, upon request of the Bank. Accordingly the Bank had to meet an Rs 4,000Mn capital by 1st January 2017 and an Rs 5000Mn by 1st January 2018. The Central Bank gave a further extension until 30/6/2019, to meet the full requirement of Rs.5,000Mn on the request of the Bank. In 2019, having acquired the additional capital through an AT1 bond issued to the Treasury, the Bank is now compliant with the Rs 5.0 billion capital adequacy requirement.

Liquidity

The Bank's liquidity is measured and evaluated by the Assets and Liability Committee regularly in order to identify its adequacy in line with prudential limits imposed by the CBSL and against stress tests to identify its adequacy under extreme scenarios. The Bank maintained a healthy Statutory Liquid Assets Ratio (SLAR) of above 23% throughout the year, as against the regulatory requirement of 20%.

The Bank maintained a Liquidity Coverage Ratio (LCR) that was well above the regulatory requirement, throughout the year. In addition, the Bank maintains unutilised approved credit lines from other banking institutions, as an additional liquidity cushion.

Assets Quality

The basis of classifying Non-Performing Loans (NPL) was revised, in line with CBSL directions, in September 2019, which resulted in an approximately 3% deterioration in the NPL ratio above the reported level. However, the continued making additional efforts in managing the non-performing loan portfolio to bring down to the desired level. The Bank overall NPL is 25.26 as at 31/12/2019. The high NPL is due to the excessive non-payment level in the EPF balances backed loan portfolio, which is recovered on a yearly basis, from the Central Bank.

HDFC Bank's NPL ratio remained high even without the EPF backed housing loans which reflects Bank's main exposure to the low- and middle –income housing finance market. The Management is highly committed towards reducing the NPLs going forward, and tackling NPLs was democratised rather than concentrated in a single department.

Human Capital



Status of compliance with labour laws

The Bank did not face any fines or penalties for non compliance, or delays in compliance pertaining to any applicable labour laws. The Bank has made all statutory employee related payments on time, including EPF, ETF and gratuity payments.

HDFC HR Policies

In 2019, the Board reviewed and updated 10 human resource related policies of HDFC Bank. These are:

1. The recruitment policy
2. The remuneration policy
3. The whistle blowing policy
4. The physical security policy
5. The training policy
6. The transfer policy
7. The grievance policy
8. The promotion policy
9. The succession planning policy
10. The outsourcing policy

Succession planning

Under the Bank's succession plan, key personnel have been identified for the next 2 – 3 years to ensure business continuity and smooth deployment of the Bank's medium term strategic plan.

Compliance with collective agreement

A majority of HDFC Bank's permanent employees (99.7%) including corporate management, are members of the Ceylon Bank Employees' Union. In December 2018, HDFC Bank signed a new three-year collective agreement with the union.

By January 2020 the Bank had complied fully with the 3-year, staggered salary increase, agreed under the 2018 Collective Agreement.



EXCO of CBEU, HDFC

Performance Evaluation

A new performance evaluation system was introduced in 2019. The new evaluation system is based on KPIs defined at the start of the year, and a new performance evaluation process, which emphasised achievement of targets. The new system is expected to motivate all employees, to work towards performance oriented targets.

Changes to human capital in 2019

The cost per employee has continued to increase reflecting salary increases and benefits.

Year	2017	2018	2019
Total number of employees	647	640	647
cost per employee (Rs Mn)	1.45	1.73	1.81

Total employees by employment type 2018 vs 2019

Type	2018		2019	
	Male	Female	Male	Female
Permanent	299	224	309	230
Probation	26	8	12	2
Contract	19	10	54	8
Trainees	53	1	31	1
Total	397	243	406	241

Total employees by employment category and gender 2018 Vs 2019

Category	2018		2019	
	Male	Female	Male	Female
Corporate Management	8	4	9	4
Chief/Senior Managers	6	7	4	8
Regional Managers	6	1	5	-
Executive Staff	85	117	83	115
Non Executive Staff	168	110	171	110
Business Promotion Assistants	46	3	46	3
Junior Business Promotion Assistants	25	-	22	-
Business Promotion Trainees	53	1	31	1
Palmtop Assistants	-	-	35	-
Total	397	243	406	241

Human Capital

Employee Benefits

HDFC employees continued to enjoy a high level of benefits although types of benefits varied according to employment category.

Benefit	Permanent	Probation	Contract	BPT
Medical Reimbursement	√	√	-	-
Housing Loan	√	-	-	-
Distress Loan	√	-	-	-
Guarantor Loan	√	√	-	-
Bike Leasing	-	-	-	√
Bonus	√	√	√	√
Leave Encashment	√	√	√	-
Subsistence	√	√	√	√
Risk Allowance (Cashier & Palm Top only)	√	√	√	√
Commission	-	-	-	√
Vehicle Loan	√	-	-	-
Festival Advance	√	√	√	-
Difficult Area Payment	√	-	-	-
Honorarium	√	-	-	-
Key Handling Allowance(Safe Key)	√	-	-	-
Branch Manager Allowance	√	√	-	-
Second Officer Allowance	√	√	-	-

HDFC Bank Performance Awards

HDFC Bank's Performance Awards 2019, to recognise top performers of 2018, was held at the Galadari Hotel in Colombo, attended by over 500 staff members from branches across the country. The HDFC Nugegoda branch bagged the most laurels at the awards ceremony, where the Bank also honoured 57 employees who had completed 25 years of service in 2017 and 2018. They were all rewarded for their long and committed service.



Intellectual Capital

HDFC Bank's intellectual assets are the HDFC Bank trademark and sub-brands/trademark under the HDFC umbrella, that are unique to the Bank.

In addition the Bank has internally developed customised software, which is the Bank's intellectual property, such as the palmtop software used by the HDFC palmtop officers.

The Bank's experienced and trained employee base is a continually strengthening intellectual asset ensuring a competitive advantage for the Bank. Therefore, the Bank invests heavily in training and developing the skills of its employees.

Training and development

In 2019, the Bank spent Rs 7.4 mn, on training and scholarships for its employees. Training programmes encompassed 98% of executive and other staff, while 100% of corporate management and senior management were also exposed to training.

Total training investment in 2019

	(Rs Mn)
Training & Scholarships	6,498,395
Foreign Training Expenses	935,995
Total	7,434,390

Percentage of employees trained in 2019

Category	%
Corporate Management & Senior Management	100%
Executive & Other Staff	98%

Social Capital



Social Capital

HDFC Bank's unblemished reputation of decades and its goodwill are the Bank's social capital. The Bank branch network and other delivery channels, and products and services, contribute towards building social capital by establishing the Bank as a recognised player in the financial market. In addition, the Bank conducts various corporate social responsibility activities to engage with customers and other external stakeholders. The Bank's steady growth in lending portfolio and deposit base is indicative of the HDFC brand strength in Sri Lanka's highly competitive financial services markets.

HDFC Branches

The total number of HDFC branches remained unchanged at 39. However, many improvements were effected to branches, such as the introduction of electronic signage boards to communicate information to customers. The Ambalangda branch was relocated to a more spacious building and the Homagama branch will be moved to a better location in 2020. Three new ATMs were installed in the premises of Kandy, Anuradhapura and Kurunegala branches.

HDFC Palmtop Banking

HDFC's palmtop banking force was expanded to 106 personnel to extend services to a larger number of customers across the country, through the provision of personalised, door-step banking services. Due to its high level of customer convenience the HDFC palmtop bankers are gaining headway in penetrating rural and urban customer segments.

In 2019, the three top performing Palmtop Officers were made permanent employees of the Bank by recruiting them into the Banking Assistant category. The formal letters of appointment were issued at the Awards ceremony in 2019.

HDFC Website

HDFC Bank is in the process of upgrading its e-banking capabilities by introducing a more sophisticated website. The Bank hopes to build its social capital base by expanding its digital footprint and also enhance customer convenience by enabling more digital transactions.

New products

New products are designed and marketed by HDFC Bank following a market assessment that identifies financial needs of consumers. These products allow consumers to meet their growth and development goals through structured financial solutions.

HDFC Smart Goals– Enabling customers to achieve their aspirations

Smart Goals, a new savings product launched by HDFC Bank at the beginning of 2019 is proving to be a great success. This is due to its innovative approach enabling customers to realise their medium-term goals. Unique features include a higher interest rate and total flexibility and convenience.



Smart Goals enables customers to target their goals at the end of three years. At that point, they can fulfil their aspirations such as purchasing a new car, getting married, or sending their children overseas for education.

HDFC Bank links up with People's Insurance

HDFC Bank entered into an agreement with People's Insurance to provide fire and natural peril insurance protection to mortgaged properties of the Bank's loan customers. The MOU was signed by Mr. Palitha Gamage, Chief Executive Officer/General Manager of HDFC Bank and Mr. Deepal Abeysekera, Chief Executive Officer of People's Insurance.

Under the MOU, loan customers of HDFC Bank can obtain a blanket fire insurance policy from People's Insurance to cover the risks to mortgaged properties. The cover is available for all mortgage loan customers of HDFC Bank to protect their mortgaged housing properties.

The cover will provide protection against fire and lightning, natural perils including floods, cyclones, earthquake and tsunamis, among others and will provide peace of mind for customers. This partnership between HDFC Bank and People's Insurance is the result of the Bank's continuous drive to provide best-in-class products and services to its customers. Further, it ensures that in case of a damage due to fire or natural calamity, the Bank's mortgaged housing portfolio is insured.



Marketing and branding

Demonstrating the Bank's growing visibility, in 2019, HDFC Bank was featured in the LMD Top 100 companies list, further enhancing the HDFC brand among the corporate sector of the country.

In addition, HDFC Bank continued to invest in promotional activities to maintain brand public visibility in the highly competitive financial markets. The continued growth in the Bank's lending portfolio and savings products were achieved through the Bank's concerted marketing and promotional drive. The share of digital marketing through social media platforms increased during the year.

Treat for loyal HDFC customers

In 2019, HDFC Bank decided to go the extra mile to acknowledge its loyal, long standing customers by treating them to delicious cakes, in a sweet demonstration of the Bank's appreciation of their long-term patronage, particularly in a difficult year. The Bank believes in building long-term relationships that enables the growth and advancement of its customers through the provision of customised financial services.

Poster campaign on pension plans

HDFC Bank conducted an island wide poster campaign to raise public awareness about available pension plan options and to educate the public on the financial security for the future that can be achieved through pension plans.

Mihira –HDFC Children's Day competition

A special competition for children was organised by the Bank, in collaboration with a popular children's newspaper "Mihira," for World Children's Day 2019. The Mihira newspaper carried a crossword puzzle with a coupon, where readers below 11 years of age could participate by sending answers. The crossword puzzle was published in the newspaper from August 2019. In addition to the general knowledge clues of the crossword, one clue for the puzzle was

Social Capital

the “name of the children’s savings account of HDFC Bank”. Three winners and 10 consolation awards were selected by a draw held at Lake House. The winners were given gifts at an event held at the Bank’s head office.



Participating in Build Sri Lanka 2019

HDFC Bank reserved a stall to represent housing finance services at the Build Sri Lanka 2019 exhibition, at the BMICH. The main objective was to meet stakeholders in the building and construction industry to provide financial assistance through HDFC’s Corporate & Development Finance Credit Schemes, for their future development projects. The Bank also used this opportunity to promote its housing products and to raise public awareness about the range of housing finance services made available through the Bank.



CSR activities

HDFC Bank becomes a signatory to SLBA’s Sustainable Banking Principles.

HDFC Bank became a signatory to the Sustainable Banking Principles (SBP) launched by the Sri Lanka Banks’ Association (SLBA) towards the realisation of the Sustainable Sri Lanka Vision 2025.

The pioneer housing finance Bank in Sri Lanka, HDFC is committed to the ‘Sustainable Sri Lanka Vision 2025’, and to contribute towards the United Nation’s Sustainable Development Goals 2030 (UN- SDGs) agenda. As the leader in housing finance in Sri Lanka, HDFC Bank has contributed largely to the socio-economic upliftment of low and middle income families, over the last 35 years. The Bank has realigned its business strategy, while strengthening its capacities, Environmental and Social (E&S) risk management and governance, and also aligning its business activities and operations within a sustainable development strategy and policy framework. HDFC’s business strategy is built on its core values while adopting SLBA’s Sustainable Banking Principles.

Present at the agreement signing were Mr. Ravi De Silva (Secretary General – SLBA) 3rd from left, Mr. Palitha Gamage (CEO, HDFC Bank).



Awareness programme on Habitat Day 2019

HDFC Bank commemorated World Habitat Day on 07th October 2019, by conducting a live radio broadcast at the Sri Lanka Broadcasting Corporation (SLBC), on the Habitat Day theme, “Frontier Technologies as an innovative tool to transform waste to wealth”. The objective was to raise public awareness on proper waste management and to spread the message to a larger community.

Accordingly, with the collaboration of SLBC, a 02 hour discussion programme named “Sathyekshanaya” was held in front of an audience at the SLBC, Colombo. The Panel included Prof. Ajith De Alwis – Project Director - The Coordinating Secretariat for Science, Technology and Innovation (COSTI), Mr.L.S.Palansooriya, Chairman –

NHDA, Mr. Madhawa Waidyaratna - Additional Secretary (Megapolis) - Ministry of Megapolis and Western Development, Mr. Palitha Nanayakkara - Municipal Commissioner - CMC and Eng. J. M. U. Indrarathne - DDG (Waste Management) – Central Environmental Authority. Ms. Indu Weerasooriya, Project Manager (Urban) represented UN-Habitat at this event.

The panel looked into the Municipal Solid Waste Management system of local authorities in Sri Lanka aimed at helping people understand the sustainability of solid waste management systems and discussed the current performance of waste management procedure used by the Balangoda Urban council.



HDFC Bank provides flood relief to families in the North

HDFC Bank stepped up to help flood affected families in Nathankudiyiruppu in the Kilinochchi District with essential food items and other essentials. This charitable effort was organised by the Welfare Society and the Sports Club of the Bank in parallel to the Thai Pongal Festival.

The villagers were supplied with dry-ration parcels containing essential items such as rice, sugar, onions, dhal, cooking oil, potatoes, flour, soap, toothpaste, tooth brushes.



Safety sticker campaign

HDFC Bank initiated a public awareness sticker campaign targeting commuters of public transport, offering guidance on preventing risks due to the security condition. A total of 75,000 stickers were pasted on busses in all provinces of the country, with the collaboration of the Sri Lanka Transport Board, National Transport Commission and the Road Passenger Transport Authority. The stickers are in Sinhala and Tamil with emergency telephone numbers.

The stickers were officially handed over to the Chairman of the Western Province Road Passenger Transport Authority, Mr. Thusitha Kularathna, the Chairman of Sri Lanka Transport Board Mr. Upali Marasinghe and the Chairman of the National Transport Commission, Mr. Janaka Mallimarachchi.

HDFC Bank head office staff volunteered to paste stickers inside buses at the Gunasinghepura private bus stand and the Pettah Central Bus Stand.

Social Capital



HDFC development projects

HDFC Bank joins with IESE to Support the Dairy Industry

Market Oriented Dairy (MOD) is an US Department of Agriculture (USDA) funded project, implemented by International Executive Service Corps (IESC). The objective of the MOD project is to increase production of fresh milk and improve farm productivity and quality of the dairy value chain. MOD is closely working with both public and private sector stakeholders in implementing the project.

The MOD project will provide technical assistance and training to improve quality of inputs, introduce best practices in dairy management, facilitate buyers and sellers, as well as other service providers, to access new technologies leading to production and productivity improvements, without any charges.

In 2014, HDFC Bank signed an MOU with the CBSL as a Participatory Credit Institution for the Commercial Scale Dairy Development Loan Scheme (CSDDL). Therefore, the Bank is actively engaged in promoting this credit scheme among commercial scale dairy farmers.

The MOU will strengthen the Business and Development loan portfolio of the Bank, while providing technical assistance to existing dairy farmers to increase their productivity and also to rehabilitate ailing projects.



Mr Palitha Gamage, General Manager/CEO, Mr Manjula Dissanayake, Head of Credit and Mr Anura Dissanayake, Manager Corporate & Development Finance signed the agreement on behalf of the Bank and Mr Matthew Krause Project Director, IESC, and Mr Chad Henry Ford from IESC, signed on behalf of IESC.

Risk Management Report

“We believe in good corporate governance practices, with effective controls enabling risk to be assessed to meet obligations towards stakeholders.”

Overview

Risk management today, is in the spotlight due to the tightened regulatory supervision, followed by the volatility in financial markets. Managing risk has become an essential tool to tackle the inevitable uncertainty associated with business, as an integral part of corporate governance.

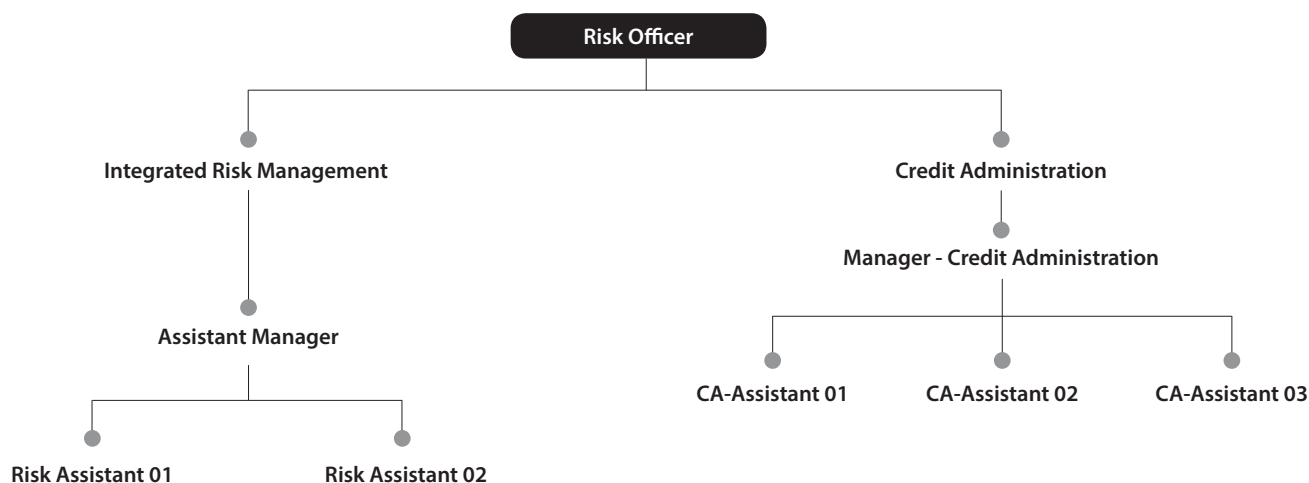
As a licensed specialised bank, HDFC Bank has continued to foster an internal culture geared towards sound internal controls and risk management, reflecting its accountability to all stakeholders. The risk appetite of the Bank for all material and relevant risk categories and the risk capital positions have been revised and established to support the overall risk management system. Consequent to ongoing reviews and revisions, the Bank has further strengthened its risk management culture to enhance day-to-day aspects of risk assessment, quantifying, managing and reporting, while also fine tuning the overall risk management framework. Risk management is integrated with the Bank's growth strategy to ensure that business and risk management goals and responsibilities are aligned across the Bank, which is heart of the Bank. We believe a strong risk ownership culture promotes a culture of responsibility and contributes towards business sustainability.

Risk Culture

The success of the IRMF is largely dependent on a strong risk culture. We believe a proactive risk intelligence culture that helps to identify and effectively manage potential risks that may have an impact on the day-to-day operations of the Bank, is the key to achieving our medium to long-term growth targets on a sustainable basis. Robust risk practices are in place to continually assess the risk culture across all operations and ensure that Risk Management goes hand in hand with the way that our employees work, think and respond to challenges. Understanding risks associated with individual roles. Promptly escalating potential high-risk issues to relevant authorities while reporting and communicating about identified risks transparently.

Risk Governance Structure

The risk governance model includes a senior management committee structure to support transparent risk reporting and discussion with overall risk and control oversight provided by the board and its committees. The CEO and Senior Executive Team determine long-term direction within the Bank's risk appetite and apply it to the businesses. Risk Management, headed by the Chief Risk Officer (CRO), sets risk strategy and Risk Management policy and provides independent oversight to support a comprehensive and proactive risk management approach. The ultimate and collective responsibility of establishing the risk management policies and risk management framework and continuous monitoring of its effectiveness, is vested with the Board of Directors.

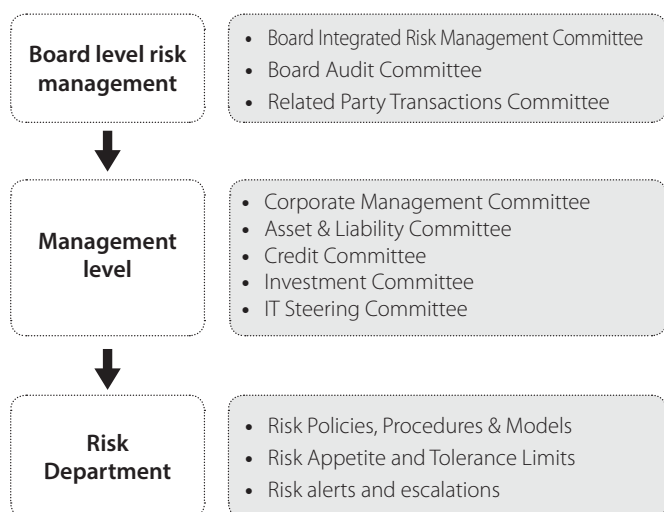


Risk Management Report

Risk Management Framework

The Board of Directors provides oversight to ensure that all risks faced by the Bank are comprehensively evaluated, monitored and controlled by management at all times. To achieve this, the Board sub-committee on Integrated Risk Management applies an Integrated Risk Management Framework (IRMF) to identify, assess, monitor and control risks within the Bank's established risk appetite. At the heart of the IRMF is the "three-lines-of-defence" model, which underpins the symbiotic roles and responsibilities needed for the effective management of risk across the Bank.

HDFC's three-lines of defence



The first line of defence involves the supervision and monitoring of risk management practices by the Risk Department.

The Risk Department is responsible for measuring and monitoring risk at operational levels on an ongoing basis to ensure compliance with the parameters set out by the Board/ BIRMC and other Executive Committees for carrying out the overall risk management function in the Bank. The department is involved with product or business strategy development and entering into new business lines and gives input from the initial design stage throughout the process from a risk management perspective.

The second line of defence is enforced through a number of management committees including Corporate Management Committee, Asset & Liability Committee, Credit Committee, Investment Committee and IT Steering Committee. The responsibilities and tasks of these Committees are stipulated in the Board-approved Charters and Terms of References (TORs) and

the membership of each committee is defined to bring an optimal balance between business and risk management.

At the highest level, the function of independent risk monitoring, validation, policy review and compliance is implemented by the Board Integrated Risk Management Committee (BIRMC), the Board Audit Committee and Related Party Transactions Committee

Board Integrated Risk Management Committee (BIRMC)

The BIRMC is the Board subcommittee which oversees the risk management function. The BIRMC functions under the responsibilities set out in the Board-approved Charter for the BIRMC, which incorporates corporate governance requirements for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL). BIRMC sets the policies for bank-wide risk management including credit risk, market risk, operational risk, cyber security risk, and liquidity risk.

The BIRMC meets at least on a quarterly basis and reviews the risk information and exposures. Risk reporting includes reports on overall risk analysis relating to the Bank's capital, risk appetite, limits position, stress testing, any strategic risks faced by the Bank and risk analysis of the bank. Additionally, they include reports covering the main risk areas such as credit risk, market risk, liquidity risk, operational risk, information systems security risk, and compliance risk.

Risk Appetite

Risk appetite is the level of risk the Bank is prepared to accept in perusing its objectives and has been defined based on regulatory requirements, borrowing covenants, and internal limits for prudential purposes. The Risk Appetite Framework, where risk appetites and tolerance levels were defined clearly for each identified risk area, was continually implemented at all three levels and risk management was monitored within predefined tolerance levels. Stress testing was conducted to ensure the Bank could absorb future macro-economic shocks

In the event the risk tolerance threshold has been breached or it is approaching the levels not desirable by the Bank, risk mitigating measures and business controls are implemented to bring the exposure level back within the accepted range. Risk appetite, therefore, translates into operational measures such as new or enhanced limits or qualitative checks for the dimensions such as capital, earnings volatility, and concentration of risks.

Stress Testing

Stress testing is an integral part of our risk management process. It helps to determine the Bank's potential vulnerability to adverse macro-economic scenarios, identify and define mitigating actions before the onset of an adverse event. Stress testing is conducted at least quarterly for all major risk categories, while portfolio-specific stress testing is conducted quarterly for highly sensitive aspects of the business; mainly lending, interest sensitive asset/liability and liquidity. The results of the stress tests are used to calibrate the thresholds and establish boundaries of the Bank's Risk Appetite. Regular stress testing is also done in conjunction with the Internal Capital Adequacy Assessment Process (ICAAP). All stress tests are formally documented, with all mitigating actions for different scenarios being recorded in detail and reported to Management Committees and Board.

Mapping the Risk

In the continuous efforts to mitigate the risk associated with the bank, a risk map depicting the severity and frequency of each risk element is prepared. This provides the management with a comprehensive view on the associated risk which will enable them to manage the risk better. Risk mapping provides the Company an overall understanding in managing risk, by selecting options through acceptance, transfer, avoidance and risk reduction.

Our Key Risks

Dash Board on Overall Risk of the Bank



Risk Management Report

We have analysed and identified the top risks that may impact our ability to grow sustainably. These risks are the cornerstone of our overall risk control strategy, and as such, are under continuous scrutiny with ongoing improvements forming part of the Bank's cohesive risk control framework.

Scope and main content of risk reporting to Board and Senior Management

Risk type	Scope and main content of risk reporting
Overall risk	Review of the Internal Capital Adequacy Assessment Process (ICAAP), Regulatory Capital Adequacy position and trends compared with limits, Overall risk limit system including regulatory and advisory/internal limits, Stress Testing of key risks and overall exposures reports on top and emerging strategic and overall business risk analysis
Capital Risk	Meeting regulatory capital requirements Monitoring & reporting the Capital Adequacy Ratio
Credit risk	Pre Credit Risk Management Internal Credit Risk Rating for all loans above Rs. 1.50 million Credit Risk Policies and delegation of authority Review of Credit Risk Management Policies Staff training and knowledge sharing sessions Disbursement centralisation under Credit Admin. Division Post Credit Risk Managements Loan review mechanism Validation of risk rating models Risk appetite limit monitoring Reviewing of Watch List Implementation of risk based pricing mechanism
Market and liquidity risk	Review and updating Liquidity & Market Risk Management Policies Reports on liquidity and treasury market risk analysis Treasury Middle Office and review of any limits Liquidity risk monitoring on BASEL III requirements Reviewing of recommendations by ALCO
Operational risks, IT and systems security risk	Reports on Business Continuity Plan and disaster recovery drills undertaken Review and updating Operational Risk Management Policies Monitor reporting of KRIs Analysing Internal Loss Events & risk from external events Monitoring of IT system risks, legal risk, people risk
Compliance risk	Status of the Bank's compliance with rules and regulations Results of compliance tests undertaken and assessment of compliance risk levels. Report on new rules and regulations Review of compliance related policies and procedures

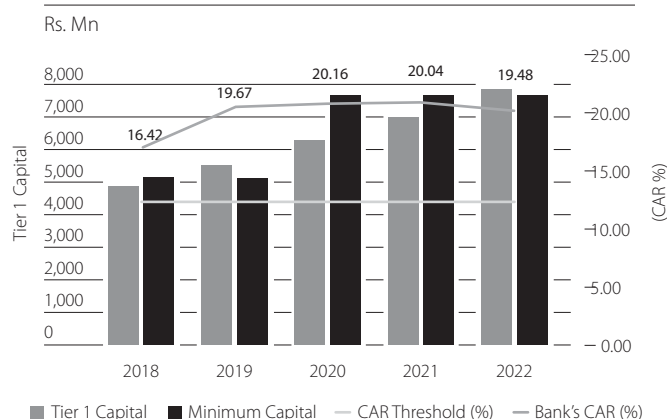
Capital Management

The Bank succeeded in meeting the minimum regulatory capital of Rs. 5,000 million with the Additional Tier 1 (AT1) capital from a perpetual Government bond of Rs. 250 million. However, CBSL imposed the next level of minimum capital threshold of Rs. 7,500 million in respect of Licensed Specialized Banks (LSBs) in Sri Lanka, which will be effective from 31-12-2020. Therefore, the Bank faces serious challenges in fulfilling the minimum capital threshold within the stipulated timeline. Therefore, 02 key alternatives were pursued.

- Seeking a 02 year extension from the Monetary Board to meet the regulatory minimum capital through internally generated profits / retained earnings.
- Merging with another bank as already proposed, to build up a "National Housing Bank," which would exceed the minimum capital requirements.

However, the Bank will maintain a strong capital adequacy ratio across the next 03 years to compensate for the deficit in equity capital. The Bank's Tier 1 capital consists of a significant portion of undiluted shareholders' equity, such as share capital and retained earnings, in addition to the Basel III compliant AT1 bond. The Bank's strengthened Internal Capital Adequacy Process (ICAAP), is in line with the supervisory review process of the Basle III capital consortium. ICAAP focuses on formulating a mechanism to assess the Bank's capital requirements, covering all underlined risk factors, subject to the internal or external shock absorption. Accordingly, the Bank plans to hold on to a strong capital adequacy ratio (CAR) until the minimum capital requirement of Rs. 7,500 million is met by end of year 2022.

Bank's Capital Infusion Plans up to 2022



Improvements to risk management at HDFC in 2019

Emerging compliance requirements, industry innovations, technological improvements - disruptions have resulted in a number of changes to the risk management landscape of HDFC Bank that has contributed towards more stringent and comprehensive risk management. In addition to the regulatory specifications of the Central Bank, and Basel III, ongoing changes in business strategy, industry factors and international best practices, were also considered in the improvement process. The key improvements to the risk management system are listed below.

- Reviewed the integrated risk management framework (IRMF) together with underlining risk policies, manuals, risk models etc... during the year 2019, aligned with the Bank's business model requirements and regulatory requisites as well.
- Re-aligned the Bank's impairment and provisioning policies according to the changes made to IFRS and Basle III requirements. Accordingly, the Bank redefined the credit risk quantifying parameters, such as Probability of Default (PD), Exposure at Default (ED), Loss Given Default (LGD) and improved the effectiveness of impairment provisioning.
- Implemented a new credit workflow to ensure that every credit proposal, except these less than 1.5 Mn, is evaluated by an independent authority not connected to business lines.
- Focused on arresting the high NPL ratios with risk mitigation actions of re-engineering the Loan Origination Process, limiting delegation of authority, centralising disbursement approval, expediting legal recovery actions, acquiring a new delinquency management system etc...
- Introduced the Risk Based Pricing (RBP) mechanism, enabling to gauge the specific risk underlining loan facilities and attract quality customers.
- Enhanced the independence of credit risk evaluation via embedding strong risk culture in the loan screening process and strengthening the Loan Review Mechanism (LRM) Reviewed and redefined prudential risk limits in order to reflect the current risk appetite and tolerance level of the Bank in terms of all key risk factors including NPL ratios, credit concentration, deposit concentration, LCR, SLAR, CAR etc...

Risk Management Report

- Implemented an Operational Dashboard, which is aligned with Key Performance Indicators (KPIs) and Key Risk Factor (KRFs) of the Bank to monitor the branch operations efficiently and effectively.
- Conducted stress testing on a regular basis, identifying potential or plausible risk and vulnerabilities of the Bank under different scenarios, to ensure the Bank's resilience and the robustness, to absorb the various micro or macro-environmental shocks.
- Inculcated a risk culture in the minds of the Bank's staff through awareness programmes, on operational risk, credit risk and the risk-based culture.

Key Risk Challenges in Year 2020

Technological breakthroughs, innovative and complex banking products, tech-based-frauds, tightening regulatory and compliance requirements, lower value additions due to high taxations etc., have given rise to many challenges to the banking system. While being exposed to industry challenges, HDFC Bank also faces some unique challenges in years to come.

- Meeting the minimum capital requirement under CBSL Directions
- Upgrading the Credit Rating from BB+ to investment grade
- Enhancing cyber security and developing IT infrastructure
- Restructuring funding mechanism to minimise the concentration risk.
- Managing the credit support programme extended to the SME sector.

Chairman's Statement on Compliance

It is with great pleasure, that we present our Corporate Governance Report 2019.

Our Approach

HDFC Bank's approach to Corporate Governance is aimed at strengthening the strategic planning framework for achieving long and short-term objectives on a sustainable landscape. Sustainability is the ultimate value proposition expected from the Bank's engagement in the long run. Therefore, currently we are focusing on necessary improvements to realise our objective; towards sustainability.

Accordingly, the good governance principles adopted at HDFC stimulates the internal stakeholders to perform with higher accountability and transparency towards the organisation with effective risk management structure coupled with proper internal control systems to realise the value addition objectives of the bank. It promotes effective stewardship and performance oriented culture for a sustainable growth scenario.

Banks 'Governance Structure

The Banks 'Governance structure was strongly formed on a three pillar structure, which consists of Board and Board sub committees, GM/CEO as the apex executive, who is accountable and answerable to the Board and the Key management, consisting with academically and professionally qualified individuals as the supportive Team.

All three participants have a collective responsibility to spear head the organisation to the next level. However, based on their hierarchy, all three parties aforesaid are individually and collectively responsible for banks overall performance targets.

Reporting

Therefore, Good corporate governance principles created a foundation for the Bank's existing governance structure. So the HDFC, on mandatory basis, adopted the BANKING ACT DIRECTION NO. 12 OF 2007, (and subsequent amendment thereto) as applicable to the Licensed Specialised Banks, issued by Central Bank of Sri Lanka. Our compliance status is reported, in SECTION ONE OF THE CORPORATE GOVERNANCE REPORT.

In addition, adopted 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 in 2017, our compliance status is reported in SECTION TWO OF THE CORPORATE GOVERNANCE REPORT.

Further, our compliance status for CSE LISTING RULES (under section 7.10) is reported in SECTION THREE OF THE CORPORATE GOVERNANCE REPORT.

Independent Assurance

Further we report the findings of the External Auditor pertaining to the Bank's compliance with Corporate Governance Directions of the Central Bank. All the findings of the factual findings report of the auditors, issued under the 'Sri Lanka Standard on Related Services Practices Statement 4400,' have been incorporated into this report.



Mrs. R. M. R. W. Manchanayake
Chairperson

Colombo, Sri Lanka
30/04/2020

**We have
a vision in**
supporting our
entrepreneurs
to help to build
a nation

Shrama Udana loan

Your next big venture is just a call away as we guide you through the ins and outs of running a successful business.





Compliance Review

The compliance status of the HDFC Bank for the financial year 2019 with regard to the corporate governance frame work pertaining to the Central Bank of Sri Lanka, Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka is henceforth defined.

SECTION - ONE

Compliance with Central Bank Corporate Governance Directions for Licensed Specialized Banks.

Section	Requirement of Corporate Governance	Level of Compliance
3(1)	The Responsibilities of the Board	
3(1)(i)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.	
	a) Check the board approval of the bank's strategic objectives and corporate values. Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Complied with Strategic objectives and values are incorporated in the board approved Corporate Plan for the period 2017-2020. The 2019 budget was prepared based on the Corporate Plan and both were discussed and communicated throughout the Bank.
	b) Check the board approval of the overall business strategy of the bank. Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. Check that the overall business strategy contains measurable goals, for at least the next three years.	Complied with Board approved Corporate Plan, which includes the overall business strategy for the period 2017-2020 is available. Internal Capital Adequacy Assessment Process (ICAAP) Risk Policy, Risk Appetite Framework have been approved by the board in line with the corporate plan.
	c) Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	Complied with Risk Department and Integrated Risk Management committee was established, Risk Policy adopted by the committee and as given above. The Integrated Risk Management Committee setting governors structure implementing, monitor and manage the principle risks.
	d) Check that the board has approved and implemented a policy of communication with all stakeholders, including deposits, creditors, shareholders and borrowers;	Complied with Sustainability measures applied.
	e) Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information system;	Complied with Board Audit Committee and the Board reviewed the Internal Control measures from time to time. Internal audit division assesses the internal control systems and submits reports to the Board Audit Committee.
	f) Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in the position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with Board has identified and designated Key Management Personnel as defined in Sri Lanka Accounting Standards.

Section	Requirement of Corporate Governance		Level of Compliance
	g)	Check that the board has exercised appropriate oversight of the affairs of the bank by Key management personnel, that is consistent with board policy;	Complied with Performance reports were considered at Board level and time to time observations were made for necessary improvements.
	h)	Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;	Complied with The administration and management of the affairs of the Corporation vested in a Board of Directors as per the HDFC Act. Accordingly, the Board is responsible for taking policy decision in this regards Key Management Personnel targets are connected with the overall budgetary target and respective departmental targets. Accordingly, KPI are available for all Key Management Members for year 2019.
	i)	Check that the board has periodically assessed the effectiveness of the board 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 Board has a self-evaluation process and it includes the evaluation of board of directors own governance practices. Self-evaluation for the year 2019 was carried out in 18th March 2020 and a summary was submitted to the Board on 30th April 2020 for their review and to discuss areas of weaknesses and to recommend changes where necessary. Policy adopted for recruitment and promotions of employees including KMP.
	j)	Check that the board has a succession plan for key management personnel.	Complied with Board approved Succession Plan is in place. Board had Approved Succession Plan for 2019 on 14th Feb 2019. And revised on 21.10.2019.
	k)	Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with KMPs are regularly involved in Board meetings, Board Sub Committee meetings and Management Committee Meetings on strategy, policies performance and other matters pertaining to their subject areas.
	l)	Check that the board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	Complied with
	m)	Check that the board has a process in place for hiring and oversight of external auditors.	Complied with According to the Constitution of the country and HDFC Act external auditor is the Auditor General, being a State-owned enterprise.

Compliance Review

Section	Requirement of Corporate Governance	Level of Compliance
3(1)(ii)	Check that the board has appointed the Chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.	Complied with The HDFC Act separates the positions of the Chairman and General Manager/Chief Executive Officer to balance of power. Chairman has been appointed by the Minister in charge of the subject, whilst the General Manager/Chief Executive Officer has been appointed by the Board. Their functions and responsibilities are clearly defined in the HDFC Act.
3(1)(iii)	Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	Complied with Board meetings are held monthly while special meetings are scheduled on a need basis. 13 Meetings were held during the year 2019.
3(1)(iv)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied with The Chairman has advised the secretary to do the agenda and all directors are free to include the matters of their own consulting the Chairman and the Secretary.
3(1)(v)	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.	Complied with Notice of the meeting, Agenda and board papers for the board meetings are circulated within the stipulated time.
3(1)(vi)	Check that the board has taken required action on directors who have 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. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	Complied with All the Directors attended the required number of meetings.
3(1)(vii)	Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied with Attorney at Law had been appointed as secretary to the board with relevant qualifications in compliance with the provisions of Banking Act. She is Responsible for the secretariat services to the Board and to carry out functions specified in the statutes and other regulations.
3(1)(viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	Complied with All the directors have full access to the advice and service of the company secretary.

Section	Requirement of Corporate Governance	Level of Compliance
3(1)(ix)	Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Complied with All records are keeping with the company secretary and have access to the past board papers and minutes.
3(1)(x)	Check that the minutes of a board meeting contain or refer to the following: (a) A summary of data and information used by the board in its deliberations. (b) The matters considered by the board (c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; (c) The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) The understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (f) The decisions and board resolutions.	Complied with Necessary information is given in the Board minute.
3(1)(xi)	Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	Complied with There is provision for Directors to obtain independent professional advice in appropriate circumstances.
3(1)(xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest. Check that a director has abstained 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. Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting.	Complied with
3(1)(xiii)	Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.	Complied with Authority matrix is in place as adopted in 26.07.2013.

Compliance Review

Section	Requirement of Corporate Governance		Level of Compliance
3(1)(xiv)	Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when 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.		Complied with There have been no situations where the Bank's solvency has been in doubt. Monthly financial statements submitted to the Board for assure the Bank's position.
3(1)(xv)	Check that the board has the bank capitalised at levels as required by the Monetary board.		Partly Complied with Capital Adequacy Ratios were met by the Bank. The bank complied with minimum capital level of Rs. 5 billion. However, section 02 of the Banking Act Direction No. 05 of 2017 dated October 2017, bank has to comply with 7.5 Bn. Minimum capital requirement by 31.12.2020.
3(1)(xvi)	Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.		Complied with This report is included in the Annual report.
3(1)(xvii)	Check that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.		Complied with Self-assessment is done on 18th March 2020 and these records are maintained with Secretary to Board.
3(2)	The Board's Composition		
3(2)(i)	Check that the board comprise of not less than 7 and not more than 13 directors.		Partly Complied with Board comprised of 08 Directors until end of November 2019. After the election the Board consisted only with 06 directors.
3(2)(ii)	(a)	Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Complied with None of the directors has exceeded the service of nine years as at the yearend 2019.
	(b)	In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	Complied with No Director has exceeded nine years of services as per CBSL requirement.
3(2)(iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.		Complied with There are no executive directors on the board.
3(2)(iv)	Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/she:		Complied with The Board comprises of 06 Directors as at 31.12.2019 and all of them are Non-executive and independent. However, one Director who resigned on 28 November 2019 represents National Housing Development Authority with a shareholding of 49.73% as at the year end.
	a)	Holds a direct and indirect share holdings of more than 1 per cent of the bank;	Not arisen

Section	Requirement of Corporate Governance	Level of Compliance
	b) Currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.	
	c) Has been employed by the bank during the two year period immediately preceding the appointment as director.	
	d) Has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)	
	e) Represents a specific stakeholder of the bank.	
	f) Is an employee or a director or a material shareholder in a company or business organisation: (i) which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or (ii) In which any of the other directors of the bank are employed or are directors or are material shareholders; or (iii) In which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank.	
3(2)(v)	In the event an alternate director was appointed to represent an independent director, check the person so appointed meet the criteria that applies to the independent director.	There is no such director was appointed.
3(2)(vi)	Check that the bank has a process for appointing independent directors.	Complied with The appointments to the board are made as per the HDFC Act.
3(2)(vii)	Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied with All directors are non-executive.
3(2)(viii)	Check that the bank discloses 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.	Complied with Details are included in the Annual Report 2019.

Compliance Review

Section	Requirement of Corporate Governance	Level of Compliance
3(2)(ix)	Check the procedure for the appointment of new directors to the board.	Complied with The appointments to the board are made as per the HDFC Act.
3(2)(x)	Check that all directors appointed to fill a casual vacancy is subject to election by shareholders at the first general meeting after their appointment.	Not arisen
3(2)(xi)	Check if a director resigns or is removed from office, the board: (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 Public announcements are made to the CSE and CBSL.
3(2)(xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a Director of another bank.	Complied with Bank has a process to identify whether a director of a bank is appointed, elected or nominated as a director of another bank based on the fit and proper declarations submitted annually to the Board.
3(3)	Criteria to assess the fitness and propriety of directors	
3(3)(i)	Check that the age of a person who serves as Director does not exceed 70 years.	Complied with All directors are under 70 years of age.
	(A) Check that the transitional provisions have been complied with.	
3(3)(ii)	Check if a person holds office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	No Director holds directorships of more than 20 companies.
3(4)	Management functions delegated by the Board	
3(4)(i)	Check that the delegation arrangements have been approved by the board.	Complied with
3(4)(ii)	Check that the Board has taken responsibility for the matters in 3(1) (i) even in the instances such actions are delegated.	Complied with
3(4)(iii)	Check that the board 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 delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.
3(5)	The Chairman and CEO	
3(5)(i)	Check that the roles of Chairman and CEO is separate and not performed by the same individual.	Complied with The HDFC Act separates the positions of the Chairman and General Manager/Chief Executive Officer. Roles of Chairman and General Manager/Chief Executive Officer are held by two individuals.

Section	Requirement of Corporate Governance	Level of Compliance
3(5)(ii)	Check that the Chairman is a Non-Executive Director. In the case where the Chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference. Check that the designation of the Senior Director be disclosed in the bank's Annual Report.	Complied with The Chairman is a Non-executive and independent director.
3(5)(iii)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	Complied with As per the declarations such relationships can be identified and those disclosures are included in the Annual report.
3(5)(iv)	Check that the board has a self-evaluation process where the Chairman: (a) Provides leadership to the board; (b) Ensures that the board works effectively and discharges its responsibilities; and (c) Ensures that all key and appropriate issues are discussed by the board in a timely manner.	Complied with Board has a self-evaluation process.
3(5)(v)	Check that a formal agenda is circulated by the Company Secretary approved by the Chairman.	Complied with Agenda discussed by the Chairman verbally with the Secretary and finalised before the meeting.
3(5)(vi)	Check that the Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	Complied with The Chairman ensures that all directors are properly briefed on issues arising at board meetings. Agenda and board papers are circulated to the directors giving adequate time for them to go through the papers. Minutes of the previous board meetings are approved in the subsequent board meeting.
3(5)(vii)	Check that the board has a self-evaluation process that encourages all Directors to make a full and active contribution to the board's affairs and the Chairman taking the lead to act in the best interest of the bank.	Complied with Board has a self-evaluation process.
3(5)(viii)	Check that the Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	Complied with Board has a self-evaluation process.
3(5)(ix)	Check that the Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with The Chairman does not involve in the supervision of KMP's.

Compliance Review

Section	Requirement of Corporate Governance	Level of Compliance
3(5)(x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied with At the AGM shareholder matters address.
3(5)(xi)	Check that the CEO functions as the apex executive-in-charge of the day to - day management of the bank's operations and business.	Complied with GM/CEO is the apex executive in charge of the day to day management of the bank's operations as per the HDFC Act.
3(6)	Board appointed Committees	
3(6)(i)	Check that the bank has established at least four Board Committees as set out in Directions 3(6) (ii), 3(6) (iii), 3(6) (iv) and 3(6) (v) of these Directions. Check that each Board Committee report is addressed directly to the Board. Check that the Board presents in its annual report, a report on each Committee on its duties, roles and performance.	Complied with Bank has five Board Committees as follows. (i) Board HR & Remuneration Committee (ii) Board Nomination Committee (iii) Board Integrated Risk Management Committee (iv) Board Related Party Transaction Committee (v) Board Audit Committee Committee Minutes are directly submitted to the Board and each Committee report appears in the Annual Report.
3(6)(ii)	Audit Committee	
	a) Check that the Chairman of the Committee is an independent Non-Executive Director and possesses qualifications and related experience.	Complied with
	b) Check that all members of the Committee are Non-Executive Directors.	Complied with
	c) Check that the Committee has made recommendations on matters in connection with:	Complied with
	(i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;	According to the HDFC Act the Auditor General acts as the External Auditor of the bank.
	(ii) The implementation of the Central Bank guidelines issued to auditors from time to time;	Complied with
	(iii) The application of the relevant accounting standards; and	Complied with
	(iv) The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Not Applicable

Section	Requirement of Corporate Governance		Level of Compliance
	d)	Check that the committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAuS.	Not Applicable Since the independence and effectiveness of Auditor General is guaranteed under the Constitution of the country.
	e)	Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	Not Applicable This does not arise since the Auditor General is the Auditor of the bank.
	f)	Check that the committee has discussed and finalised, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Complied with The scope and extent of audit have been determined by the Auditor General.
	g)	Check that the Committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit.	Complied with The committee reviews financial information of the bank when quarterly and annual financial statements presented to the committee. As CEO and CFO participate in BAC meetings clarifications are obtained on these areas when required.
	h)	Check that the Committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	Complied with Auditor General's representative is resident at the Bank and committee meets them regularly and always a representative at the BAC meetings, by invitation.
	i)	Check that the Committee has reviewed the external auditor's management letter and the management's response thereto.	Complied with

Compliance Review

Section	Requirement of Corporate Governance	Level of Compliance
	j) Check that the committee shall take the following steps with regard to the internal audit function of the bank: (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function. (v) Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Check that the internal audit function is independent of the activities it audits.	Complied with
	k) Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied with BAC has reviewed investigations and other major finding based on the Internal Audit reports and management responses.
	l) Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	This is not relevant since there are no executive directors in the Board.
	m) Check the terms of reference of the committee to ensure that there is; (i) Explicit authority to investigate into any matter within its terms of reference; (ii) The resources which it needs to do so; (iii) Full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with

Section	Requirement of Corporate Governance		Level of Compliance
	n)	Check that the committee has met, at least four times and maintained minutes.	Complied with Committee has met 5 times for 2019.
	o)	Check that the board has disclosed in the annual report, (i) Details of the activities of the audit committee; (ii) The number of audit committee meetings held in the year; and (iii) Details of attendance of each individual director at such meetings.	Complied with These details are included in the Audit Committee Report of the Annual Report 2019.
	p)	Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied with Head of Internal Audit Division is functioning as the secretary of the BAC.
	q)	Check that the “whistle blower” policy covers the process of dealing with; (i) The improprieties in financial reporting, internal control or other matters. (ii) In relation to the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and (iii) Appropriate follow-up action.	Complied with Whistle Blowing Policy – 2017 adopted on 13/10/2017 and revised on 21.10.2019 To facilitate this requirement Chief Internal Auditor (CIA) has been nominated as one of the officers to receive whistle blower Information.
3(6)(iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:		
	a)	Check that the Committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.	Complied with Remuneration of the directors are decided based on the guidelines set up by the Ministry of Finance. The Remuneration of CEO/GM and KMP's is determined by the Human Resources / Remuneration Committee on the basis of the Collective Agreement.
	b)	Check that the goals and targets for the Directors, CEO and the key management personnel are documented.	Partly Complied with Since Directors are Non-executive, they are not involved in operational matters like executive directors. KMP's are responsible for the budgetary targets. However, board approved individual goals and targets (key performance indicators) were not available. It is under preparation to submit to the board.
	c)	Check that the Committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with

Compliance Review

Section	Requirement of Corporate Governance		Level of Compliance
	d)	Check that the "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Complied with TOR of the HR Committee addresses this requirement.
3(6)(iv)	Does the following rules apply in relation to the Nomination Committee		
	a)	Check that the Committee has implemented a procedure to select/appoint new Directors, CEO and key management personnel.	Complied with
	b)	Check that the Committee has considered and recommended (or not recommended) the re-election of current directors.	Complied with
	c)	Check that the committee has set the 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 personnel, by review of job descriptions.	Complied with
	d)	Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied with Signed declaration obtained.
	e)	Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	Complied with Succession Plan for the key management personnel is available. It was updated on 21.10.2019.
	f)	Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied with
3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC) :		
	a)	The committee shall consist of at least three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied with

Section	Requirement of Corporate Governance		Level of Compliance
	b)	Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with
	c)	Check that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	Complied with
	d)	Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with Having implemented a Risk appetite framework, all risk beyond the tolerance limits is being reviewed.
	e)	Check how many times the committee has met at least quarterly.	Complied with The committee meets on quarterly basis. The committee met four times during 2019.
	f)	Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Complied with Formal documented disciplinary action procedures are in place for the purpose.
	g)	Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	Complied with The Minute submitted to the Board immediately after the Committee Meeting.
	h)	Check that the committee has establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	Complied with Compliance Officer appointed and Compliance Status Reports were submitted to IRMC.

Compliance Review

Section	Requirement of Corporate Governance	Level of Compliance
3(7)	Related party transactions	
3(7)(i)	Check that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction 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: (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.	Complied with There is a system to capture Related Party Transactions (RPT) and Related Party Guidelines issued and the matters are discussed at Related Party Committee level. Latest review on Related Party Transaction Policy had conducted in 2019.
3(7)(ii)	Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction. a) The grant of any type of accommodation, as defined in the Monetary board’s Directions on maximum amount of accommodation. b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments. c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank. d) The creation or maintenance of reporting lines and information flow between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Complied with
3(7)(iii)	Does the board have a process to 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.	Complied with The Related Party Transaction Committee was established and there in control if such event arises.

Section	Requirement of Corporate Governance	Level of Compliance
	a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the board. For purposes of this sub-direction: (i) “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. (ii) The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’s share capital and debt instruments with a maturity of 5 years or more.	
	b) Charging of a lower rate of interest than the bank’s best lending rate or paying more than the bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.	
	c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	
	d) Providing services to or receiving services from a related-party without an evaluation procedure;	
	e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
3(7)(iv)	Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that, 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 and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.	Complied with

Compliance Review

Section	Requirement of Corporate Governance		Level of Compliance
3(7)(v)	a)	Check that the bank has a process, 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, that steps have been 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.	Complied with Process is available and no accommodation will be given without a security.
	b)	Check where such security is not provided by the period as provided in Direction 3(7) (v) (a) above, has the bank taken 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.	
	c)	Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public.	
	d)	Check the process in place to ensure clause 3(7) (v) (c) does not apply to any 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.	
3(7)(vi)	Check that there is a process in place to identify when the bank grants 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)	Check that there is a process to obtain prior approval from the Monetary board for any 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 been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.		Complied with During the year related party transactions were not reported.

Section	Requirement of Corporate Governance	Level of Compliance
3(8)	Disclosures	
3(8)(i)	Check that the board has disclosed, (a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with Presented in the Annual Report 2019. Complied with Quarterly financial statements are published in the newspapers with applicable CBSL requirements.
3(8)(ii)	Check that the board has made the following minimum disclosures in the Annual Report:	
	a) The 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 Presented in the Annual Report 2019.
	b) The 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 Available in the Annual Report 2019.
	c) Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8) (ii) (b) above.	Complied with Available in the Annual Report 2019.
	d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Complied with Available in the Annual Report 2019.
	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 Available in the Annual Report 2019.
	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 Available in the Annual Report 2019.

Compliance Review

Section	Requirement of Corporate Governance		Level of Compliance
	g)	Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Complied with Available in the Annual Report 2019.
	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-compliance.	Complied with Available in the Annual Report 2019
	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.	No such situation has arisen

SECTION TWO

HDFC Bank's compliance with the Code of Best Practice on Corporate Governance by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
A. Directors				
A.1 The Board	Complied with The Board comprises only with Non-Executive Directors. Please refer Director Profiles.			
A 1.1 1. Meeting	Complied with Please refer status of compliance for 3(1)(iii) of CBSL Rules			
A 1.2 2. Board Responsibilities	Complied with The overall responsibility for the good governance of the Bank is vested with the Board.			
A 1.3 3. Access to Independent Professional Advice	Complied with			
A 1.4 4. Board Secretary	Complied with The Board Secretary plays an intermediary role between the Company and the stakeholders and Advice and services is available for all Directors for ensuring that Board procedures are correctly adhered in line with applicable laws of the Bank and she is an Attorney-at-Law.			
A 1.5 5. Independent Judgment	Complied with			
A 1.6 6. Dedication of adequate time and effort by the Board and Board Committee	Complied with			
A 1.7 7. Act in best interest	Complied with			
A 1.8 8. Every Directors should receive appropriate training on first appointment to the Board and subsequently as necessary training.	Complied with			

Compliance Review

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
A.2 Chairman & Chief Executive Officer				
A 2.1 9. Division of Responsibilities of the Chairman & GM/CEO	Complied with			
A.3 Chairman's Role				
A 3.1 10. Role of the Chairman in preserving good corporate governance	Complied with			
A.4 Financial Acumen				
A 4 11. Availability of sufficient financial acumen and knowledge	Complied with			
A.5 Board Balance				
A 5.1 12. Presence of a strong independent element on the Board	Complied with			
A 5.2 A 5.3 13. Independent Directors	Complied with			
A 5.4 14. Signed declaration of independence by the Non-executive Directors	Complied with			
A 5.5 15. Determination of independence of the Directors by the Board	Complied with During the period under review, Independent / Non-Independent, Non - Executive Directors. The relevant details of the Directors are given under the Director's Profile and Director's Report of the Annual Report, on Pages 102 to 105 and Pages 83 to 87.			
A 5.6 16. Alternate Director				N/A
A 5.7 17. Appointment of a Senior Independent Director when the Chairman is non-independent, etc...				N/A

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
A 5.8 18. Confidential discussion with the Senior Independent Director				N/A
A 5.9 19. Meeting of Non-Executive Directors				N/A
5.10 20. Recording of concerns in Board Minutes	Complied with			
A.6 Supply of Information				
A 6.1 21. Timely and appropriate information to the Board.	Complied with			
A 6.2 22. Adequate Notice, Agenda and Board papers for Board meeting.	Complied with			
A.7 Appointment to the Board				
A 7.1 23. Nomination Committee	Complied with For further details Please refer the Board Nomination Committee Report on Page 95.			
A 7.2 24. Assessment of Board composition	Complied with The Nomination Committee reviews the composition of the Board and makes necessary recommendations.			
A 7.3 25. Disclosure of details of new Directors to Shareholders	Complied with All Director Profiles are published in the Annual Report.			
A. 8 Re-election				
A 8.1 26. Appointment of Non- Executive Directors	Complied with All new appointments to the Board of Director should be in accordance with the HDFC Act No. 07 of 1997 (amendment Act No. 15 of 2003 and Act No. 45 of 2011).			
A 8.2 27. Election of Directors by the Shareholders	Complied with As per the HDFC Act, all Shareholder Directors stand for re- election once in 3 years.			
A 8.3 Resignations 28. Directors to inform the Board reasons for resignation.	Complied with			

Compliance Review

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
A.9 Appraisal of Board Performance				
A 9.1 29. Appraisal of Board performance	Complied with			
A 9.2 30. Annual self-evaluation of the Board and its Committees	Complied with Please refer comments mentioned under A 9.1, above.			
A9.3 31. The Board should have a process to review the participation, contribution and engagement of each Directors at the time of re-election.	Complied with			
A 9.4 32. Disclosure of the performance evaluation of Board and Board Sub Committee Performance.	Complied with The Board conduct performance evaluation at the time of re-election of Directors to the Board.			
A.10 Disclosure of information in respect of Directors				
A 10 Disclosure of information in respect of Directors.	Complied with			
A 10.1 33. Details in respect of Directors	Complied with The relevant details of the Directors are given under the Director's Profile of the Annual Report.			
A.11 Appraisal of the GM/CEO				
A.11 Appraisal of the GM/CEO	Complied with			
A 11.1 34. Financial targets for GM/ CEO	Complied with In line with Corporate Plan of the bank.			
A 11.2 35. Evaluation of the performance of the GM/CEO	Complied with			
B. Directors Remuneration				
B 1 Remuneration Procedures	Complied with The Directors of the Bank are not entitling for remuneration and they get an allowance as directed by the Ministry of Finance.			
B 1.1 36. Remuneration / Human Resources Committee	Complied with The Human Resource and Remuneration Committee are responsible for assisting the Board with regard to the Remuneration Policy.			

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
B 1.2 37. Composition of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on Page 94 of the Annual Report for details.			
B 1.3 38. Disclosed the Chairman / membership of the Remuneration Committee in the Annual Report	Complied with			
B 1.4 39. Remuneration of Non-Executive Directors				N/A (Directors payment are in accordance with Government Circular)
B 1.5 40. Remuneration of Executive Directors				N/A According, to the HDFC Act there are no executive Directors

Compliance Review

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
B.2 Level and make-up of the Remuneration				
B 2.1 41. Level and make-up of the remuneration of both Executive and Non-Executive Directors				N/A Please refer comments for B 1.
B 2.2 42. Executive Directors' remuneration should be designed to promote the long-term success of the company				
B 2.3 43. Comparison of remuneration with other companies				
B 2.4 44. Comparison of remuneration with other companies in the group				
B 2.5 45. Performance related payment to Executive and Non-Executive Directors				
B 2.6 46. Executive share option for Directors				
B 2.7 47. Designing the Executive Directors remuneration				
B 2.8 48. Early termination benefits of Directors				
B 2.9 49. Early termination benefits of Directors (not included in the initial contract)				
B 2.10 50. Level of remuneration of the Non-Executive Directors.				

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
B.3 Disclosure of Remuneration				
B 3.1 51. Disclosure of Remuneration	Complied with Please refer comments for B 1.			
C Relations with Shareholders				
C 1 Constructive use of the Annual General Meeting and conduct of General Meetings.	Complied with			
C 1.1 52. Adequate notice of the AGM	Complied with			
C 1.2 53. Separate resolution for all separate issues	Complied with			
C 1.3 54. Use of proxy votes	Complied with The bank has a method of recording all proxy votes and proxy votes lodged by the shareholders on each resolution.			
C 1.4 55. Availability of all Board Sub Committee Chairman at the AGM	Complied with			
C 1.5 56. voting at General Meeting	Complied with			
C. 2 Communication with Shareholders				
C 2.1 to C 2.5 57. Effective Communication with Shareholders	Complied with Shareholder are requested to contact the Company Secretary (011-2423362) or assistants for them to obtain relevant information respond you.			
C.3 Major and Material Transactions				
C 3 Major transactions	Complied with			
C 3.1 58. Major transactions	Complied with There were no major transactions as defined by section 185 of Companies Act No. 07 of 2007 which materially affected the HDFC's net asset base.			

Compliance Review

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
C 3.2 59. Disclosure requirement and shareholder approval	Complied with			
D. Accountability and Audit				
D 1 Reporting of Financial and Business Model Corporate, Risk Management	Complied with			
D 1.1 60. Internal Control for Annual Report	Complied with			
D 1.2 61. Statutory and regulatory reporting	Complied with			
D 1.3 62. CEO and CFO a declaration that, in their Opinion for Financial Statement	Complied with			
D 1.4 63. Directors' report in the Annual Report	Complied with The Director's Report is given on Pages 83 to 87 of this Annual Report.			
D 1.5 64. Statement of Directors' responsibility for the financial statement	Complied with The Statement of Directors' Responsibility for Financial Reporting is given on Pages 116 to 117 of the Annual Report.			
D 1.6 65. Management discussions and analysis	Complied with Please refer pages 14 to 36.			
D 1.7 66. Summoning an EGM to notify serious loss of capital				N/A
D 1.8 67. Related Party Transactions	Complied with			
D.2 Risk Management and Internal Control				
D.2 Risk Management and Internal Control	Complied with Please refer pages 88 to 89 for report on Directors' Statement on Internal Control.			
D 2.1 68. Annual evaluation of the internal control system, Risk Management	Complied with Please refer pages 88 to 89 for report on Directors' Statement on Internal Control.			

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
D 2.2 69. Principal Risks facing the company	Complied with			
D 2.3 70. Need for internal audit function	Complied with Please refer Page 99 for Audit Committee.			
D 2.4 71. Review of the process and effectiveness of risk Management and Internal Controls.	Complied with			
D 2.5 72. Responsibilities of Board Directors	Complied with			
D. 3 Audit Committee				
D 3 Audit Committee	Complied with Please refer page 99 for Audit Committee Report.			
D 3.1 73. Audit Committee Composition	Complied with Please refer page 99 for Audit Committee Report			
D 3.2 74. Terms of Reference and Authority and Duties of the Audit Committee	Complied with Please refer page 99 for Audit Committee Report.			
D 3.3 75. Disclosures of the Audit Committee	Complied with Please refer the Board Audit Committee report on Page 99 for membership.			
D.4 Related Party Transactions Review Committee				
D 4 Related Party	Complied with Please refer page 98 for Related Party Transaction Review Committee.			
D 4.1 76. RPT will be as defined in LKAS 24.	Complied with Please refer page 98 for Related Party Transaction Review Committee.			
D 4.2 77. Related Party Transaction Committee Composition	Complied with Please refer page 98 for Related Party Transaction Review Committee.			
D 4.3. 78. Terms of Reference and Authority and Duties of the Related Party Transaction Committee	Complied with Please refer page 98 for Related Party Transaction Review Committee.			

Compliance Review

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
D.5 Code of business conduct & ethics				
D.5 to D 5.4 Code of business conduct & ethics	To be adopted			
D 5.1 79. Code of business conduct and ethics	Complied with			
D.6 Corporate Governance Disclosure				
D.6 to D 6.1 80. Corporate Governance Disclosure	Complied with			
E Shareholders (Section 2)				
E Institutional Investors				
E1 to E 1.1 81. Shareholding Voting	Complied with Institutional shareholders are encouraged to use their votes. Further they are encouraged to execute their votes and also seek independent advice on investing or divesting decisions.			
E.2 Evaluation of Governance Disclosures				
E 2 82. Evaluation of Corporate Governance initiatives	Complied with			
F. Other Investors				
F1 Investing / Divesting Decision 83. Individual shareholders, investing directly in shares of companies, should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	Complied with			
F 2 Shareholder Voting	Complied with The Bank appreciates participation of individual customers in General Meetings and they are exercising their voting rights.			
F 2.1 84. Individual Shareholder Voting	Complied with			

Guideline	Full compliance	partial compliance	Non compliance	Not applicable
G Internet of Things and Cybersecurity				
G.1 85. Cybersecurity Risk	The HDFC Bank has already adopted and working progress with Information Security strategy (Baseline Security Standard) mandated by Central Bank of Sri Lanka.			
G.2 86. Implement a Cybersecurity risk management Policy				
G.3 87. Allocate regular and adequate time on the Board Meeting	It's being operated areas like Security governance, Risk assessment, Risk Management through control implementation and improving user awareness.			
G.4 88. The Board ensure the effectiveness of the Cybersecurity risk management through independent periodic review and assurance	The progress of the process is evaluating at the IT steering committee arrange on every month. So, this is the process that the Bank is currently adopted to manage the cyber security risks.			
G.5 89. Disclose in the annual report, the process to identify and manage Cybersecurity risk.				
H. Environment, Society and Governance (ESG)				
H.1 ESG Reporting	Improving the current practice			
H 1.1 90. Companies should provide information				
H 1.2 Environmental Factors	Improving the current practice			
H 1.2.1 91. Environmental Governance of an Organisation				
H 1.3 Social Factors	Improving the current practice			
H 1.3.1 92. Organisation's Business Model				
H 1.4 Governance	Improving the current practice			
H 1.4.1 93. Establish a Governance Structure				
H 1.5 Board's Role on ESG Factors	Improving the current practice			
H 1.5.1 94. Board Responsibility				

Compliance Review

SECTION THREE

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

Disclosures regarding the Board of Directors	Full compliance	partial compliance	Non compliance	Not applicable
7.10.1 (a) to (c) (i) Confirmation to the correct number of Non-Executive Directors in the Board	Complied with			
7.10.2 (a) (ii) Confirmation to correct number of Independent Non-Executive Directors in the Board	Complied with			
7.10.2 (b) (iii) Directors Annual Declaration of his / her Independence or Non- Independence to the Board of Directors.	Complied with			
7.10.3 (a) (iv) Annual determination of the Board as to the Independency or Non-Independency of the Directors.	Complied with			
7.10.3 (b) (v) The qualifications not met by the Directors				N/A
7.10.3 (c) (vi) Brief resume of each Director	Complied with Please refer Directors' Profiles on Pages 102 to 105.			
7.10.3 (d) (vii) Upon appointment of a new director to its board, the entity shall forthwith provide to the Exchange a brief resume of such director for PUBLIC - 13 - dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	Complied with			
Disclosures relating Remuneration & the Remuneration Committee				
7.10.5 (a) (viii) The correct number of Independent Non-Executive Directors in the Remuneration Committee	Complied with Please refer Pages 79 to 82.			
7.10.5 (a) (ix) Separate Remuneration Committee	Complied with			

Disclosures regarding the Board of Directors	Full compliance	partial compliance	Non compliance	Not applicable
7.10.5.(a) (x) Chairman of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on Page 94.			
7.10.5 (b) (xi) Functions of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on Page 94.			
7.10.5 (c) (xii) Names of the Directors in the Remuneration Committee	Complied with Please refer Page 80.			
7.10.5 (c) (xiii) Remuneration Policy	Complied with Please refer the report of the Human Resource and Remuneration Committee on Page 94.			
7.10.5 (c) (xiv) Aggregate Remuneration paid to the Executive and Non-Executive Directors (including cash and all non-cash benefits)	Complied with Please refer the note No. 09 of the Financial Statement on Page 140.			
Contents under the Audit Committee Report				
7.10.6 (a) (xv) The correct number of Independent Non-Executive Directors	Complied with HDFC confirms that, Audit Committee comprises of the required number of Independent Non-Executive Directors in accordance with Rule 7.10.6(a).			
7.10.6 (a) and 7.10.6 (c) (xvi) Separate Audit Committee	Complied with			
7.10.6 (b) (xvii) Functions of the Audit Committee	Complied with Audit Committee engages in the functions mandated under Rule 3(6) of the CBSL and Finance Circulars			

Compliance Review

Disclosures regarding the Board of Directors	Full compliance	partial compliance	Non compliance	Not applicable
7.10.6 (c) (xviii) Names of the Directors in the Audit Committee	Complied with Please refer Page 81.			
7.10.6.(a) and 7.10.6 (c) (xix) Chairman of the Audit Committee	Complied with Please refer Page 81.			
7.10.6 (a) and 7.10.6 (c) (xx) Chairman's qualifications	Complied with Please refer Directors Profiles on pages 83 to 87.			
7.10.6 (a) and 7.10.6 (c) (xxi) Attendance of CEO and CFO for the Committee Meetings	Complied with			
7.10.6 (c) (xxii) External Auditors independency				N/A The External Auditor of the Bank is the Auditor General of Sri Lanka.

Governance and Ethics

ATTENDANCE FOR BOARD MEETINGS - 2019

Names	Directorship Status as at 31/12/2019	Number of Meetings Entitled	Number of Meetings participated
Dr. R.H. Meewakkala (Resigned on 19th Nov. 2019)	Non –executive/ Independent Director	13	13
Mrs. R.A. Chulananda	Non –executive/ Independent Director	13	12
Mr. N. Wijeyanathan	Non- executive / Independent Director	13	11
Mr. Rohan De Silva	Non- executive / Independent Director	13	09
Dr. K. D. Gunawardana (Appointed on 14th March 2019)	Non - executive / Independent Director	10	10
Mrs. N.R. Anees (Appointed on 25th March 2019)	Non- executive / Independent Director	10	08
Dr. S.N. Morais (Appointed on 28th June 2019)	Non- executive / Independent Director	05	05
Mr. U.H.C. Priyantha (Resigned on 22nd Aug. 2019)	Non –executive/ Independent Director	09	09
Mr. L.S. Palansuriya (Appointed on 14th March 2019 and Resigned on 28th Nov. 2019)	Non - executive / Non Independent Director	10	09
Mr. L. Jayasinghe (Resigned on 28th June. 2019)	Non- executive / Independent Director	08	08
Mr. D.P. Wimalasena (Resigned on 27th Feb. 2019)	Non –executive/ Independent Director	02	02

* Number of Board Meetings held in year 2019 - 13

Governance and Ethics

NOMINATION COMMITTEE MEETINGS - 2019

Names	Directorship Status as at 31/12/2019	Number of Meetings Entitled	Number of Meetings participated
Dr. R.H. Meewakkala (Resigned on 19th Nov. 2019)	Non- executive / Independent Director (Chairman of the Committee)	04	04
Mrs. R. A. Chulananda	Non - executive / Independent Director	05	05
Mr. U.H.C. Priyantha (Resigned on 22nd Aug. 2019)	Non - executive / Independent Director	04	04
Mr. D.P. Wimalasena (Resigned on 27th Feb. 2019)	Non- executive / Independent Director	01	01

* Number of Nomination Committee Meeting held in year 2019 - 05

HUMAN RESOURCE / REMUNERATION COMMITTEE MEETINGS – 2019

Names	Directorship Status as at 31/12/2019	Number of Meetings Entitled	Number of Meetings participated
Dr. R.H. Meewakkala (Resigned on 19th Nov. 2019)	Non- executive/ Independent Director (Chairman of the Committee)	04	04
Mr. U.H.C. Priyantha (Resigned on 22nd Aug. 2019)	Non- executive / Independent Director	02	02
Mr. Rohan De Silva	Non- executive / Independent Director	02	00
Dr. K. D. Gunawardana (Appointed on 14th March 2019)	Non- executive / Independent Director	02	02
Mr. Palitha Gamage	GM/CEO	04	04

* Number of Human Resource & Remuneration Committee Meetings held in year 2019 - 04

INTEGRATED RISK MANAGEMENT COMMITTEE MEETINGS – 2019

Names	Directorship Status as at 31/12/2019	Number of Meetings Entitled	Number of Meetings participated
Mr. N. Wijeyanathan	Non- executive/ Independent Director (Chairman of the Committee)	04	04
Mr. L. Jayasinghe (Resigned on 28th June. 2019)	Non- executive / Independent Director	02	02
Mr. D.P. Wimalasena (Resigned on 27th Feb. 2019)	Non- executive / Independent Director	01	01
Mrs. N.R. Anees (Appointed on 25th March 2019)	Non- executive / Independent Director	03	03
Dr. S.N. Morais (Appointed on 28th June 2019)	Non- executive/ Independent Director	02	02

* Number of Integrated Risk Management Committee Meetings held in year 2019 - 04

BOARD AUDIT COMMITTEE MEETINGS – 2019

Names	Directorship Status as at 31/12/2019	Number of Meetings Entitled	Number of Meetings participated
Dr. K. D. Gunawardana (Appointed on 14th March 2019)	Non- executive / Independent Director (Chairman of the Committee)	04	04
Mrs. N.R. Anees (Appointed on 25th March 2019)	Non- executive / Independent Director	04	04
Dr. S.N. Morais (Appointed on 28th June 2019)	Non- executive / Independent Director	01	00
Mr. D.P. Wimalasena (Resigned on 27th Feb. 2019)	Non- executive / Independent Director	01	01
Mr. L. Jayasinghe (Resigned on 28th June. 2019)	Non- executive / Independent Director	02	02
Mr. U.H.C. Priyantha (Resigned on 22nd Aug. 2019)	Non- executive / Independent Director	04	04

* Number of Board Audit Committee Meetings held in year 2019 - 05

Governance and Ethics

RELATED PARTY TRANSACTION MONITORING COMMITTEE MEETINGS – 2019

Names	Directorship Status as at 31/12/2019	Number of Meetings Entitled	Number of Meetings participated
Dr. R.H. Meewakkala (Resigned on 19th Nov. 2019)	Non- executive / Independent Director (Chairman)	04	04
Mrs. R.A. Chulananda	Non- executive / Independent Director	04	04
Dr. S.N. Morais (Appointed on 28th June 2019)	Non- executive / Independent Director	01	01
Mr. U.H.C. Priyantha (Resigned on 22nd Aug. 2019)	Non- executive / Independent Director	02	02

* Number of Related Party Transaction Monitoring Committee Meetings held in year 2019 - 04

The Report of the Directors

The Board of Directors of HDFC Bank, with a great pleasure, presenting the Annual Report 2019 to the shareholders, together with the audited financial statements for Financial Year 2019, (FY 2019) and the Auditor's Report for the period under review.

01. General

- HDFC is a public quoted licensed specialized bank under the Banking Act No. 30 of 1988. The Bank until 10th December 2019 functioned under the Ministry of Housing and Construction and thereafter attached to the Ministry of Finance, Economy and Policy Development.
- As already stated, the **ANNUAL REPORT** covers the financial year 2019 (1st January to 31st December, and prepared in accordance with the statutory, regulatory requirements and prevailing best accounting practices.
- Further, Annual Report complies with the requirements of the Housing Development Finance Corporation Act No. 07 of 1997 (amendments), Companies Act No. 07 of 2007 (where applicable), Banking Act No. 30 of 1988 and Listing Rules of the Colombo Stock Exchange, etc.
- All information which are material and for the best interest of the Shareholders and for the Bank were disclosed, and the relevant financial statements were reviewed and approved by the Board.

02. Principal Activities

The Principal Business of the Bank continued as providing financial assistance for housing purposes and related activities without any change to the mandate of the Bank. In addition, the Bank engage in business activities as provided in the schedule (iv) of the Banking Act. During the period under review, there were no significant changes in the nature of the principal activities.

03. Review of Business

The Vision and Mission statements of the Bank are given on page 03 of the Annual report.

The Chairman's Message (pages 14 to 16) and GM/CEO's review pages 17 to 19 discuss the overall financial position, performance, state of affairs and significant events that took place in the Bank during the period under review.

An operational review during the financial year 2019 and operational results are given in Income Statement from pages 122 to 123. These reports form an integral part of the Annual Report of the Board of Directors.

04. Future Developments

The future developments of the Bank will be aligned with the aforesaid HDFC Act, and policy decisions of the state for development of housing. For further details, please refer the above mentioned Chairman's Message and GM/CEO's review.

05. Financial Statements

The financial statements were prepared in accordance with Sri Lanka Accounting Standards and in conformity with the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988. The financial statements for the year ended 31st December 2019 forms an integral part of the Annual Report of the Board of Directors.

Financial Statements of the Bank are given on pages 122 to 162 of this Annual Report.

06. Significant Accounting Policies

The significant accounting policies adopted in preparation of Financial Statements during the year are given on pages 127 to 136 of the Annual Report. The impact of changes in equity is given on page 125 of the Annual Report.

07. Auditors' Report

The Auditor General of Sri Lanka, who is the auditor of HDFC Bank, performed the audit on the Financial Statement of HDFC Bank for the period under review and the relevant Auditor's Report is contained in pages 118 to 121 of the Annual Report.

08. Going Concern

Directors after making necessary inquiries have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

The Report of the Directors

09. Income

The income of the Bank for the year ended 31st December 2019 was LKR. 8,090 Mn. An analysis of the income is given in Notes 1,2,3,4 and 5 to the Financial Statements.

10. Profit and Appropriation

The profit before income Tax, VAT & NBT on Financial Services of the Bank for the year ended 31st December 2019 was LKR. 1,244 Mn. and the profit after tax for the year ended 31st December 2019 was LKR. 476 Mn.

For the year ended 31st December 2019	2018 Rs. Mn	2019 Rs. Mn
VAT, DRL & NBT on financial services	290	470
Provision for taxation	64	299
Profit on ordinary activities after tax	564	476
Retained profit /(accumulated losses) b/f	2,840	3,275
Profit available for appropriation	3,404	3,752
Appropriation First & Final Dividend proposed	-	
Transfer to Reserve Funds	85	71
Retained Profit carried forward	3,320	3,680

11. Reserves

The total Reserves as at 31st December 2019, is LKR 5,119 Mn. The details are given in the statement of Financial Position, on note 30,31,32&33 of the Financial Statement.

12. Donations

During the year Bank has not made any donations.

13. Statutory Payments

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

14. Provision For Taxation

Income tax for 2019 has been provided at 28% on the taxable income arising from the operations of the Bank and has been disclosed in Note 11 to the Financial Statements on page 141 of this Annual Report.

15. Dividend

In considering the regulatory requirement of the Bank to increase the minimum capital of Rs. Seven point Five Billion (7.5Bn), Dividend will not be paid for financial Year 2019.

16. Property, Plant And Equipment, Freehold Property

Capital expenditure on property, plant and equipment amounts to LKR 72 Mn., the details of which are given in Note 19 of the Financial Statements on pages 146 to 149.

17. Market Value of Freehold Properties

Details of the market value of freehold properties are given on Note 19.2 of the Financial Statements on page 149.

18. Events Occurring After the date of the Statement of Financial Position

There have been no material events occurring after the date of the statement of financial position that would require adjustments or disclosure in the financial statements.

19. Stated Capital

The stated capital of the Bank as at 31st of December 2019 was LKR. 962 Mn. consisting of 64,710,520 ordinary shares.

20. Share Information and Debentures

Information relating to holdings of shares and debentures is given in pages 168 to 170 and 152 to 153 of this Report.

21. Equitable Treatment to all Stakeholders

All shareholders have been treated equitably in accordance with the original terms issued to them.

22. The Board of Directors

Please refer chapter on Board of Directors on pages 100 to 101 for full list of Directors and their qualifications and experience.

Appointments and resignations to the Board during the period under review.

No.	Name	Appointments during the review period	Resignations during the review period
01.	Dr. R. H. Meewakkala	02/01/2019 (Appointed as the Chairman of the Board)	19/11/2019
02.	Mr. L. S. Palansuriya	14/03/2019 (Re-appointment)	28/11/2019
03.	Dr. K.D. Gunawardana	14/03/2019 (Appointed to the Board)	-
04.	Mrs. N.R. Anees	25/03/2019 (Appointed to the Board)	30/06/2019
05.	Dr. S. N. Morais	28/06/2019 (Appointed to the Board)	-
06.	Mr. U.H.C. Priyantha	-	22/08/2019
07.	Mr. L. Jayasinghe	-	28/06/2019
09.	Mr. D. P. Wimalasena	-	27/02/2019

23. Board Sub Committees

As stipulated under the Corporate Governance Directives of the Central Bank of Sri Lanka, Colombo Stock Exchange, etc. relevant Sub Committees were appointed and the membership, duties, responsibilities and performance of the above Sub Committees are given on pages 94 to 99 of the Annual Report.

24. Directors Meetings

Please refer the section on Board and Board Sub Committee attendance at meetings, on pages 79 to 82

25. Director' Responsibility For Financial Reporting

The Directors are responsible for the preparation of financial statements of the Bank to reflect a true and fair view of the state of affairs of the HDFC Bank. Please refer the statement of Directors' responsibility for Financial Reporting is given on pages 116 to 117 which form an integral part of the Annual Report of the Board of Directors.

26. The Directors Interest

The Bank made the necessary declarations of the Directors interest given on page 161 Other than those disclosed the Directors have no direct or indirect interest in a contract or a proposed contract that has to be disclosed to the shareholders. Directors abstained from participating at the discussions or in the approving process or voted on matters or contracts in which they were interested.

The Directors disclosed their interest (if any) to ensure that they would refrain from voting on issues they have an interest.

27. Directors' Interest in Shareholding

Directors' shareholdings are as follows:

	31/12/2019	01/01/2019
Mrs. R. A. Chulananda	Nil	Nil
Mr. N. Wijeyanathan	3,979	3,979
Mr. J. Rohan U. De Silva	2,241	2,241
Dr. K. D. Gunawardana	1,000	Nil
Mrs. N. R. Anees	Nil	Nil
Dr. S. N. Morais	1,000	Nil
Total	8,220	6,220

The Report of the Directors

28. Directors' Interests in Debentures

Individual debenture holding of Directors were as follows:

As at December 31, 2019	2019	2018
	No. of Debentures	Value (Rs.)
Mrs. R. A. Chulananda	Nil	Nil
Mr. N. Wijeyanathan	Nil	Nil
Mr. J. R. U. De Silva	Nil	Nil
Dr. K. D. Gunawardana	Nil	Nil
Mrs. N. R. Anees	Nil	Nil
Dr. S. N. Morais	Nil	Nil
Total	Nil	Nil

29. Related Party Transactions

Board wish to declare that, Bank during the period under review, complied with the rules of the Colombo Stock Exchange and Directions Issued by CBSL on Related Party Transactions. Details of significant related party transactions are given in page 161 of the Annual Report;

30. Directors' Remuneration

Directors' remuneration, for the financial year ended 31st December 2019 is given on Note 9 to the financial statement on page 140

31. Environmental Protection

The Bank has complied with the relevant environmental laws and regulations to the best knowledge of the Board. The Bank has not engaged in any activity that is harmful or hazardous to the environment.

32. Risk Management and System of Internal Controls

During the period under review, Bank's Risk Department and Integrated Risk Management Committee (IRMC) and the Board took relevant initiatives pertinent to the area of Risk Management. Please refer Risk Assessment Report on pages 37 to 42.

Further, during the period under review, the Board Audit Committee (BAC) reviewed the internal control process on a regular basis. Both the IRMC and BAC and directly submit committee minutes to the Board.

Please refer the Board Audit Committee Report on page 99 and Independent Auditors Report on pages 90 to 91 on Internal Controls.

33. Corporate Governance

Please refer Corporate Governance report given on pages 46 to 78 as required by Corporate Governance Directions for Licensed specialized Banks, issued by the Central Bank of Sri Lanka along with the findings of the "Factual Findings Reports" of auditors issued under 4,400 (SLSRS).

34. Compliance with Applicable Laws and Regulations

The Bank's Compliance Officer directly reports the compliance status of the Bank pertaining to governing laws to the IRMC. To the best of the knowledge of the Directors, 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 on the Bank.

The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank including the HDFC Act NO 07 of 1997 (amendments) Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act No. 58 of 1949, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax Act No. 14 of 2002, Finance Act No. 5 of 2005, Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987, Financial Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act. No 15 of 1958, Employees' Trust Fund Act No. 46 of 1980 etc. and amendments to such statutes.

35. Appointment of Auditors

The Auditor General continues to be the Auditor of the bank as stipulated in the HDFC Act No.07 of 1997 and as per the constitution of Sri Lanka.

36. Auditors Remuneration and Interest in Contract With the Bank

The Auditors were paid Rs.3,767,526 for the year ended 31st of December, 2019 as audit fees by the Bank. The Auditors do not have any other relationship or interest in contracts with the Bank.

As far as the Directors are aware the Auditors do not have any relationship with or interest in the Bank other than those disclosed above.

37. Audit Committee

The composition of the Audit Committee and their report is given on pages 99 of this Annual Report.

38. Notice of Meeting

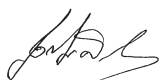
The 35th Annual General Meeting of the Bank will be held as per sec. 35 of the HDFC Act No. 07 of 1997, within 9 months after the close of financial year 2019, and the notice will be given to the shareholders in due course.

Signed in accordance with a resolution of the Board of Directors



Mrs. R. M. R. W. Manchanayake

Chairperson



Mrs. K. T. D. D. De Silva

Company Secretary

30/04/2020

Directors' Statement on Internal Control over Financial Reporting

Responsibility

In line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the internal control mechanism in place at Housing Development Finance Corporation Bank of Sri Lanka ('the Bank'). In considering such adequacy and effectiveness, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank.

In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

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 over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board in line with the 'Guidance for Directors of Banks on the Directors' Statement on Internal Controls' issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking in to account principles for the assessment of the internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System over Financial Reporting

- Various Committees are established by the Board to 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.
- Internal Audit department checks compliance with policies and procedures and the effectiveness of internal control systems on an ongoing basis during their process audits. Audits are carried out on branches and departments in accordance with the annual audit plan approved by the Board Audit Committee. The Audit Committee reviews the findings of the internal audits completed and their evaluation of the Bank's internal control systems. The Committee also reviews the audit activities and the scope and adequacy of coverage of the approved audit plan and any improvements thereto.
- The Board Audit Committee of the Bank also reviews internal control issues identified by the External Auditor, regulatory authorities and the management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The Committee also reviews the internal audit functions with particular emphasis on risk assessment, scope of audits and quality of internal audits. The minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the 'Board Audit Committee Report' on page 99.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit department for suitability of design and effectiveness on an ongoing basis. The comments/recommendations made by the External Auditors in connection with the internal control system over financial reporting during the year will be taken into consideration to further strengthen the internal control system over financial reporting process.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors, the Auditor General has reviewed the above Directors' Statement on internal control over financial reporting included in the Annual Report of the Bank for the year ended 31 December 2019 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 over financial reporting of the Bank. Their independent assurance report on the Directors' Statement on Internal Control is given on the pages 90 to 91 of this Annual Report.

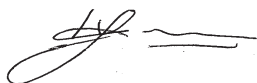
By order of the Board,



Mrs. R. M. R. W. Manchanayake

Chairperson

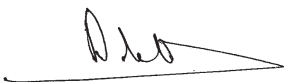
07th February 2020



Prof. K.D Gunawardena

Chairman Audit Committee

07th February 2020



Mr. Palitha Gamage

General Manager/ Chief Executive Officer

07th February 2020

Colombo

Assurance Report of the Auditor General on Internal Controls



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

BAF/ 01/C/HDFC/IC/19/17

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

27 April 2020

The Chairman

Housing Development Finance Corporation Bank of Sri Lanka.

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of Housing Development Finance Corporation Bank of Sri Lanka.

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") of Housing Development Finance Corporation Bank of Sri Lanka included in the annual report for the year ended 31 December 2019.

Management's Responsibility

Management is responsible for the preparation and presentation of the statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibility and compliance with SLSAE 3050

My responsibility is to issue a report to the Board on the statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050- Assurance Report for Banks on Directors' statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

I conducted my engagement to assess whether the Statement is supported by the documentation prepared by or for Directors and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

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இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை.

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NATIONAL AUDIT OFFICE

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors. SLSAE 3050 does not require me to consider whether the statement covers all risk and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspect of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the Annual Report is inconsistent with my understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.


W.P.C. Wickramaratne
Auditor General

Assurance Report of the Auditor General on Corporate Governance



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எனது இல.
My No. }

BAF/ 01/C/HDFC/CG/19/18

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

27 April 2020

The Chairman

Housing Development Finance Corporation Bank of Sri Lanka.

Auditor General's Report of Factual Findings of Housing Development Finance Corporation Bank of Sri Lanka (HDFC) to the Board of Directors of the HDFC Bank of Sri Lanka on the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka-31 December 2019.

I have performed the procedures enumerated in an Annexure-01 to this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standard on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the Corporate Governance Directive.

I report my findings in the attached Annexure-01 to this report.

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, I do not express any assurance on the compliance with directives of Corporate Governance issued by CBSL.

Had I performed additional procedures or had I performed an audit or review of the Governance Report in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, Other matters might have come to my attention that would have been reported to you.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව



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NATIONAL AUDIT OFFICE

My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

This report relates only to the items specified above and does not extend to any financial statements of HDFC Bank of Sri Lanka, taken as a whole.


W.P.C. Wickramaratne
Auditor General

Board Sub Committee Reports

Board Human Resources and Remuneration Committee

The BHRRC is mainly responsible for articulating human resource and remuneration policies and for formulating strategies for effective human resource management of the Bank. During the period under review, the Terms of Reference of the above Committee was reviewed and revised to broaden the relevant scope of the Committee.

Accordingly, the Human Resources and Remuneration Committee is responsible for the following:

01. Determine the Remuneration Policy (Salaries, Allowances and Other Financial Payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.
02. The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.
03. The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set target and goals periodically and determine the basis for revising remuneration, benefits and other payments performance-based incentives.
04. Change of Designation Titles.
05. All local and foreign training and attending to overseas seminars by the staff members of the Bank.
06. Service extension of staff.
07. To take decisions/ or determine appeals on disciplinary matters (if required under the Bank's disciplinary code)
08. Any appeals on grievances of employees.
09. All employee related matters beyond the Management Authority level (except the specific matters vested under the Board's Authority).
10. To adopt a suitable Terms of Reference for the Committee and to review / revise the same.

Recommendations to the Board

To study and make relevant recommendations to the Board pertaining to any matter referred to the Committee and in particular the following;

01. The collective agreement of the Bank with the CBEU.
02. The organisational structure for the Bank.
03. Necessary cadre Recruitments, Scheme of recruitments (SOR) of cadre.
04. Creation of new Posts or Positions, Placements, Cadre and Cadre Budget.
05. Relevant Policies pertaining to all Human Resource matters.
06. To make recommendations to the Board pertaining to the decisions / appeals on disciplinary matters (if required under the Bank's disciplinary code).
07. All employee related matters which are beyond the management and HR committee authority levels.

The Committee during the period under review took necessary measures to carry out the relevant responsibilities assigned to them and accordingly successful in recommending several important policies related to the staff.

During the Period under review 04 Committee meetings were held.

The membership of the Committee and Committee meeting attendance are given on page 80 On the Annual Report.



Mrs. R. M. R. W. Manchanayake
Chairperson



Mrs. Dharshani De Silva
Company Secretary

At Colombo,
30/04/2020

Board Nomination Committee

The Nomination Committee is mainly responsible for formulating relevant policies for Directors and Key Management Members and responsible for the following;

01. for implementing a procedure to select / appoint new Directors, CEO and Key Management Personnel.
02. For making recommendations for re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.
03. For adopting suitable 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 positions.
04. for adopting a suitable system to ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and asset out in the Statutes.
05. for recommending (time to time), the requirements of additional / new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

The Committee during the period under review took necessary initiatives according to the mandate of the Nomination Committee, as given above.

The membership of the Committee and attendance of the Committee members at the meeting is given on Page 80 of the Annual Report. The Nomination Committee met Five (05) times during 2019.



Mrs. R. M. R. W. Manchanayake
Chairperson



Mrs. Dharshani De Silva
Company Secretary

At Colombo,
30/04/2020

Board Sub Committee Reports

Board Integrated Risk Management Committee

The Board is primarily responsible for risk management initiatives, and delegated the relevant authority to the Integrated Risk Management Committee (BIRMC). The Composition, Scope of the work and Committee proceedings were based on the Terms of Reference (TOR) of Integrated Risk Management Committee adopted by the Board of Directors in line with the CBSL guidelines.

Scope and Commitment

In line with the Corporate Governance directions of the CBSL the BIRMC with established for the following mandate;

01. The Committee shall work with key management personnel very closely and make decisions on behalf of the board within the framework of the authority and responsibility assigned to the Committee.
02. The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks of the bank on a monthly basis through appropriate risk indicators and management information.
03. The Committee shall review the adequacy and effectiveness of all management level Committees such as the Credit Committee and the Asset-liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
04. The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the bank's policies and regulatory and supervisory requirements. Directions, Determinations, and Circulars issued to Licensed Specialized Banks.
05. The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.
06. The Committee shall obtain reports timely through board packs as established as a part of e- Meeting system.
07. The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.
08. The Committee shall submit a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/ or specific directions
09. The Committee shall establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the Committee periodically.

During the Period Under Review, The Following Were the Main Areas Covered By The BIRMC;

- Improved risk identification, assessment and measurement covering credit, operational, Strategic, financial and liquidity risks including the risks related to IT operations
- Strengthened the scope and coverage of Risk Management Committee (RMC) meetings & Develop Integrated Risk Management by way of implementing a revised and improved ICAAP of the Bank, Improve stress-testing framework, Introduce of a model risk management framework & Rollout conduct risk management initiatives.
- Strengthen Credit Risk through reducing the Credit Risk Rating threshold from 2.5Mn to 1.5Mn, recalibrating internal risk rating system & Enhance the scope and coverage to intensify the LRM assessment
- Develop LOS to Online loan approval system, with the expectation of streamlining credit approvals and significantly reducing turnaround times and usage of paper
- Improved risk monitoring via dashboards by modifying key risk indicators and periodically reported to the board through Integrated risk management committee

The Committee confirms that there are no regulatory or supervisory concerns or any lapses in the Bank's risk management or non-compliance with the CBSL directions, which have been pointed out by the Director of Bank supervision and the Monetary Board that should be disclosed to the public, together with the measures taken by the Bank to address such concerns.

The membership of the Committee and attendance of the Committee members at the meeting is given on Page 81 of the Annual Report. During the period under reviewed the Committee met Four (04) times.



Mr. N. Wijeyanathan
Chairman



Mrs. Dharshani De Silva
Company Secretary

At Colombo,
30/04/2020

Board Sub Committee Reports

Board Related Party Transactions Monitoring Committee

The Related Party Transactions Monitoring Committee is responsible for monitoring related party transactions as stipulated by the regulators of the Bank (such as Securities and Exchange Commission, (SEC), Colombo Stock Exchange (CSE), and Central Bank (CBSL) from time to time).

Scope and Commitment

- The Committee is responsible to administer any conflicts of interest that may arise from Related Party transactions as stipulated by the statutory provisions and directions of regulators of HDFC.
- To ensure that the banks engagement are conducted in a manner for the best interest of the Bank and to prevent Directors, Chief Executive Officers, Key Management or Substantial Shareholders taking advantage of their position for their benefit.
- Accordingly, the committee is responsible for dealing with RPTs at arms' length and consistent with the provisions of the Securities and Exchange Commission of Sri Lanka (SEC Code) and the Colombo Stock Exchange. (CSE Rules).
- Therefore, the Committee had adopt a Related Party Policy & it's TOR for defining the RPT transactions of HDFC Bank. When dealing with related party Transactions, the committee ensure there is no favourable treatment to related parties, and avoiding any conflict of interest.
- Further, the Committee has communicated the comments/ observations of reviewed Related Party Transactions during the financial year to the Board of Directors.
- In addition to above, the mandate of the committee includes advising the board in making appropriate disclosures on RPT in the Annual Report as required by Section 9 of listing rules of CSE (CSE Rules).
- Moreover, monitoring systems are in place to capture and feed relevant information on RPT which also includes information on Key Management Personals (KMP), Directors and their Close Family Members (CFM) in to the Banks data collection system and the accuracy of such information.

Policy and for of the Bank for Related Party Transactions

The Related party committee, with the approval of the Board, adopted a Related Party policy and TOR to streamline related party transactions, and apply arm's length principles on related party transactions to ensure that Bank will not offer any favourable treatment to related parties. Further, it stipulated the procedure that the Bank has to follow in dealing with the Related Party Transactions. Time to time, the committee has to review the existing policy and TOR on need basis and relevant revisions will be done on the need basis.

Committee Meetings

During the Period under review the Committee has reviewed the Related Party Transactions and has communicated the comments/ observations to the Board of Directors.

Membership

The membership of the Committee and attendance of the Committee members at the meeting is given on Page 82 of the Annual Report. During the period under reviewed the Committee met Four (04) times.



Mrs. R. M. R. W. Manchanayake
Chairperson



Mrs. Dharshani De Silva
Company Secretary

At Colombo,
30/04/2020

Board Audit Committee

The Audit Committee presents this report for the financial year ended 31st December 2019 to comply with the "Listing Rules" of the Colombo Stock Exchange and Code of best practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and also to comply with the Corporate Governance requirements of Central Bank of Sri Lanka. Proceedings of BAC were based on the charter adopted by the Board of Directors for the functioning of the Committee.

The committee comprises of 3 non-executive independent directors as at the end of the year.

- Prof. K.D Gunawardena (Chairman)
- Mr. U.H.C Priyantha
- Ms. N.R Anees

The quorum for a BAC meeting is two (02) members.

The Chief Internal Auditor functions as the Secretary to the BAC. Chief Finance Officer and the representative of the Auditor General also attend the BAC meetings.

General Manager/CEO and other officers of the bank attend the meetings on invitation.

The BAC in particular

- Reviews the financial reporting process to ensure the compliance with financial reporting standards.
- Examines the system of internal control and management of business risks.
- Reviews the audit processes, both external and internal.
- Reviews the procedures in place for monitoring compliance with laws and regulations and in particular the guidelines of the Central Bank of Sri Lanka.

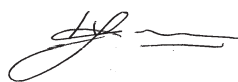
The Committee during the year under review attended to the following.

- A. Approved the Annual Audit plan prepared based on risk profiles of the areas of the Bank for the year 2019.
- B. Reviewed and discussed Report of the Auditor General issued in terms of Section 13 (7) (a) of the Finance Act No. 38 of 1971 for the year 2018 and the management responses thereon.
- C. Reviewed quarterly financial statements of the Bank and recommended the same for publishing.
- D. Reviewed and discussed issues raised at CBSL Statutory Examinations and follow-up examinations in 2017/ 2018 and monitored the progress of rectification.
- E. Review of internal audit reports and the performance of the Internal Audit Department.
- F. Reviewed Information System Audit Procedures and recommended appropriate changes and monitored the progress of their implementation.

Five (05) meetings were held during the financial year ended 31st December 2019. The BAC considered the internal audit reports, the deficiencies observed therein, responses given by the respective Heads of the Departments/ Branches and monitored corrective actions taken to rectify deficiencies observed. The minutes of the BAC meetings are reported to the Board for information.

The BAC also followed up on corrective measures taken by the management during the year 2019 on matters raised by CBSL Statutory Examination Reports and by the Auditor General in the report for the year ended 31st December 2018.

The BAC ensured the provision of all information and documents required by the Auditor General for the purpose of audit and compliance with Sri Lanka Accounting Standards in preparation and presentation of Financial Statements. The BAC is of the view that adequate controls and procedures are in place and Charter of the BAC were complied with all material aspects.



Prof. K.D Gunawardena
Chairman

Board Audit Committee
07th February 2020

Board of Directors



- 01 **Mrs. R.M.R.W. Manchanayake** - (Chairperson) (Non-Executive, Independent Director)
02 **Dr. K.D. Gunawardana** - (Non-Executive, Independent Director)



- 03 **Dr. S.N. Morais** - (Non-Executive, Independent Director)
 04 **Mr. N. Wijeyanathan** - (Non- Executive, Independent Director)
 05 **Mrs. R.A. Chulananda** - (Non-Executive, Independent Director)

Profiles of the Board of Directors

01

MRS. R. M. R. W. Manchanayake

(Chairperson) Non-executive /
Independent Director

Mrs. R. M. R. W. Manchanayake was appointed as a Director and the Chairperson of the HDFC Bank with effect from 02nd January 2020.

Mrs. Wasanthi Manchanayake is an Attorney - At - Law and she was attached to Department of Inland Revenue since 1984 as an Assessor and has been promoted to Commissioner General of Inland Revenue in 2014. Later she worked as a Senior Tax Policy Consultant at the Ministry of Finance from 2015 to 2019.

During her service period in Inland Revenue Department she has actively and successfully devoted her service contributing for the implementation of the RAMIS project (Automation project) as the project director. She also has attended several workshops and training programs overseas on E-Governance practice and innovation, at the Singapore E-Government Leadership Center, Tax fraud auditing and collection techniques in California USA, Negotiation of Tax Treaties in Malaysia, Training programs in Tax Administration in Nagpur and Delhi, OECD Transfer Pricing in Paris and Practical training on Best Practices in Public Service in Thailand.

Mrs. Wasanthi Manchanayake is a past Pupil of Gampaha Bandaranayake Vidyalaya and obtained her degree in Economics specially in Industrial Management. Further she has obtained Diploma in foreign languages and Diploma in English from Sri Lanka Technical College. While qualifying at Sri Lanka Law College she has obtained a Diploma in Advanced Professional English from the University of Colombo. Later on Sri Lanka Institute of Development Administration awarded her the Diploma in Information Technology, and in 2009 she was awarded the Degree of Master of Public Management.

**DR. K. D. GUNAWARDANA**

(Non – Executive, Independent Director)

Prof. Dr. Kennedy D. Gunawardana is Professor of Accounting Information Systems at the Department of Accounting, University of Sri Jayewardenepura, Sri Lanka.

In addition to being the professor of Accounting in his Department, he is the Chairman of the Board of studies and Coordinator of the PhD in Management Program of Management, Faculty of Management studies and Commerce in the same University. He teaches Cost and Management Accounting, Accounting Information Systems, Artificial Neural Networks for Accounting and Research Methodology in Accounting and Finance for the undergraduates and Postgraduates students.

Prof. Gunawardana worked in several public sector and private sector organisation as Chairman and presently, he is Board member of the Post Graduate Institute of Sri Jayewardenepura (PIM) and member of the Syndicate Committee of Institute of Human Resource Advancement, University of Colombo (IHRS).

Prof. Gunawardana is the first Sri Lankan who made link with Artificial Intelligence to the Field of Accounting and Finance for Corporate sector predictions, he has developed new course unit called, artificial neural network for accounting and it is very popular course among the University students today.

Prof. Gunawardana is working as a Visiting Faculty member of the University of Moratuwa, University of Kelaniya and University of Colombo in their MBA programme in the area of Accounting, Management Information Systems and Research Methodology. With over 100 research articles published in refereed conferences proceedings, numerous other papers and monographs, 6 text books in English and 3 books in Sinhala, 2 chapters of the International books come under his credentials. Prof. Gunawardana ranks in the top number one in teaching, training and research in the field of Academia. At the moment he is serving as senior professor of Accounting Information Systems in University of Sri Jayewardenepura, Sri Lanka.

Profiles of the Board of Directors

03

DR. S. NEAVIS MORAIS

(Non – Executive, Independent Director)

Dr. Neavis Morais, is a Development Economist with wide international exposure. He completed his Ph.D at the Asian Institute of Technology in Thailand through an ADB Award, and the Master's Degree in Economics at the University of Colombo. Currently he serves at the Open University of Sri Lanka as the Dean of the Faculty of Humanities and Social Sciences. He has extensive experience in teaching, research, academic administration and national development frontiers and remains actively involved in policy development work of the public sector, the private sector, and the Non- governmental organisations both local and international. Working in the broad frontier of post war economic transformation, his inputs have been positively acclaimed by professional teams involved in the Human Development Reports of the United Nations Development Programme since 2014. He has also taken a keen interest in practical measures that can be taken in empowering people through Microfinance Programmes and was instrumental in developing a major university programme in collaboration with the Central Bank of Sri Lanka in empowering bank officers in the Regional level development banking sector. Among

the other programmes he has engineered, the Microfinance Research Programme together with the University of Lund in Sweden is noteworthy. He has also internationally represented issues relating to Sri Lankan Youth development training in global conferences in the United Kingdom, South Africa, Uganda and in other countries.

Dr. Morais has experience in working for conflict affected people particularly in projects aimed at uplifting their livelihoods. This enables him to relate to the socio-economic burdens of the marginalised countrywide not only from a scholarly point of view but from the standpoint of someone who experienced war torn conditions. He is a firm believer in holistic development of mankind with a proper balance between physical and material development and spiritual and cultural development.

04

MR. N. WIJEYANATHAN

(Non-Executive, Independent Director)

Mr. Nirupan Wijeyanathan holds a Master's in Business Administration from Cardiff Metropolitan University, Wales. His insights are backed by over 26 years of experience in Banking & Financial Services covering General Banking, Treasury and Money Brokering. This covers 11 year at Citi Bank N.A. Sri Lanka in the capacity of Vice President – Head Global Markets Corporate Sales & Structuring. He has vast experience in trading in Foreign Exchange / Money Market / Fixed Income (Debt Securities) Instruments and Customer Structuring & Advisory. He has been the President of Sri Lanka Forex Association from 2007-09 and has been in the Executive Committee for more than 12 years. He is an old boy of S.Thomas College, Mt. Lavinia.

05

MRS. R.A. CHULANANDA

(Non-Executive, Independent Director)

Mrs. R. A. Chulananda was appointed as a Board Member of the HDFC Bank in August 2016.

Mrs. Chulananda (Special Grade SLAS Officer) is presently working as the Additional Secretary (Housing and Development) in the Ministry of Urban Development, Water Supply and Housing Facilities. She started her career as an Assistant Secretary at the Colombo Municipal Council, in 1991.

Thereafter she held many posts as an Assistant Divisional Secretary of the Divisional Secretariats Kahawaththa and Imbulpe, Assistant District Secretary of District Secretariat Anuradhapura, Divisional Secretary of the Divisional Secretariats Soranathota and Thimbirigasyaya, and the Director of the Women's Bureau of Sri Lanka of the Ministry of Women and Child Affairs. She holds a Bachelor of Arts Degree from the University of Sri Jayawardenepura, a Post Graduate Diploma in Business Administration from the Rajarata University of Sri Lanka and a Master of Public Administration from the Post Graduate Institute of Management of the University of Sri Jayawardenepura.

Corporate Management



- 01 **Mr. K.R.M.A. Bandara** - Chief Manager- Compliance
- 02 **Mr. M.K. Nambiyarooran** - Chief Operating Officer
- 03 **Mr. Palitha Gamage** - General Manager/CEO
- 04 **Mr. H.A. Anura** - Chief Manager - Finance
- 05 **Ms. W.N.D. Boteju** - Chief Manager - HR & Admin
- 06 **Ms. H.S. Gunathilake** - AGM -BD&M



- 07 **Mr. A.J. Athukorala** - Chief Internal Auditor
- 08 **Mr. D.V. Pathirana** - Chief Financial Officer
- 09 **Mr. C.R.P. Balasuriya** - AGM Treasury
- 10 **Ms. K.T.D.D. De Silva** - Chief Manager - Bank Board Secretary
- 11 **Mrs. W.W.D.S.C. Perera** - AGM Legal
- 12 **Mr. D.M.D.M.K. Dissanayake** - Head of Credit
- 13 **Mr. A.M. Neelachandra** - Chief Manager (IT)

Profiles of the Corporate Management

Mr. Palitha Gamage

CEO/ GM

B. Sc (Engineering) Hons degree (University of Moratuwa) MBA -Asian Institute of Technology, Thailand

Mr. Palitha Gamage, a Senior Banker with over 30 years of experience in banking was appointed as CEO/GM of HDFC Bank of Sri Lanka on the 16th of August 2018.

Mr. Gamage commenced his banking career at DFCC Bank in 1987. Prior to joining DFCC Bank in 1987, he worked as a Civil Engineer at State Engineering Corporation of Sri Lanka.

At the DFCC, he served in several senior managerial positions in Corporate Banking, SME Banking, Investment Banking, Planning and Operations. In addition, he also served as Head of Corporate Credit at DFCC Vardhana Bank.

At time of joining the HDFC Bank as its GM/CEO, he held the position of Executive Vice President (Integrated Risk Management) / Chief Risk Officer of DFCC Bank. He served as a member of the Governing Board of the National Institute of Business Management for three years from 2010 and as a Non-Executive Director of the National Asset Management Ltd [NAMAL] for four years from 2014. Additionally he served as the Chairman, Board Audit Committee of NAMAL for two years and Head of Risk Management Committee of Acuity Securities Ltd.

During his career, Mr. Gamage has attended a multitude of local and foreign training programs and workshops covering various aspects of banking.

He is a Passed Finalist of the Chartered Institute of Management Accountants (CIMA), UK and a Corporate Member of the Institution of Engineers, Sri Lanka.

Mr. M.K. Nambiyarooran

Chief Operating Officer

Master's in Financial Economics (University of Colombo) Master's in Business Administration PIM, University of Sri Jayewardenepura

Fellow of the Chartered Institute of Management Accountants- UK, Fellow of the CPA – Australia, Fellow of the Institute of Bankers

Mr. Nambiyarooran holds multi-disciplinary qualifications. He also holds wide exposure of more than 3 decades in Banking and Finance being attached to one of the leading Private Banks in Sri Lanka specializing in Credit, Leasing, Product development, branch operations, Finance, Budgetary planning & control, Treasury and Strategy.

Mr. Nambiyarooran has also worked at a leading diversified company concentrating on consumer electronics for more than 7 years as Head of Group Treasury and at a quoted finance company as a General Manager.

His overseas exposure includes functioning as Alternate Director to MD/CEO at Delma Exchange – Abudhabi, Majan Exchange – Oman and Commercial Interlink – Canada.

Mr. D. Vidana Pathirana

Chief Finance Officer

BSc, MBA, FCA, FCMA, FCPM

Date of appointment -15th September 2004

He has over 33 years' experience in the fields of Auditing, Accounting, Financial Management, Projects and Investment Promotion, Management Accounting, Project Finance, Business Development and Marketing, Banking, Treasury Management both in Sri Lanka and overseas. He is currently responsible for Finance and Planning Department of the Bank.

Mr. A.J. Atukorala

Chief Internal Auditor

BSc, ACMA, CISA, CISM, Dip in Computer System Design (NIBM)

Date joined the Bank - 01st July 2009

He counts over 32 years of executive experience in banking industry specializing in audit function. He has the exposure to both private and public sector banks

Mrs. W.W.D.S. C. Perera

Assistant General Manager – Legal

Attorney at Law and Notary Public

Date of appointment -16th November 1992

She began her carrier at HDFC Bank as a Legal Officer and was promoted to the post of Manager Legal, in 2001. She was appointed as the Assistant General Manager Legal in the year 2015.

She counts over 30 years of professional experience in the field of law, specializing in housing finance, banking and litigation.

Mrs. H.S. Gunathilake

Assistant General Manager (Business Development & Marketing)

MBA, PGD in Marketing, PGD in Urban Management (IHS Netherlands), BA (Sri Lanka)

Date of appointment -20th June 1991

She counts over 34 years' experience in the field of housing both in public and private sector.

Mr. C.R.P. Balasooriya

Assistant General Manager – Treasury

Master in Financial and Economics, B Com (Special), MAAT

Date of appointment -22nd March 2004.

He has over two decades of professional career experience in merchant & specialized Banking sector.

Mr. Manjula Kithsiri Dissanayake

Chief Manger – Credit

ACA, ADCM (IBSL)

Date of appointment -18th June 2012

He has over 20 years' experience in the field of Credit and Finance. Prior to joining HDFC Bank he served as Credit Officer, Account Manager, Senior Account Manager, Accountant and Senior Manager Credit and Operations in major private sector financial institutions. He has experience in the field of Auditing, Financial Management, Taxation, Operations and Credit Management.

Ms. K.T. Dharshani. D.De Silva

Bank / Board Secretary / Chief Manager

Masters in Business administration (MBA), Masters in law (LLM) and higher diploma in Banking Finance and insurance

She had started her HDFC career as a lawyer attached to the legal department and thereafter appointed as the secretary to the Bank/ Board. She counts experience of more than 25 years as an attorney at law and possess experience in Litigation, Recovery, Human Resources etc., in addition to her present engagement in the Company Secretarial field. She was attached to the Civil Bar at the initial stages of her career and thereafter worked at Alliance Finance Company, prior to HDFC.

She holds Masters in Business administration (MBA), Masters in law (LLM) and higher diploma in Banking Finance and insurance.

Mr. H.A. Anura

Chief Manager – Finance

MBA, PGDM (RJT), B.Sc. Accy (Sp) (USJ), FIPA (Au), FFA(UK), MAAT, Inter. of CA Sri Lanka,

Date of appointment -1st Oct 2004

He has two decades of work experience in banking, credit, recovery, fund mobilisation, branch operation, accounting, financial management, taxation, auditing, treasury management, compliance, corporate financial reporting and annual reports, budgeting and financial planning.

He began his career in accounting at BMC and Ceylon Fisheries Corporation in 1996 and joined Regional Development Bank in 1998 in the capacity of Audit/Executive Officer, Assistant Manager and joined HDFC in 2004 in the capacity of Branch Manager Gampaha and from 2007, he served in the capacity of Accountant Treasury, Accountant Finance, Senior Manager Finance.

Ms. W.N.D. Botejue

Chief Manager – HR and Administration

Bsc. Business Administration (special), CBA (CA Sri Lanka), CBF

Date of appointment -01st July 1995

She counts over 24 years' experience in private and banking sector in the field of management, finance, HR and other disciplines

Mr. K.R.M. Aruna Bandara

Chief Manager- Compliance Officer

B. Com(Special), CBA (CA Sri Lanka), SAT (AAT Sri Lanka), CBF

Date of appointment -03rd May 1999

He counts more than 30 years' experience in the field of Auditing, Accounting in organizations in the public & private sectors. Prior to joining HDFC bank he served as specialising in auditing of public corporations and forging funded projects. He was appointed Head of Compliance with effect from 02nd January 2012.

Mr. A.M. Neelachandra

Chief Manager- Information Technology

Bsc, NIBM, CCPSP

Date of appointment – 01st December 1997.

He has over 24 years of experience as an IT Professional in Banking & Public Sector. He has extensive experience in installing, configuring and maintaining a wide range of UNIX based systems, configuring and maintaining Databases, Network Administration. He worked as the Project Manager of HDFCs New Core Banking implementation and System transformation. He has also worked in the Computer and Technology Council for two years.

Head of Divisions



Mrs. L.A.S.C. Wijetunga
- Senior Manager - Administration



Mr. B.M.P. Perera
- Manager - Credit Administration
& In Charge of Other Income



Mr. T.B. Karunabandu
- Manager - Gold Loan



Mrs. L.D.S.H. Liyanage
- Manager - Payment



Dr. K.A.A. Nirmali
- Manager - Accounts Control



Mr. D.N. Dharmaratne
- Senior Manager - Leasing



Mr. D.M.A. Dissanayake
- Manager - Corporate and
Development Finance



Mr. I. Nishantha
- Risk Officer - Senior Manager



Mrs. L. Gunatilaka
- Senior Manager - Recoveries



Mrs. M.U.S. De Costa
- Manager - Operations



Mrs. N.L. Wijesiri
Manager - Technical & Premises
Maintenance



Mr. W.M. Chandrasena
- Manager - Valuation

Regional Managers



Mr. R.A.J.N. Ranasinghe
- Regional Manager



Mr. B.W.M.C. Kumarasiri
- Regional Manager



Mr. I.K. Dawatanga
- Acting Regional Manager



Mr. H. M. Thilakarathne
- Regional Manager



Mr. W.D. K. Senevirathne
- Regional Manager

Branch Managers

Name	Branch	Designation
Mr. S.H.K. Gamage	Chilaw	Branch Manager
Ms. N.A.A.N.S. Nissanka	Gampola	Branch Manager
Mr. D.R.G.D.B Jayathilake	Rathnapura	Actg. Branch Manager
Ms. D.T.A. Jayasinghe	Avissawella	Branch Manager
Mr. S.M.S.K. Bandara	Nuwara - Eliya	Branch Manager
Mr. L.S.B. Rathnayake	Kandy	Branch Manager
Mr. W.S. Dissanayake	Matale	Actg. Branch Manager
Mr. G.W.A.N. Kalinda	Matara	Branch Manager
Mr. A.M.U.S.B Attanayake	Kuliyapitiya	Branch Manager
Mr. H.M.U. Samaraweera	Kurunegala	Branch Manager
Mr. A.U.T. Fernando	Nugegoda	Actg. Branch Manager
Ms. R.S.I. Silva	Kalutara	Branch Manager
Ms. T.M.D.D.K. Madatuwa	Ja-Ela	Branch Manager
Mr. P. Ekanayake	Galle	Branch Manager
Ms. D.K.P. De Silva	Colombo	Branch Manager
Mr. A.I. Kiriella	Hyde Park	Branch Manager
Mr. H.N.J. Perera	Piliyandala	Actg. Branch Manager
Mr. H.A.S.L. Hapangama	Kiribathgoda	Branch Manager
Mr. S.K.P. Samanthi	Nittambuwa	Actg. Branch Manager
Mr. S.A.R.C.P. Kumara	Embilipitiya	Branch Manager
Mr. M.A.S. Desapriya	Tangalle	Branch Manager
Mr. M.L.N. Anuradha	Tissamaharama	Branch Manager
Ms. W.B.M.A. Fernando	Gampaha	Branch Manager
Ms. M.G.D.P. Seneviratne	Badulla	Branch Manager
Mr. A.A.S.I.T. Samanthilaka	Ambalangoda	Branch Manager
Mr. T.G.R.M.R.M. Ratnayake	Dambulla	Branch Manager
Mr. D.A.N.P.K. Piyadasa	Nikawaratiya	Branch Manager
Mr. H.R.M. Tharaka	Polonnaruwa	Actg. Branch Manager
Mr. T.H.M.A. Hewage	Peliyagoda	Branch Manager
Mr. T.V.D. Nayanajith	Monaragala	Actg. Branch Manager
Mr. K.A.A.P.S. Kumara	Homagama	Branch Manager
Mr. R.A.C.S. Pushpakumara	Kegalle	Branch Manager
Mr. L. Jayashankar	Batticaloa	Actg. Branch Manager
Mr. P.A. Viraj Sampath	Horana	Actg. Branch Manager
Mr. H.M.D. Kumaihamy	Ampara	Actg. Branch Manager
Mr. D.S.R. Dissanayake	Anuradhapura	Actg. Branch Manager
Ms. S. Suyaniya	Jaffna	Actg. Branch Manager
Mr. A.G. Stephan	Trincomalee	Actg. Branch Manager
Mr. T. Velshkuma	Vavuniya	Actg. Branch Manager

**We have
a vision of**
helping people
get on the
fast track
to financial
stability

FINANCIAL REPORTS

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Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the financial statements of the Bank, in accordance with the provisions of the HDFC Act No. 07 of 1997 (amended by Act No. 15 of 2003 and Act No. 45 of 2011) and Companies Act No. 7 of 2007 is set out in the following statement.

The responsibilities of the external auditor in relation to the financial statements are set out in the report of the Auditor General.

The Directors are required to prepare financial statements for each financial year and place them before a General Meeting. The financial statements comprise the Statement of Financial Position as at 31st December 2019, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

The financial statements of the Bank give a true and fair view of:

1. The state of affairs of the Bank as at 31st December 2019; and
2. The profit or loss of the Bank for the financial year then ended.

In preparing these financial statements, the Directors are required to ensure that:

1. Appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgments and estimates have been made which are reasonable and prudent; and
3. All applicable accounting standards, as relevant, have been complied with;

The Directors are also required to ensure that the Bank have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Bank maintains sufficient accounting records to disclose, with reasonable accuracy of the financial position of the Bank.

Financial statements prepared and presented in this report have been prepared based on new Sri Lanka Accounting Standards (SLFRS) which came to effect from January 01, 2012 and are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed specialized Banks in Sri Lanka (as amended from time to time), the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these financial statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of licensed specialized Banks.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year and it is being under regular review of the Board of Directors.

This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2019 are given on pages 88 to 89 of the Annual Report, "Directors' Statement on Internal Control". External Auditor's Assurance Report on the "Directors' Statement on Internal Control" is given on pages 90 to 91 of the Annual Report.

The Directors have taken appropriate steps to ensure that the Bank maintains proper books of accounts and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee, the report of the said Committee is given on page 99. The Board of Directors also approves the interim financial statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the financial statements presented in this Annual Report. Directors are required to prepare the financial statements and provide the Bank's external auditor, the Auditor General of Sri Lanka, with every opportunity to carry out whatever reviews and checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the financial statements.

The financial statements of the Bank have been certified by the Chief Financial Officer and the General Manager/CEO of the Bank, the officer responsible for the preparation, as required by Sections 150 (1) (b) of the Companies Act. Also the financial statements of the Bank have been signed by two Directors.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



Mrs. R. M. R. W. Manchanayake
Chairperson

30/04/2020
Colombo

Auditor's Report



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல. }
My No. }

BAF/01/C/HDFC/1/19/16

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

27 April 2020

The Chairman
Housing Development Finance Corporation Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Housing Development Finance Corporation Bank for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Housing Development Finance Corporation Bank ("Bank") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව.



+94 11 2 88 70 28 - 34

இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை.



+94 11 2 88 72 23

No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.



ag@auditorgeneral.gov.lk



www.naosl.gov.lk

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Bank.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's Report



ජාතික විගණන කාර්යාලය
நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;
- to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018;
- to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018;
- to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.


W.P.C. Wickramaratne
Auditor General

Income Statement

For the Year Ended 31st December 2019 (Figures in LKR)

Description	Notes	Bank	
		2019	2018
INCOME		8,090,464,850	7,120,235,055
Interest Income		7,683,161,881	6,679,052,243
Interest Expenses		(4,783,234,818)	(4,440,675,426)
Net Interest Income	1	2,899,927,063	2,238,376,817
Fee and Commission Income	2	358,302,968	380,261,924
Fee and Commission expenses		-	-
Net Fee and Commission Income		358,302,968	380,261,924
Net Trading Gain/(Loss)	3	-	-
Net gain/(loss) from Financial Instruments designated at Fair value through Profit or Loss	4	500,000	(750,000)
Other operating income (net)	5	48,500,000	61,670,888
Total Operating Income		3,307,230,031	2,679,559,629
Less: Impairment Charges / (Reversal)	6	322,893,049	92,705,576
Net Operating income		2,984,336,982	2,586,854,053
Less : Expenses			
Staff Costs	7	1,164,468,698	1,113,571,585
Depreciation & Amortisation expenses	8	163,763,041	85,714,476
Other Expenses	9	411,624,661	468,905,305
Total Expenses		1,739,856,401	1,668,191,365
Operating Profit/(loss) before VAT NBT & DRL		1,244,480,582	918,662,687
Less : VAT, NBT & DRL On Financial Services	10	469,972,694	289,882,285
Operating Profit/(loss) after VAT NBT & DRL		774,507,887	628,780,402
Share of Profits of associates and joint ventures		-	-
Profit/(Loss) before tax		774,507,887	628,780,402
Less:Tax expenses	11	298,795,445	64,389,591
Profit/(Loss) for the year		475,712,442	564,390,811
Earnings Per Share on Profits			
Basic Earning per Ordinary Share Rs	12	7.35	8.72
Diluted earnings per ordinary share		-	-

Statement of Comprehensive Income

For the Year Ended 31st December 2019 (Figures in LKR)

Description	Notes	Bank	
		2019	2018
Profit for the Year		475,712,442	564,390,811
Items that will be reclassified to income statement			
Exchange differences on translation of foreign operations		-	-
Net gains/(losses) on cash flow hedges		-	-
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income		-	-
Debt instruments at fair value through other Comprehensive Income		-	-
Others (specify)		-	-
Less: Tax expense relating to items that will be reclassified to income statement		-	-
Total		-	-
Items that will not be reclassified to income statement			
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income		-	-
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss		-	-
Re-measurement of post-employment benefit obligations	26	(20,118,822)	(58,917,967)
Changes in revaluation surplus		-	-
Share of profits of associates and joint ventures		-	-
Gains and Losses on re-measuring available-for-sale financial assets		-	-
Others (specify)		-	-
Less: Tax expense relating to items that will not be reclassified to income statement		5,633,270	16,497,031
Total		(14,485,552)	(42,420,936)
Other comprehensive income for the year, net of tax		(14,485,552)	(42,420,936)
Total Comprehensive Income for the Year		461,226,890	521,969,874
Attributable to :			
Shareholders		461,226,890	521,969,874
Non-Controlling Interest		-	-
Total		461,226,890	521,969,874

Statement of Financial Position

As at 31st December 2019

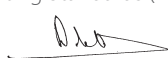
Figures in LKR

Description	Notes	Bank	
		2019	2018
Assets			
Cash and cash equivalents	13	421,218,289	210,466,904
Balances with central banks	14	-	-
Placements with banks	15	7,539,925,299	5,396,308,712
Financial assets recognised through profit or loss - measured at fair value	16	19,250,000	18,750,000
Financial assets at amortised cost - loans and advances	17	41,215,592,671	37,948,619,994
- debt and other instruments	18	4,880,392,998	3,980,888,836
Property, plant and equipment	19	380,300,199	466,243,583
Lease ROUA	19.4	351,112,109	-
Investment properties	20	920,000,000	871,500,000
Deferred tax assets	21	112,649,070	87,528,467
Other assets	22	114,205,713	304,984,592
Total assets		55,954,646,348	49,285,291,088
Liabilities			
Due to banks	23	953,384,855	1,001,987,444
Financial liabilities at amortised cost - due to depositors	24	42,504,294,457	37,016,036,358
- due to other borrowers	24	1,603,783,508	1,611,914,273
Debt securities issued	25	4,042,358,842	4,038,675,896
Lease Liability	25.1	310,149,189	-
Retirement benefit obligations	26	635,835,310	554,254,947
Current tax liabilities	27	333,629,689	57,327,668
Other liabilities	28	185,394,569	248,482,126
Total Liabilities		50,568,830,420	44,528,678,713
Debt Capital			
Perpetual Bond	29	266,708,172	-
Equity			
Stated capital/Assigned capital	30	962,092,936	962,092,936
Statutory reserve fund	31	209,601,642	188,424,906
Retained earnings	32	3,679,558,147	3,319,553,632
Other reserves	33	267,855,032	286,540,902
Total shareholders' equity		5,119,107,757	4,756,612,376
Non-controlling interests		-	-
Total equity		5,119,107,757	4,756,612,376
Total equity and liabilities		55,954,646,348	49,285,291,088
Net Assets Value Per Share Rs		79.11	73.51
Contingent liabilities and commitments	34	432,241,260	528,184,484
Memorandum Information			
Number of Employees		558	561
Number of Branches		39	39

The significant accounting policies and notes on pages 127 to 162 form an integral part of these financial statements. These financial statements have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS).

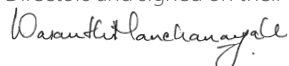


D.V. Pathirana
Chief Financial Officer



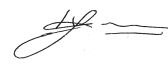
Palitha Gamage
CEO/General Manager

The Board of Directors is responsible for the preparation and presentation of these Financial Statements which were approved by the Board of Directors and signed on their behalf,



Mrs. R. M. R. W. Manchanayake
Chairperson

Date : 17/04/2020
Colombo



Dr. K. D. Gunawardana
Director

Statement of Changes in Equity

For the year ended 31-12-2019

Bank

In Rupees(000)

	Number of voting shares	Stated Capital	Statutory Reserve Fund	OCI Reserve	Revaluation reserve	Retained earnings	Other Reserves	Total	Non- controlling interest	Total equity
Balance as at 01-01-2018	64,710,520	962,093	160,313	-3,176	29,762	2,844,675	237,931	4,231,599	-	4,231,599
IFRS 9 Restatements	-	-	-108	-	-	-4,854	-216	-5,178	-	-5,178
Adjustments(IFRS 9 Impairment)	-	-	-	-	-	-	9,097	9,097	-	9,097
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	564,391	-	564,391	-	564,391
Other comprehensive income (net of tax)	-	-	-	-42,421	-	-	-	-42,421	-	-42,421
Total comprehensive income for the year	-	-	-	-42,421	-	564,391	-	521,970	-	521,970
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital	-	-	-	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-	-	-	-
Right issue	-	-	-	-	-	-	-	-	-	-
Investment Fund Transfer	-	-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	-	-	28,220	-	-	-84,659	56,439	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-
Profit transferred to head office	-	-	-	-	-	-	-	-	-	-
Gain/(loss) on revaluation of property, plant and Equipment (if cost method is adopted)	-	-	-	-	-875	-	-	-875	-	-875
Others	-	-	-	-	-	-	-	-	-	-
Total transactions with equity holders	-	-	28,220	-	-875	-84,659	56,439	-875	-	-875
Balance as at 31-12-2018	64,710,520	962,093	188,425	-45,597	28,887	3,319,554	303,251	4,756,612	-	4,756,612

In Rupees (000)

	Number of voting shares	Stated Capital	Statutory Reserve Fund	OCI Reserve	Revaluation reserve	Retained earnings	Other Reserve	Total	Non- controlling interest	Total equity
Balance as at 01-01-2019	64,710,520	962,093	188,425	-45,597	28,887	3,319,554	303,251	4,756,612	-	4,756,612
IFRS 9 Restatements(AFS Debenture Impairment)	-	-	-1,419	-	-	-24,118	-2,837	-28,374	-	-28,374
Adjustments(Leasing Insurance Receivable)	-	-	-1,444	-	-	-24,540	-2,887	-28,871	-	-28,871
Adjustments(SLFRS 16 Initial Impact)	-	-	253	-	-28,887	4,307	507	-23,819	-	-23,819
Prior Year Adjustments	-	-	-	-17,667	-	-	-	-17,667	-	-17,667
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	475,712	-	475,712	-	475,712
Other comprehensive income (net of tax)	-	-	-	-14,486	-	-	-	-14,486	-	-14,486
Total comprehensive income for the year	-	-	-	-14,486	-	475,712	-	461,227	-	461,227
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital	-	-	-	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-	-	-	-
Right issue	-	-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	-	-	23,786	-	-	-71,357	47,571	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-
Profit transferred to head office	-	-	-	-	-	-	-	-	-	-
Gain/(loss) on revaluation of property, plant and Equipment (if cost method is adopted)	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
Total transactions with equity holders	-	-	23,786	-	-	-71,357	47,571	-	-	-
Balance as at 31-12-2019	64,710,520	962,093	209,602	-77,750	-	3,679,558	345,605	5,136,775	-	5,119,108

Statement of Cash Flows

For the Year Ended 31st December 2019

	Bank	
	2019 LKR	2018 LKR
Cash Flows From Operating Activities		
Interest Receipts	7,104,296,774	6,224,050,114
Interest payments	(4,202,627,702)	(4,787,888,525)
Net commission Receipts	222,437,514	154,854,706
Trading Income	-	-
Payments to Employee	(1,061,302,484)	(1,006,373,760)
VAT,DRL & NBT on Financial Services	(496,325,295)	(327,182,644)
Receipt from other operating activities	189,119,434	210,944,426
Payments on other operating activities	(486,837,714)	(453,106,920)
Operating profit before changes in operating assets	1,268,760,527	15,297,398
(Increase)/Decrease In Operating Assets :		
Balances with Central Bank of Sri Lanka	-	-
Financial Assets at amortised cost - Loans and Advances	(3,014,868,675)	(2,678,782,767)
Other Assets	(205,930,984)	(81,069,129)
	(3,220,799,659)	(2,759,851,896)
Increase / (Decrease) In Operating Liabilities		
Financial Liabilities at amortised cost - due to Depositors	4,931,556,554	711,099,058
Financial Liabilities at amortised cost - due to Debt Security Holders	-	(1,072,816,895)
Financial Liabilities at amortised cost - due to Other Borrowers	249,901,382	(193,851,988)
Other Liabilities	(34,997,315)	(89,983,777)
	5,146,460,622	(645,553,601)
Net cash from operating activities before income tax	3,194,421,490	(3,390,108,100)
Income Tax Paid	(38,272,244)	(107,650,728)
Net cash from operating activities	3,156,149,246	(3,497,758,828)
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(68,100,964)	(42,461,023)
Proceeds from Sale property, Plant and equipment	701,513	3,678,689
Purchase of Investment Securities	(5,777,429,743)	(1,680,581,402)
Proceeds from the sale & maturity of Financial Investments	2,649,190,532	5,144,808,014
Net purchase of intangible assets	-	-
Net cash flow from acquisition of investments in subsidiaries,associate & joint ventures	-	-
Dividends received from investments in subsidiaries & associates	240,800	206,400
Others	-	-
Net cash from Investing activities	(3,195,397,862)	3,425,650,679
Cash Flows From Financing Activities		
Net proceeds from the issue of Ordinary share capital	-	-
Net proceeds from the issue of Other equity instruments	-	-
Net proceeds from the issue of Subordinated debt	250,000,000	-
Repayment of Subordinated debt	-	-
Interest paid on subordinated debts	-	-
Dividends paid to non - controlling Interest	-	-
Dividends paid to shareholders of the parent company	-	-
Dividends paid to holders of other equity instruments	-	-
Others	-	-
Net cash from financing activities	250,000,000	-
Net increase/(decrease) in cash & cash Equivalents	210,751,384	(72,108,149)
Cash & cash equivalents at beginning of the period	210,466,904	282,575,053
Cash & cash equivalents at the end of the period	421,218,289	210,466,904
Reconciliation Of Cash and Cash Equivalents		
Cash In Hand	150,212,979	154,694,507
Cash at Bank	271,005,310	55,772,397
	421,218,289	210,466,904

Accounting Policies

1. Corporate Information

1.1 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 specialised Bank under Housing Development Finance Corporation of Sri Lanka (Amendment) Act No 15 of 2003 and amended act No 45 of 2011 which authorised to apply the all activities of the schedule iv of Banking Act No 30 of 1988 with amendments thereafter. HDFC bank's Head office is located at NHDA Secretariat Colombo-02, Sri Lanka.

2 Basis of Preparation

2.1. The Statement of Compliance

The Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows are drawn up in conformity with the accounting standards laid down by the Institute of Chartered Accountants of Sri Lanka applied consistently on a historical cost basis and fair value accounting wherever it is necessary. The financial statements are presented in Sri Lanka Rupees.

Sri Lanka Accounting Standards which are introduced by the Institute of Chartered Accountants of Sri Lanka mandated for all specified business enterprises were used to prepare these financial statements. The comparative figures were also restated as per the above standards. These Financial Statements are also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Functional and Preparation Currency

The financial statements of the Bank are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank operate. Financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard (LKAS) No -1 "Presentation of Financial Statements"

2.3 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank as per the provisions of the Banking Act No. 30 of 1988 and amendments thereto and Sri Lanka Accounting Standards.

The Board of Directors acknowledge their responsibility as set out in the 'Directors' Responsibility for Financial Reporting' and the clarification given on the 'Statement of Financial Position'.

2.4 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 (LKAS) No .01 "Presentation of Financial Statements".

2.5 Presentation of Financial Statements

The assets and liabilities of the Bank presented in the Statement of Financial Position are grouped by their nature and listed in the order of their relative liquidity and maturity pattern. An analysis of maturity patterns of assets and liabilities of the Bank is presented in Maturity Gap Analysis Report.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if and only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.6 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions is presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 01 on 'Presentation of Financial Statements'

2.7 Comparative Information

The comparative information is reclassified where necessary for the better presentation and to conform to the current year's presentation.

3. Significant Accounting Judgments, Estimates and Assumptions

3.1 Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Accounting Policies

3.2 Valuation of Assets

3.2.1 Loans and Advances to Customers

Loans and Advances to customers are stated in the Statement of Financial Position net of impairment for possible future loan losses.

3.2.1.1 Provision for Impairment Losses

Policy applicable from 1 January 2018

Expected Credit Losses on Financial Assets (ECL)

The Company measures loss allowances using both lifetime ECL and 12-month ECL. When estimating ECL Company determine whether the credit risk of a financial asset has increased significantly since initial recognition. For this the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience, informed credit assessment and including forward-looking information.

Policy applicable before 01 January 2018

Provision for possible impairment losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Financial Reporting Standard (SLFRS) No. 09 on 'Financial Instruments : Recognition and measurement in the Financial Statements of the Banks. The following valuation techniques were used to calculate fair value of loans as it is necessary which are as follows.

1 Collective Impairment Method

2. Individual Impairment Method.

3.2.1.1.1 Collective Impairment Provisions

Collective impairment provisions for possible loan losses are made in accordance with the Sri Lanka Financial Reporting Standard No. 09 on 'Financial Instruments : Recognition and measurement in the Financial Statements of the Bank. The Bank used to make the collective impairment provision at rolling rate method where the individual impairment is not material. Adjusted industry loss given default (LGD) Ratio.

3.2.1.1.2 Individual Impairment Provisions

3.2.1.1.2.1 Acquired Properties for Sale

Properties mortgaged to HDFC Bank are auctioned if the customers default for a reasonable time and the properties which are not disposed at such auctions are recognised as acquired properties which are presented under the loans & advances. The valuations of such properties with Cash flow predicted with reasonable assurance are made on individual basis.

3.2.1.1.2.2 Loans over Rs.10Mns & Guarantor Loans over 36 months in arrears

Individual Impairment is made for the loans excluding pawning & cash and including all guarantee loans over 36 months in arrears, over Rs.10Mn with reasonable assurance for future cash recoveries.

3.2.2. Changes in Accounting Policies

The Bank has consistently applied the accounting policies as set out in Notes xx to xx on pages xx to xx to all periods presented in these financial statements, except for the changes arising out of transition to SLFRS 15 "Revenue from Contracts with Customers" and SLFRS 9 – 'Financial Instruments' explained below:

SLFRS 15 – "Revenue from Contracts with Customers"

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities will apply five step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

It replaces existing revenue recognition guidance, including LKAS 18 – "Revenue" and LKAS 11 – "Construction Contracts" and IFRIC 13 – "Customer Loyalty Programs". SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank has completed the initial review on potential impact over fee and commission income on its Consolidated Financial Statements. The initial review indicates that SLFRS 15 will not have a material impact to the financial statements on the timing of recognition or measurement.

SLFRS 9 – 'Financial Instruments'

The Bank has adopted SLFRS 9 - 'Financial Instruments', issued in July 2014, with a date of initial application of 1 January 2018. The requirements of SLFRS 9 represent a significant change from LKAS 39 - 'Financial Instruments: Recognition and Measurement'. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Bank's accounting policies resulting from its adoption of SLFRS 9 are summarised below.

Classification of financial assets and financial liabilities

SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing LKAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. The SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets that are not measured at FVTPL and also to certain loan commitments and financial guarantee contracts but not to equity investments.

Under SLFRS 9, credit losses are recognised earlier than under LKAS 39.

Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements

of SLFRS 9 and therefore is not comparable to the information presented for 2018 under SLFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - i) The determination of the business model within which a financial asset is held.
 - ii) The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - iii) The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - iv) For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of SLFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

3.2.3 Property, Plant & Equipment

These are recorded initially at cost plus other expenses which are necessary for the assets bringing to its useable condition the details of fair value by using the latest valuation report which is not more than 3 years as per the Sri Lanka Accounting Standard (LKAS) No. 16 is disclosed separately.

3.2.3.1 Basis of Recognition

Property, Plant & Equipment are recognised, 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.

3.2.3.2 Basis of Measurement

The property, plant and equipment are stated at cost less accumulated depreciation, which is provided for on the basis specified as below.

3.2.3.3 Depreciation Policy

Depreciation is provided at the following rates on a straight-line basis over the estimated lives of different types of assets.

Accounting Policies

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

Total annual depreciation is provided for the year of use and no depreciation is provided for the year of disposal. The Bank has deviated from the section 55 of the LKAS 16, in consideration of the practical difficulties of calculating depreciation from the date of use of different classes of assets.

Intangible Assets

The Bank's intangible assets consist of the value of purchased computer software.

Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Basis of Measurement

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Useful Economic Life and Amortisation

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

De-recognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Income Statement in the year the asset is derecognised.

The Bank does not possess intangible assets with indefinite useful economic life.

Class of Assets % per Annum

Computer software -Foreign	25.00
Computer software -Local	25.00
Core Application Software	10.00

3.2.4 Investment Property

Investment properties are recorded at current market value and the difference between carrying value and market value presented under other income in the income statement and group it under Financial Position.

3.3 Financial Assets

3.3.1 Recognition and Measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

Loans and advances are initially recognised on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortised cost.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Basis of measurement applicable before 1 January 2018 and after 1 January 2018 is set out in

3.3.2 Classification

On initial recognition, the Bank classifies financial assets into one of the following categories:

- Measured at amortised cost,
- Fair value through other comprehensive income (FVOCI); and,
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

3.3.2.1 Financial Assets measured at Amortised Costs

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model (explained in note 5.3.2.3) whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3.3.2.2 Financial Assets at Fair value through other comprehensive income

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

3.3.2.3 Financial Assets at Fair value through profit or loss

All financial assets other than those classified at Amortised Costs or FVOCI are classified as measured at FVTPL.

3.3.2.3.1 Financial Assets are mandatorily fair valued through profit and loss when the instruments

- are held for trading, or
- are managed, evaluated and reported internally on a fair value basis, or
- designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- Contains an embedded derivative that significantly modifies the cash flows which would otherwise have been required under the contract.

3.3.2.3.2 Financial Assets Designated at Fair Value through Profit or Loss

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Bank has not designated any financial asset upon initial recognition at fair value through profit or loss as at the Reporting date.

3.3.2. Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

Accounting Policies

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

3.3.3 Reclassification

- Financial assets except financial assets that would have met the definition of loans and receivables at initial recognition may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

3.3.3.2 Policy applicable after 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Bank's changes its objective of the business model for managing such financial assets.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

3.3.3.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Bank reclassifies all affected assets prospectively from the first day of the next reporting period (the reclassification date). Prior periods are not restated.

3.3.3.2 Measurement of reclassification of financial assets

3.3.3.2.1 Reclassification of Financial Instruments at 'Fair value through profit or loss'

- To Fair value through other comprehensive income
The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value are recognised in OCI.

- To Amortised Costs
The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

3.3.3.2.2 Reclassification of Financial Instruments at 'Fair value through other comprehensive income'

- To Fair value through profit or loss
The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.
- To Amortised Costs
The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust the reclassified fair value. The adjusted amount becomes the amortised cost.

EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

3.3.3.2.3 Reclassification of Financial Instruments at 'Amortised Costs'

- To Fair value through other comprehensive income
The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.
- To Fair value through profit or loss
The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

3.3.4. Derecognition of Financial Assets

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired; or when Bank has transferred its contractual right to receive the cash flows of the financial assets, and either –

- Substantially all the risks and rewards of ownership have been transferred;
- or
- Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

3.3.5 Fair Value Measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active, if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of

the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as end of the reporting period during which the change has occurred.

3.3.6 Identification and Measurement of Impairment

3.3.6.2 Policy applicable

3.3.6.2.1 Recognition of Impairment of Financial Assets

The Bank recognises loss allowances for Expected Credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

Accounting Policies

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

3.3.6.2.2 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components: The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3.3.9 Write-off of Financial Assets

The Bank writes off a loan or an investment debt security, and any related allowances for impairment losses, when Bank determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant

changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

3.4 Financial Liabilities

3.4.1 Recognition and Measurement of Financial Liabilities

Policy applicable

On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss,

3.4.2 Classification and Subsequent Measurement of Financial Liabilities

The subsequent measurement of financial liabilities depends on their classification.

3.4.2.1 Financial Liabilities at Amortised Cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in 'Interest expense' in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

3.4.2.2 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes

3.4.3 Derecognition of Financial Liabilities

Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

3.4.4 Due to Banks, Customers, Debt Securities Issued and Other Borrowing

Financial liabilities are recognised when Bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

3.4.5 Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

3.4.6 Sale and Repurchase Agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos"), they remain on the statement of financial position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ("reverse repos") are not recognised on the statement of financial position and the consideration paid is recorded in "Financial assets at amortised cost - Loans to and receivables from banks", "Financial assets at amortised cost - Loans to and receivables from other customers" as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement for loans and advances to banks and customers.

3.5.3 Retirement Benefits

3.5.3.1 Retirement Benefits

Defined benefit plans, 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 and provision for special gratuity as per CBEU collective agreement for special employees who have completed more than 15 years using Actuarial valuation. The item is grouped under other liabilities in the Statement of Financial position.

3.5.3.2 Retirement Benefits – Defined Contribution plans

3.5.3.2.1 Employee provident fund

The Bank and employees contribute to the Employee's Provident Fund at 12% and 8% on the salaries of each employee, respectively to the Provident Fund managed by the Central Bank of Sri Lanka.

3.5.3.2.2 Employees' Trust Fund

The Bank contributes at the rate of 3.0% of the salaries of each employee to the Employees Trust Fund managed by Employee Trust Fund Board.

3.5.4 Other Liabilities

Other liabilities include fees, expenses and amounts payable for gratuity/pensions and other provisions. These liabilities are recorded at amounts expected to be payable at the Financial Position date.

3.6 Revenue Recognition

3.6.1 Interest Income on Loans and Advances

Interest income is recognised on an accrual basis for all loans using the effective interest rate method.

3.6.2 Overdue Interest Income

Overdue interest for late payment of loan installment is recognised on a cash basis for the loans except EPF Loans.

3.7 Expenses

3.7.1 Interest on Deposits, Borrowings

In terms of the provisions of the Sri Lanka Accounting Standard (LKAS) No. 39 on borrowings are recognised on effective interest rate method and charge to the income statement.

3.7.2 Other Expenses

All expenditures incurred in operations and in maintaining the Properties, Plants and Equipment in a state of efficiency are charged to Income statement in arriving at the profit or loss for the year are recognised on accrual basis.

3.7.3 Taxation

Income tax expense comprises net of current year tax and deferred tax. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in Equity in which case it is recognised in Equity

Accounting Policies

3.7.3.1 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 Statement of Financial Position 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 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 expense as required by the Sri Lanka Accounting Standard (LKAS) No. 12 on "Income Taxes".

3.7.3.2 Deferred Taxation

Deferred taxation is provided on the liability method. The tax effect of timing difference which occur where items are allowed for income tax purposes in a period different from what when they are recognised in financial statements is included in the provision for deferred tax at current rate of taxation.

3.7.3.3 Value Added Tax on Financial Services

The basis 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 to the Financial Statements.

3.8 The Statement of Cash Flow

The Cash Flow Statement has been prepared by using the "Direct Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) No. 7 on 'Statement of Cash Flow', whereby gross cash receipts and gross cash payments on operating activities, investing activities and financing activities are recognised. Cash and Cash Equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

3.9.1 Statutory Reserve Fund

5% of the net profit after tax is transferred to the statutory Reserve fund before all distributions as per CBSL Direction.

3.9.2 General Reserve Fund

10% of the net profit after tax is transferred to the General Reserve fund before dividend distribution as per the HDFC Act.

3.10 Dividends on Ordinary Shares

Dividends on Ordinary Shares are recognised as a liability and deducted from equity when they are approved by the Annual General Meeting. Dividends on Ordinary Shares for the year that are recommended by the Directors after the Statement of Financial Position date for approval of the Shareholders at the Annual General Meeting are disclosed separately to the Financial Statements.

3.11 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.

3.12 Inventory Valuation

The consumable stocks are recorded at cost and the issues of inventory items are based on the first in first out (FIFO) method.

3.13 Interest in Other Entities

There is no any material interest in other entities as at balance sheet date.

3.14 SLFRS 16 Leases

The right to use assets are reflected the assets which the bank has acquired on operational lease and the discounting rate used is financial cost of fund of the bank from January to November 2019 initially and thereafter, the respective cost of fund used prior to the month of lease agreement signed on cumulative basis during the period.

The useful life of the assets is the period of the lease agreement and the depreciation method is the straight-line method over the useful life of the assets.

The depreciation provided using straight-line method debited to the income statement and group under depreciation and amortised cost. The finance cost which arose using the discounting rate debited to the income statement and group it under interest cost. This standard is applicable on 1st January 2019 as the initial recognition. The comparable figures were not restated as allowed by the standard assume that all results are paid at the end of each month.

Notes to the Financial Statements

1 Net Interest Income

In Rupees	2019	2018
Interest income		
Cash and cash equivalents	-	-
Balances with central banks	-	-
Placements with banks	686,970,623	655,234,369
Derivative financial instruments	-	-
Financial assets recognised through profit or loss	-	-
- measured at fair value	-	-
- designated at fair value	-	-
Financial assets at amortised cost	-	-
- loans and advances	6,361,030,227	5,575,871,570
- debt and other instruments	635,161,032	447,946,304
Financial assets measured at fair value through other comprehensive income	-	-
Others	-	-
Total interest income	7,683,161,881	6,679,052,243
Interest expenses		
Due to banks	69,448,561	115,026,531
Derivative financial instruments	-	-
Financial liabilities recognised through profit or loss	-	-
- measured at fair value	-	-
- designated at fair value	-	-
Financial liabilities at amortised cost	-	-
- due to depositors	4,082,383,907	3,659,992,147
- due to debt securities holders	461,108,507	600,858,523
- due to other borrowers	170,293,844	64,798,225
Others	-	-
Total interest expenses	4,783,234,818	4,440,675,426
Net interest income	2,899,927,063	2,238,376,817

a. Net interest income from Sri Lanka Government Securities

In Rupees	2019	2018
Interest income	337,986,721	165,141,951
Less: Interest expenses	-	-
Net interest income from Sri Lanka	337,986,721	165,141,951

Notes to the Financial Statements

2 Net Fee and Commission Income

In Rupees	2019	2018
Fee and commission income	358,302,968	380,261,924
Fee and commission expenses	-	-
Net fee and commission income	358,302,968	380,261,924
Comprising		
Loans	279,645,693	321,171,752
Cards	-	-
Trade and remittances	-	-
Investment banking	-	-
Deposits	-	-
Guarantees	-	-
Others	78,657,275	59,090,172
Net fee and commission income	358,302,968	380,261,924

3 Net Gain/(Loss) from Trading

In Rupees	2019	2018
Foreign exchange	-	-
- From banks	-	-
- From other customers	-	-
Fixed income securities	-	-
Equity securities	-	-
Derivative financial instruments	-	-
Others	-	-
Total	-	-

4 Net Fair Value Gains/(Losses) From Financial Instruments at Fair Value Through Profit or Loss

In Rupees	2019	2018
Gains on financial assets at fair value through profit or loss	-	-
Losses on financial assets at fair value through profit or loss	500,000	(750,000)
Gains on financial liabilities at fair value through profit or loss	-	-
Losses on financial liabilities at fair value through profit or loss	-	-
Total	500,000	(750,000)

Net Gains/(Losses) From Derecognition of Financial Assets

In Rupees	2019	2018
Recognised at:		
- Fair value through profit or loss	-	-
- Amortised cost	-	-
- Fair value through other comprehensive	-	-
- income	-	-
Total	-	-

5 Net Other Operating Income

In Rupees	2019	2018
Gain/(Loss) on investment properties	48,500,000	58,622,137
Gain/(Loss) on sale of property, plant and equipment	-	3,048,751
Gain/(Loss) on revaluation of foreign exchange	-	-
Recovery of loans written-off	-	-
Less: Loans written off	-	-
Others	-	-
Total	48,500,000	61,670,888

6 Impairment Charges

In Rupees	2019	2018
Financial assets at amortised cost - loans and advances		
Stage 1	(15,306,376)	(36,207,699)
Stage 2	(2,866,741)	22,958,549
Stage 3	284,321,741	107,291,495
Financial assets at amortised cost – debt instruments		
Stage 1	52,054,949	2,106,153
Stage 2	-	-
Stage 3	-	-
Others Investments	4,689,476	(3,442,923)
Total	322,893,049	92,705,576

7 Personnel Expenses

In Rupees	2019	2018
Salary and bonus	753,724,311	723,513,632
Contributions to defined contribution plans	95,116,878	95,654,542
Provision for defined benefit obligations (Note 26.1)	105,663,945	80,337,132
Share based expenses	-	-
Others	209,963,564	214,066,278
Total	1,164,468,698	1,113,571,585

Notes to the Financial Statements

7.1 Remuneration to Key Management

In Rupees	2019	2018
Remuneration to Key Management	76,446,594	65,482,528
Total	76,446,594	65,482,528

8 Depreciation & Amortisation

In Rupees	2019	2018
Depreciation	135,540,073	59,590,257
Amortisation	28,222,968	26,124,220
Total	163,763,041	85,714,476

9 Other Expenses

In Rupees	2019	2018
Directors' emoluments	1,642,000	1,988,880
Auditors' remunerations	3,767,526	649,800
Non-audit fees to auditors	-	-
Professional and legal expenses	18,479,963	13,955,382
Operating lease expenses	-	-
Office administration and establishment expenses	76,279,538	159,295,429
Others	311,455,634	293,015,813
Total	411,624,661	468,905,305

10 VAT, NBT & DRL On Financial Services

	2019	2018
VAT - FS For the Year	273,591,054	229,859,199
Prior Year (Over)/Under Provision	1,487,934	(84,218)
Total VAT FS	275,078,988	229,774,981
NBT - FS for the Year	33,647,388	30,647,893
Prior Year (Over)/Under Provision	198,391	(1,131,471)
Total NBT FS	33,845,779	29,516,422
DRL - FS For the Year	161,047,280	30,590,882
Prior Year (Over)/Under Provision	648	-
Total DRL	161,047,928	30,590,882
Total	469,972,694	289,882,285

11 Tax Expenses

In Rupees	2019	2018
Current tax expense		
Current year	309,423,162	98,530,645
Prior years' provision	26,526,633	(40,166,718)
Deferred tax expense		
Effect of change in tax rates	-	-
Temporary differences	(37,154,350)	6,025,665
Prior years' provision	-	-
Total	298,795,445	64,389,592

a. Reconciliation of tax expenses

In Rupees	2019	2018
Profit/(loss) before tax	774,507,887	628,780,402
Disallowable expenses for tax Purpose	1,138,014,426	714,059,849
Allowable expenses for tax Purpose	(807,439,590)	(988,129,338)
Income tax for the period (Accounting profit @ applicable tax rate)	216,862,208	175,270,102
Adjustment in respect of current income tax of prior periods	26,526,633	(40,166,718)
Differed Tax	(37,154,350)	6,025,665
Add: Tax effect of expenses that are not deductible for tax purposes	318,644,039	199,936,758
(Less): Tax effect of expenses that are deductible for tax purposes	(226,083,085)	(276,676,215)
Tax expense for the period	298,795,445	64,389,592
Effective Tax Rate(on Current Year Tax)	40%	16%
Effective Tax Rate with Differed Tax	35%	17%

b. The deferred tax (credit)/charge in the income statement comprise of the following

In Rupees	2019	2018
Deferred tax assets	42,884,725	17,611,806
Deferred tax liabilities	5,730,375	23,637,471
Other temporary differences	-	-
Deferred tax (credit)/charge to income Statement	(37,154,350)	6,025,665

Notes to the Financial Statements

12 Earnings Per Share

In Rupees	2019	2018
Net profit attributable to ordinary equity holders	475,712,442	564,390,811
Adjust:		
Interest on preference shares	-	-
Interest on convertible bonds	-	-
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	-	-
Weighted average number of ordinary shares for basic earnings per share	64,710,520	64,710,520
Effect of dilution	7.35	8.72
Convertible bonds	-	-
Convertible preference shares	-	-
Others	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	-	-
Basic earnings per ordinary share	7.35	8.72
Diluted earnings per ordinary share	7.35	8.72

13 Cash and Cash Equivalents

In Rupees	2019	2018
Cash in hand	150,212,979	154,694,507
Balances with banks	271,005,310	55,772,397
Money at call and short notice	-	-
Total	421,218,289	210,466,904

14 Balances with Central Bank

In Rupees	2019	2018
Statutory balances with central banks		
- Central bank of Sri Lanka	-	-
- Other central banks	-	-
Non-statutory balances with central banks		
- Central bank of Sri Lanka	-	-
- Other central banks	-	-
Total balances with central banks	-	-

15 Placements with Banks

In Rupees	2019	2018
DFCC	1,511,818,115	-
MCB	1,107,302,996	1,057,202,549
RDB	-	-
SDB	511,998,317	529,532,951
UNION	-	-
PB	2,267,625,700	-
PABC	548,136,883	1,124,527,913
NDB	511,840,444	-
Seylan	521,383,341	529,051,462
BOC	560,522,630	2,155,993,836
Impairments	(703,128)	-
Total	7,539,925,299	5,396,308,712

16 Financial Assets Recognised Through Profit or Loss

In Rupees	2019	2018
Measured at fair value		
Sri Lanka Government Securities (separately by instrument-wise)	-	-
Equity securities	19,250,000	18,750,000
Corporate debt securities	-	-
Others	-	-
Sub total	19,250,000	18,750,000
Designated at fair value		
Sri Lanka Government Securities (separately by instrument-wise)	-	-
Equity securities	-	-
Corporate debt securities	-	-
Others	-	-
Sub total	-	-
Total	19,250,000	18,750,000

a. Analysis

In Rupees	2019	2018
By collateralisation		
Pledged as collateral	-	-
Unencumbered	-	-
Gross total	-	-
By currency		
Sri Lankan Rupee	19,250,000	18,750,000
United States Dollar	-	-
Gross total	19,250,000	18,750,000

Notes to the Financial Statements

17 Financial Assets at Amortised Cost – Loans and Advances

In Rupees	2019	2018
Gross loans and advances		
Stage 1	26,142,376,268	24,427,464,585
Stage 2	5,544,116,401	5,116,549,215
Stage 3	10,673,352,334	9,282,709,900
Total	42,359,845,002	38,826,723,701
(Less): Accumulated impairment under:		
Stage 1	(173,376,589)	(188,682,965)
Stage 2	(136,463,993)	(139,330,733)
Stage 3	(834,411,750)	(550,090,009)
Total	(1,144,252,332)	(878,103,707)
Net loans and advances	41,215,592,671	37,948,619,994

a. Analysis

In Rupees	2019	2018
By product		
Overdrafts		
Trade finance		
Lease rental receivable	1,312,546,261	1,123,997,665
Credit cards		
Pawning	293,087,824	281,571,632
Staff loans	1,576,761,135	1,412,728,014
Term loans		
Short-term		
Long-term	39,177,449,782	36,008,426,390
Others		
Sri Lanka Government Securities (separately by instrument-wise)		
Others		
Gross total	42,359,845,002	38,826,723,702
By currency		
Sri Lankan Rupee	42,359,845,002	38,826,723,702
Gross total		
By industry		
Agriculture and fishing	330,842,387	456,624,625
Manufacturing	-	
Tourism	-	
Transport	-	-
Construction	32,938,854,903	29,278,754,025
Traders	-	-
New economy	8,672,996,893	5,322,751,848
Others	417,150,819	3,768,593,205
Gross total	42,359,845,002	38,826,723,702

b. Movements in impairment during the year

In Rupees	2019	2018
Stage 1		
Opening balance as at 01/01	188,682,965	189,696,816
Charge/(Write back) to income statement	(15,306,376)	(36,207,699)
Write-off during the year	-	-
Other movements	-	35,193,849
Closing balance at 31/12	173,376,589	188,682,965
Stage 2		
Opening balance as at 01/01	139,330,733	163,055,774
Charge/(Write back) to income statement	(2,866,741)	22,958,549
Write-off during the year	-	-
Other movements	-	(46,683,590)
Closing balance at 31/12	136,463,993	139,330,733
Stage 3		
Opening balance as at 01/01	550,090,009	414,291,408
Charge/(Write back) to income statement	284,321,741	103,628,428
Write-off during the year	-	-
Other movements	-	32,170,173
Closing balance at 31/12	834,411,750	550,090,009
Total	1,144,252,332	878,103,708

18 Financial Assets at Amortised Cost – Debt and Other Instruments

In Rupee	2019	2018
Sri Lanka Government securities		
Treasury Bills		
Issuer	Reference No	Amount
The Government of Sri Lanka	LKA36420A246	496,795,830
The Government of Sri Lanka	LKA36420A246	496,795,830
The Government of Sri Lanka	LKA36420A105	997,460,224
The Government of Sri Lanka	LKA18219G191	972,603,284
The Government of Sri Lanka	LKA36420B210	-
The Government of Sri Lanka	LKA18219B085	-
Sub Total		2,963,655,167
Corporate debt instruments		857,492,327
Trust certificates		-
Others (Commercial Papers & Non Bank Deposits)		1,059,245,504
Grand Total		4,880,392,998

Notes to the Financial Statements

a. Analysis

In Rupees	2019	2018
By collateralisation		
Pledged as collateral	-	-
Unencumbered	-	-
Gross total	-	-
By currency		
Sri Lankan Rupee	4,880,392,998	3,980,888,836
Gross total	4,880,392,998	3,980,888,836

19 Property, Plant and Equipment

a. Property, Plant and Equipment -Bank

In Rupees	Land and Buildings	Leasehold Properties	Computer Hardware	Computer Software	Office Equipment, Furniture and Fittings	Others	Total
2019 (Current year)							
Cost/fair value							
Opening balance at 01/01/2019	17,575,000	11,650,000	126,878,906	289,317,281	332,033,177	122,032,362	899,486,727
Additions	-	-	20,795,609	15,602,927	25,451,575	10,426,780	72,276,891
Disposals	-	-	1,195,981	-	4,981,221	-	6,177,202
Exchange rate variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	583,382	4,175,927	4,759,308
Closing balance at 31/12/2019	17,575,000	11,650,000	146,478,534	304,920,208	351,920,150	128,283,215	960,827,107
(Less): Accumulated depreciation							
Opening balance at 01/01/2019	4,149,600	21,997,392	83,418,700	123,916,451	189,532,703	88,586,084	511,600,930
Charge for the year	518,700	2,330,000	13,424,529	28,222,968	33,938,739	10,149,338	88,584,275
Additions	-	-	-	-	-	-	-
Disposals	-	-	903,010	-	3,747,895	-	4,650,905
Exchange rate variance	-	-	-	-	-	-	-
Adjustments	-	15,007,392	-	-	-	-	15,007,392
Closing balance at 31/12/2019	4,668,300	9,320,000	95,940,219	152,139,419	219,723,548	98,735,422	580,526,908
(Less): Impairment	-	-	-	-	-	-	-
Net book value at 31/12/2019	12,906,700	2,330,000	50,538,316	152,780,789	132,196,602	29,547,793	380,300,199

In Rupees	Land and Buildings	Leasehold Properties	Computer Hardware	Computer Software	Office Equipment, Furniture and Fittings	Others	Total
2018 (Previous year)							
Cost/fair value							
Opening balance at 01/01/2018	17,575,000	90,902,396	123,808,120	287,545,519	326,377,156	110,069,149	956,277,339
Additions	-	-	10,389,007	1,771,763	15,856,289	16,555,366	44,572,425
Disposals	-	875,361	7,318,221	-	6,870,851	4,611,402	19,675,834
Exchange rate variance	-						
Adjustments	-	-	-	-	3,329,417	-	3,329,417
Closing balance at 31/12/2018	17,575,000	90,027,035	126,878,906	289,317,281	332,033,177	122,013,113	977,844,513
(Less): Accumulated depreciation							
Opening balance at 01/01/2018	3,630,900	17,078,597	77,797,691	97,792,231	164,719,709	81,832,731	442,851,860
Charge for the year	518,700	4,778,520	11,909,726	26,124,220	33,008,662	9,253,352	85,593,180
Additions	-	-	-	-	-	-	-
Disposals	-	-	6,410,012	-	5,385,464	2,500,000	14,295,476
Exchange rate variance	-	-	-	-	-	-	-
Adjustments	-	140,274	121,296	-	(2,810,204)	-	(2,548,634)
Closing balance at 31/12/2018	4,149,600	21,997,392	83,418,700	123,916,451	189,532,703	88,586,084	511,600,930
(Less): Impairment	-	-	-	-	-	-	-
Net book value at 31/12/2018	13,425,400	68,029,643	43,460,206	165,400,831	142,500,474	33,427,029	466,243,583

b. Property, Plant and Equipment

c. Movements in Impairment during the Year

In Rupees	2019	2018
Opening balance at 01/01	-	-
Charge/(Write back) to income statement	-	-
Net write-off during the year	-	-
Exchange rate variance and other adjustments	-	-
Closing balance at 31/12		

Notes to the Financial Statements

19.1 Fully Depreciated Property Plant and equipment

The cost of fully depreciated property , Plant & equipment of the Bank which are still in use as at the date of Statement of financial Position is as follows.

2019	Fully depreciated	Depreciating	Total
Free hold PPE			
Land and Buildings	-	7,780,500	7,780,500
Computer Hardware	53,229,722	93,248,812	146,478,534
Computer Software	85,590,013	219,330,195	304,920,208
Office Equipment, Furniture and Fittings	71,295,483	280,624,667	351,920,150
Plant and Machinery	31,222,708	9,963,853	41,186,561
Tools	49,425	57,456	106,881
Motor Vehicle	47,738,840	27,570,262	75,309,102
Free hold PPE Total	289,126,191	638,575,745	927,701,936
Leased hold PPE			
Land and Buildings	-	-	
Motor Vehicle	-	11,650,000	11,650,000
Leased hold PPE Total	-	11,650,000	11,650,000
Total PPE	289,126,191	650,225,745	939,351,936

2018	Fully depreciated	Depreciating	Total
Free hold PPE			
Land and Buildings	-	7,780,500	7,780,500
Computer Hardware	39,617,961	87,260,945	126,878,906
Computer Software	72,423,220	216,894,062	289,317,281
Office Equipment, Furniture and Fittings	37,920,026	294,113,152	332,033,178
Plant and Machinery	29,634,787	11,551,774	41,186,561
Tools	49,425	57,456	106,881
Motor Vehicle	39,038,039	20,411,735	59,449,774
Free hold PPE Total	218,683,458	638,069,624	856,753,081
Leased hold PPE			
Land and Buildings	-	78,377,035	78,377,035
Motor Vehicle	-	11,650,000	11,650,000
Leased hold PPE Total	-	90,027,035	90,027,035
Total PPE	218,683,458	728,096,659	946,780,116

19.2 Information on Free hold Land and Buildings of Bank

Location	Extent	Building -Square feet	Net Book Value	Market Value
Kalutara Branch- No-13, Gnanodaya Mw, Kalutara South, Kalutara.	P 7.535	3,420	13,425,400	38,000,000

Date of Valuation 11th December 2018

Name of the Valuer W.D.Siripala,FIV(SL)

Qualification of the Valuer Incorporated Valuer

19.4 Lease ROUA

	2019	2018
ROUA net of Depreciation	351,112,109	-

20 Investment Properties

a. Investment Properties at Cost/fair value

In Rupees	2019	2018
Cost/fair value		
Opening balance at 01/01/	871,500,000	836,940,000
Additions	48,500,000	58,151,600
Disposals	-	(23,591,600)
Exchange rate variance	-	-
Adjustments	-	-
Closing balance at 31/12/	920,000,000	871,500,000
(Less): Accumulated depreciation		
Opening balance at 01/01/	-	-
Charge for the year	-	-
Additions	-	-
Disposals	-	-
Exchange rate variance	-	-
Adjustments	-	-
Closing balance at 31/12/	-	-
(Less): Impairment	-	-
Net book value at 31/12	920,000,000	871,500,000
Market value at 31/12	920,000,000	871,500,000

Notes to the Financial Statements

20.1 Investment Properties Valuation details

Location	Extent (Perches)	Deed No	Bank	
			2019	2018
No; 441 Sangarajah Mw, Kotahena Aluthkade East	59.20	1127	242,000,000	236,000,000
No.192 Srimath Bandaranayake Mw, Kotahena Colombo 13.	123.20	1124	591,000,000	554,000,000
No.192 (Part) Sri Sangarajah Mawatha, Kotahena Colombo 13.	15.00	1126	72,000,000	67,500,000
Avisawella -Housing Project			15,000,000	14,000,000
Total			920,000,000	871,500,000

Revaluation of Lands

No 441 Sri Sangaraja Mw, Kotahena, Aluthkade East Deed No 1127

No.192 Srimath Bandaranayake Mw, Kotahena Colombo 13.

No.192 (Part) Sri Sangarajah Mawatha, Kotahena Colombo 13.

Name of the Valuar	W.D.Siripala,FIV(SL)
Qualification of the Valuar	Incorporated Valuer
Valuation Date	10th December 2019

Revaluation of Avisawella -Housing Project

Name of the Valuar	W.D.Siripala,FIV(SL)
Qualification of the Valuar	Incorporated Valuer
Valuation Date	12th December 2019

Pending Court cases

01. Investment Properties

There are no pending special cases that are filed against the Bank and or by the Bank, apart from the normal mortgage,money,partition etc. cases filled by the bank against the defaulted customers and the customers against the bank.

02. Other

The names of the Petitioners of Case No. SC/FR Application No. 383/17 in the Supreme Court of Sri Lanka:

1. G.W.A.Nihal Kalinda
2. H.M.Upali Samaraweera
3. S.M.Sarath Kumara Bandara

Have filed a fundamental rights application stating that their fundamental rights have been infringed by the Bank by not granting promotions to the posts of Regional Managers of the respective Bank.

21 Deferred Tax Assets/(Liabilities)

In Rupees	2019	2018
Opening balance 01/01/	87,528,467	77,057,101
Prior Year Adjustments	(17,667,016)	-
- profit and loss	37,154,349	6,025,665
- other comprehensive income/Retained Earnings	5,633,270	(16,497,031)
Closing balance 31/12/	112,649,070	87,528,467

22 Other Assets

In Rupees	2019	2018
Receivables	76,107,581	145,300,285
Deposits and prepayments	751,850	23,835,990
Sundry debtors	17,594,382	18,898,384
Others	19,751,900	116,949,933
Total	114,205,713	304,984,592

23 Due to Banks

In Rupees	2019	2018
Borrowings	953,384,855	1,001,987,444
Securities sold under repurchase (repo) Agreements	-	-
Others	-	-
Total	953,384,855	1,001,987,444

24 Financial liabilities at amortised cost

In Rupees	2019	2018
Due to depositors	42,504,294,457	37,016,036,358
Debt securities issued by the bank	-	-
Securities sold under repurchase (repo) Agreements	-	-
Others	1,603,783,508	1,611,914,273
Total	44,108,077,966	38,627,950,631

Notes to the Financial Statements

a. Analysis of amount due to depositors

In Rupees	2019	2018
By product		
Demand deposits (current accounts)		
Savings deposits	6,572,129,660	5,764,435,647
Fixed deposits	35,932,164,798	31,251,600,711
Other deposits	-	-
Total	42,504,294,457	37,016,036,358
By currency		
Sri Lanka Rupee	42,504,294,457	37,016,036,358
United States Dollar	-	-
Great Britain Pound	-	-
Others	-	-
Total	42,504,294,457	37,016,036,358

25 Debt Securities Issued

In Rupees	2019	2018
Issued by the bank	4,042,358,842	4,038,675,896
Issued by other subsidiaries	-	-
Total	4,042,358,842	4,038,675,896
Due within 1 year	2,621,133,483	-
Due after 1 year	1,421,225,359	4,038,675,896
Total	4,042,358,842	4,038,675,896

a. Details of Debt Securities Issued

Type	Face Value In Rupees	Interest Rate and Repayment Terms	Issue Date	Maturity Date	Bank	
					2019	2018
Issued by the bank						
Listed , secured, Redeemable & Rated 5 Year Debenture(Fixed Semi)	2,012,990,000	11%	20th November 2015	20th Nov. 2020	2,035,787,264	2,032,064,574
Listed , secured, Redeemable & Rated 5 Year Debenture(Floating Qtr)	578,240,000	AWPLR+1.5	20th November 2015	20th Nov. 2020	585,346,218	585,743,604
Listed , secured, Redeemable & Rated 10 Year Debenture(Fixed Annual)	1,408,770,000	12%	20th November 2015	20th Nov. 2025	1,421,225,359	1,420,867,719
Sub total					4,042,358,842	4,038,675,896

Interest Rate of comparable government Securities

Debenture Type	Interest rate %		Gov. security Interest rate %	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debenture - 5Years- 2015(Floating Qtr 2020)	AWPLR+1.5%	AWPLR+1.5%	9.87	11.01
Debenture - 5Years- 2015(Fixed Semi 2020)	10.50	10.50	9.87	11.01
Debenture - 10Years- 2015(Fixed Annu. 2025)	12.00	12.00	10.23	11.01

Interest Cover

Debenture Type	Interest Cover Ratio(Times)	
	31.12.2019	31.12.2018
Debenture - 5Years- 2015(Floating Qtr 2020)	28.61	22.64
Debenture - 5Years- 2015(Fixed Semi 2020)	10.19	7.93
Debenture - 10Years- 2015(Fixed Annu. 2025)	12.94	10.03

Debt/Equity

Debenture Type	Debt/Equity Ratio	
	31.12.2019	31.12.2018
Debenture - 5Years- 2015(Floating Qtr 2020)	11%	12%
Debenture - 5Years- 2015(Fixed Semi 2020)	40%	43%
Debenture - 10Years- 2015(Fixed Annu. 2025)	28%	30%

Market Price of Debentures during the Year	2019			2018		
Type of Debentures	Highest Price	Lowest Price	Last Trading Price	Highest Price	Lowest Price	Last Trading Price
Debenture - 5Years- 2015(Floating Qtr 2020)	N/T	N/T	N/T	N/T	N/T	N/T
Debenture - 5Years- 2015(Fixed Semi 2020)	N/T	N/T	N/T	N/T	N/T	N/T
Debenture - 10Years- 2015(Fixed Annu. 2025)	100	100	100	N/T	N/T	N/T

N/T=Not Traded

25.1 Lease Liability

	2019	2018
Initial Recognition (Opening Balance)	355,524,245	-
Add: Amortise Interest	33,382,431	-
Less: Payments	(78,757,487)	-
Closing Balance	310,149,189	-

Notes to the Financial Statements

26 Retirement benefit obligations

In Rupees	2019	2018
Normal Gratuity Provision	369,533,734.95	318,079,099.21
Special Gratuity Provision	266,301,574.78	236,175,847.96
Total	635,835,309.73	554,254,947.17

26.1 Contributions to defined benefit plans

Actuarial Valuation of Gratuity Liabilities as at 31 December 2019	Normal Gratuity Rs.	Special Gratuity Rs.	TOTAL Rs.
Accounting Disclosures :			

Change in the Present Value of The Defined Benefit Obligation (PV-DBO)

Provision for PV-DBO as at 01 January 2019	318,079,099	236,175,848	554,254,947
Interest Cost for the period	34,716,242	24,960,727	59,676,969
Current Service Cost for the period	22,720,557	14,417,932	37,138,489
Additional cost Collective agreement salary increased	5,475,987	3,372,500	8,848,487
Gratuity paid/payable for those who left during the period	(19,850,836)	(24,351,568)	(44,202,404)
Actuarial (Gain)/Loss on PV-DBO	8,392,686	11,726,136	20,118,821
Provision for PV-DBO as at 31 December 2019	369,533,735	266,301,574	635,835,309

AMOUNTS RECOGNISED IN THE BALANCE SHEET AND INCOME STATEMENT

Liability recognised in the balance sheet

Provision for Gratuity as at 31 December 2019	369,533,735	266,301,574	635,835,309
Unrecognised actuarial Gains/(Losses) as at 31 December 2019	-	-	-
Liability recognised in the balance sheet as at 31 December 2019	369,533,735	266,301,574	635,835,309

Expenses recognised in the income statement

Interest Cost	34,716,242	24,960,727	59,676,969
Current Service Cost	22,720,557	14,417,932	37,138,489
Additional cost Collective agreement salary increased	5,475,987	3,372,500	8,848,487
Net Actuarial (Gain)/Loss recognised immediately	8,392,686	11,726,136	20,118,821
Expenses recognised in the Income Statement	71,305,472	54,477,295	125,782,766

Movements in the Net Liability Recognised in the balance sheet

Opening Net Liability as at 01 January 2019	318,079,099	236,175,848	554,254,947
Expenses recognised in the Income Statement	71,305,472	54,477,295	125,782,766
Gratuity paid/payable for those who left during the period	(19,850,836)	(24,351,568)	(44,202,404)
Closing Net Liability as at 31 December 2019	369,533,735	266,301,574	635,835,309

Valuation Assumptions:

Mortality : A 1967/70 Mortality Table

Disability : 10% of the Mortality

Staff Turnover Rates : 5%

Normal Retirement Age : 60 Years (The employee who are aged over the specified retirement age have been assumed to retire on their respective next birthday)

Rate of Discount : 11% p.a.

Salary Escalation Rates : Permanent staff: Basic Salary : 2.5% p.a. with next revision due in 2020 January
22% p.a. once in three years with next revision due in 2021 January

Salary Increment Scale revision: 2.5% p.a. with next revision due in 2020 January
22% p.a. once in three years with next revision due 2021 January

COLA: 2.5% p.a. with next revision due in 2020 January
22% p.a. once in three years with next revision due in 2021 January

Retiring Gratuity Formula : Normal Gratuity - Half month's consolidated Salary for each completed year of service for those with at least 5 years service in the event of employees leaving of the company other than death.

In the event of death : For permanent Staff: two month's consolidated Salary for each completed year of service subject to minimum of 6 month's salary For Others: half of the above benefit is payable

Special Gratuity - Half month's consolidated salary for each completed year of service for those with at least 15 years service.

Table 2: A Summary Results (Category wise)

CATEGORY	No Emps	TOT Basic Salary (Rs.)	TOT Other Allowances	Normal Gratuity Provision (Rs.)	Special Gratuity Provision (Rs.)	Total PV-DBO (Rs.) (Normal+Special Gratuity)
Permanent	553	32,859,158	17,931,293	368,947,713	266,194,299	635,142,012
Trainee	32	431,000	-	306,060	63,693	369,753
Contract	53	2,384,417	-	279,963	43,582	323,544
TOTAL	638	35,674,575	17,931,293	369,533,735	266,301,574	635,835,309

Table 3: Sensitivity Analysis of Present Value of Defined Benefit Obligation

Assumption changed (while all other assumptions remain unchanged)	Total PV-DBO (Rs.)(Normal+Special Gratuity)
1% increase in discount rate	592,654,251
1% decrease in discount rate	684,697,487
1% increase in Salary Escalation rate	656,792,224
1% decrease in Salary Escalation rate	615,550,442

Notes to the Financial Statements

SENSITIVITY ANALYSIS

In order to illustrate the significance of the discount rate and salary escalation rate assumed in this valuation as at 31 December 2019 we have conducted a sensitivity analysis

for all employees assuming the following discount rate and salary escalation rate: Variable changed (while all other assumptions remain unchanged)

	Rs.
One Percentage Point Increase in Discount Rate	592,654,251
One Percentage Point Decrease in Discount Rate	684,697,487
One Percentage Point Increase in Salary Escalation Rate	656,792,224
One Percentage Point Decrease in Salary Escalation Rate	615,550,442

Distribution of Present Value of Defined benefit Obligation in future years

Defined Benefit Obligation

	Rs.
During fiscal year ending December 31, 2020	47,907,943
During fiscal year ending December 31, 2021	39,527,904
During fiscal year ending December 31, 2022	46,831,420
During fiscal year ending December 31, 2023	39,860,722
During fiscal year ending December 31, 2024	61,048,498
Beyond next 5 years	400,658,823
Total	635,835,309
	7.95

Weighted Average Duration of Defined Benefit Obligation (years)

Break up of Actuarial (Gain)/Loss on the Defined benefit Obligation (Rs.)

Experience Adjustment (Financial and Demographic)	20,118,821
Due to changes in Financial Assumptions	-
Due to changes in Demographic Assumptions	-

Name of the Actuary	M Poopalanathan
Date of the Actuarial Computation	31st December 2019
Method of Valuation	Projected Unit Credit Method

27 Current Tax Liabilities

In Rupees	2019	2018
Opening balance 01/01/	57,327,668	138,498,952
Charge for the year	810,899,560	353,662,088
Tax Payments for the Year	(534,597,539)	(434,833,372)
Closing balance 31/12/	333,629,689	57,327,668

28 Other Liabilities

In Rupees	2019	2018
Sundry creditors	121,264,898	144,005,109
Interest payable	-	-
Impairment in respect of off-balance sheet credit exposures (Note 10)	-	-
Other payables	64,129,671	104,477,017
Total	185,394,569	248,482,126

29 Perpetual Bond

	2019	2018
Capital	250,000,000	-
Interest	16,708,172	-
Total	266,708,172	-

Objective no	Objective as per prospectus	Amount allocated	Proposed date of Utilisation	Amount allocated from proceeds (A)	% of total proceeds	Amount utilised (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	To increase the loan portfolio	Rs 250 Mn	14-06-2019	Rs 250 Mn	100%	Rs 250 Mn	100%	Fully Utilised
2	To increase the Tier 1 capital base of the Bank	Rs 250 Mn	14-06-2019	Rs 250 Mn	100%	Rs 250 Mn	100%	Fully Utilised

30 Stated Capital/Assigned Capital

In Rupees	2019	2018
Capital	962,092,936	962,092,936
Total	962,092,936	962,092,936

Notes to the Financial Statements

31 Statutory Reserve Fund

In Rupees	2019	2018
Opening balance at 01/01/	188,424,906	160,313,355
IFRS 9 Adjustments/Restatements	(2,608,886)	(107,990)
Transfers during the period	23,785,622	28,219,541
Closing balance at 31/12/	209,601,642	188,424,906

32 Retained Earnings

In Rupees	2019	2018
Opening balance at 01/01/	3,319,553,632	2,844,675,202
IFRS 9 Adjustments/Restatements	(44,351,061)	(4,853,759)
Profit for the year	475,712,442	564,390,811
Transfers to other reserves and adjustments	(71,356,866)	(84,658,622)
Dividend	-	-
Closing balance at 31/12/	3,679,558,147	3,319,553,632

33 Other Reserves

a. Bank - Current year (2019)

In Rupees	Opening balance at 01/01/2019	Movement/ transfers and IFRS 9 Adjustments	Closing Balance 31/12/2019
General reserve	303,251,309	42,353,473	345,604,782
Revaluation reserve	28,886,773	(28,886,773)	-
Cash flow hedge reserve	-	-	-
Foreign currency translation reserve	-	-	-
OCI reserve	(45,597,180)	(32,152,569)	(77,749,749)
Others	-	-	-
Total	286,540,902	(18,685,870)	267,855,032

b. Bank – Previous year (2018)

In Rupees	Opening balance at 01/01/2018	Movement/ transfers	Closing Balance 31/12/2018
General reserve	247,028,208	56,223,101	303,251,309
Revaluation reserve	29,762,137	(875,364)	28,886,773
Cash flow hedge reserve	-	-	-
Foreign currency translation reserve	-	-	-
OCI reserve	(3,176,244)	(42,420,936)	(45,597,180)
Others	-	-	-
Total	273,614,101	12,926,801	286,540,902

Non-controlling Interests

In Rupees	2019	2018
Please specify	-	-
Total	-	-

34. Contingent Liabilities and Commitments

In Rupees	2019	2018
Guarantees	5,870,000	3,940,400
Bonds	-	-
Letters of credit	-	-
Other contingent items	-	-
Undrawn loan commitments	426,371,260	524,244,084
Others	-	-
Total	432,241,260	528,184,484

Notes to the Financial Statements

34.1 Maturity Gap Analysis

An analysis of assets and liabilities based on the remaining period at the Balance sheet date to the respective contractual maturity date is as follows,

As at 31st December 2019 (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	150,213	-	-	-	-	150,213
Due from Banks	271,005	-	-	-	-	271,005
Investments	9,955,444	2,484,125	-	-	-	12,439,568
Loans & Advances	1,571,839	6,705,196	8,931,492	6,403,649	17,603,416	41,215,593
Fixed Assets	-	-	-	-	731,412	731,412
Other Assets	57,824	33,515	6,257	24,034	1,025,225	1,146,855
Total Assets	12,006,325	9,222,836	8,937,749	6,427,684	19,360,053	55,954,646
Percentage 31st Dec 2019	21.46	16.48	15.97	11.49	34.60	100.00
Percentage 31st Dec 2018	18.32	15.21	19.56	13.15	33.75	100.00
Liabilities						
Total Capital Fund	-	-	-	-	5,119,108	5,119,108
Deposits	10,185,999	19,015,646	2,430,927	3,582,137	7,289,586	42,504,294
Borrowings	372,356	3,235,097	427,042	455,695	2,376,045	6,866,235
Other Liabilities	193,919	382,547	72,847	81,043	734,653	1,465,009
Total Liabilities	10,752,274	22,633,290	2,930,815	4,118,875	15,519,392	55,954,646
Percentage 31st Dec 2019	19.22	40.45	5.24	7.36	27.74	100.00
Percentage 31st Dec 2018	26.70	28.26	9.74	5.77	29.53	100.00

35. Related Party Transactions

35.1 Directors Interest in Contracts with the Bank

Name	Related Party	Office Holding	Transactions	Nature of Transactions	% Regulatory Capital
Mr.L.S.Palansuriya	National Housing Development Authority	Chairman	28.0Mn	Rent for Head office Building	0.55%
Dr.K.D.Gunawardana	Director HDFC	Director	0.20Mn	Savings/ Fixed Deposit	0.00%
Mr.J.R.U.De.Silva	Director HDFC	Director	0.19Mn	Savings/ Fixed Deposit	0.00%
Mrs.R.A.Chulananda	Director HDFC	Director	0.14Mn	Savings/ Fixed Deposit	0.00%
Mrs.Annes Noor Rizna	Director HDFC	Director	0.001Mn	Savings/ Fixed Deposit	0.00%
Dr.Soosaiappu Neavis Morais	Director HDFC	Director	0.08Mn	Savings/ Fixed Deposit	0.00%
Mr.N.Wijeyanathan	Director HDFC	Director	0.60Mn	Savings/ Fixed Deposit	0.01%
Total			29.21Mn		0.56%

35.2. Transactions with KMPs

The transactions made with KMP s as follows(Balance as at 31st December)

	2019 Rs"000"	% of Regulatory Capital
Loans and Advance	67,567	1.31%
Deposits	32,933	0.64%
Total	100,500	1.95%

36. Events Occurring after the Date of Statement of Financial Position

There has been no material event after the date of Statement of Financial Position that requires adjustments or disclosure in the Financial Statement.

Notes to the Financial Statements

37. Assets Pledge

	Type of Facility	Amount of facility Rs Mn	Nature of Security	Value of security Rs Mn	Balance as at 31-12-2019 Rs Mn
(1)	Overdraft (Sampath Bank)	300	Unsecured	-	(174)
(2)	Borrowing (Term Loan) (Sampath Bank)	1,250	Part of Portfolio	975	238
(3)	Borrowing (Term Loan) (BOC)	500	Unsecured	-	417
(4)	Overdraft (BOC)	500	Unsecured	-	-
(5)	Borrowing (MCB)	250	Part of Portfolio	335	121

	Type of Facility	Amount of facility Rs Mn	Nature of Security	Value of security Rs Mn	Balance as at 31-12-2019 Rs Mn
(1)	Listed, Secured, Redeemable Debenture	4,000	Unsecured	-	4,042

38 Net Assets Value per Ordinary Share

In Rupees

	2019	2018
Net Assets	5,119,107,757	4,756,612,376
No of Ordinary Shares	64,710,520	64,710,520
Net Assets Value per Ordinary Share	79.11	73.51

Measurement of Financial Instruments

a. Analysis of Financial Instruments by Measurement Basis –as at 31.12.2019

In Rupees	AC	FVPL	FVOCI	OTHER	Total
ASSETS					
Cash and cash equivalents	-	-	-	421,218,289	421,218,289
Balances with central banks	-	-	-	-	-
Placements with banks	7,539,925,299	-	-	-	7,539,925,299
Derivative financial instruments	-	-	-	-	-
Loans and advances	41,215,592,671	-	-	-	41,215,592,671
Debt instruments	4,880,392,998	-	-	-	4,880,392,998
Equity instruments	-	19,250,000	-	-	19,250,000
Total financial assets	53,635,910,968	19,250,000	-	421,218,289	54,076,379,257
Other Assets	-	-	-	1,878,267,091	1,878,267,091
Total assets	53,635,910,968	19,250,000	-	2,299,485,379	55,954,646,348

In Rupees	AC	FVPL	OTHER	Total
LIABILITIES				
Due to banks	953,384,855	-	-	953,384,855
Derivative financial instruments	-	-	-	-
Financial liabilities to Amortise cost	-	-	-	-
- due to depositors	42,504,294,457	-	-	42,504,294,457
- due to debt security holders	4,042,358,842	-	-	4,042,358,842
- due to other borrowers	1,870,491,680	-	-	1,870,491,680
Total financial liabilities	49,370,529,834	-	-	49,370,529,834
Other Liabilities	310,149,189	-	1,154,859,568	1,465,008,757
Equity	-	-	5,119,107,757	5,119,107,757
Total liabilities & Equities	49,680,679,023	-	6,273,967,325	55,954,646,348

AC – Financial assets/liabilities measured at amortised cost

FVPL – Financial assets/liabilities measured at fair value through profit or loss

FVOCI – Financial assets measured at fair value through other comprehensive income

Measurement of Financial Instruments

b. Bank - Previous year as at 31.12.2018

In Rupees	AC	FVPL	FVOCI	OTHER	Total
ASSETS					
Cash and cash equivalents	-	-	-	210,466,904	210,466,904
Balances with central banks	-	-	-	-	-
Placements with banks	5,396,308,712	-	-	-	5,396,308,712
Derivative financial instruments	-	-	-	-	-
Loans and advances	37,948,619,994	-	-	-	37,948,619,994
Debt instruments	3,980,888,836	-	-	-	3,980,888,836
Equity instruments	-	18,750,000	-	-	18,750,000
Total financial assets	47,325,817,541	18,750,000	-	210,466,904	47,555,034,445
Other Assets	-	-	-	1,730,256,642	1,730,256,642
Total financial assets	47,325,817,541	18,750,000	-	1,940,723,547	49,285,291,088

In Rupees	AC	FVPL	OTHER	Total
LIABILITIES				
Due to banks	1,001,987,444	-	-	1,001,987,444
Derivative financial instruments	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-
- due to depositors	37,016,036,358	-	-	37,016,036,358
- due to debt security holders	4,038,675,896	-	-	4,038,675,896
- due to other borrowers	1,611,914,274	-	-	1,611,914,274
Total financial liabilities	43,668,613,972	-	-	43,668,613,972
Other Liabilities	-	-	860,064,742	860,064,742
Equity	-	-	4,756,612,376	4,756,612,376
Total liabilities & Equity	43,668,613,972	-	5,616,677,118	49,285,291,088

Capital Adequacy

CAPITAL BASE As at 31st December	2019 (Rs.000')	2018 (Rs.000')
Total Common Equity Tier I (CET1) Capital		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	647,105	647,105
Share Premium	314,988	314,988
Statutory Reserve Fund	209,602	188,425
Published Retained Profits/(Accumulated Losses)	3,679,558	3,319,554
Accumulated other comprehensive income (OCI)		
General and Other Reserves	345,605	303,251
Sub Total	5,196,858	4,773,323
Total Adjustments to CET1 Capital		
Deferred tax assets (net)	112,649	87,528
Other intangible assets (net)	152,781	165,401
Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	27,941	645,250
Common Equity Tier I (CETI) Capital after Adjustments	4,903,486	3,875,144
Additional Tier 1 (AT1) Capital after Adjustments		
Qualifying Additional Tier 1 Capital Instruments	250,000	-
Total Tier 01	5,153,486	3,875,144
Tier 2 Capital after Adjustments		
Additions		
General Provisions	252,429	139,224
Deductions		
Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	252,429	139,224
Tier II Capital		
Capital Base	5,153,486	3,875,144
Total risk adjusted balances (credit risk, market risk, operational risk)	26,931,562	23,612,419
Risk Adjusted Capital Ratios		
Common Equity Tier 1 Capital Ratio *	18.21%	16.41%
Tier 1 (Total Tier 1 capital / Total risk adjusted balances) **	19.14%	16.41%
Tier 11 (Capital base / Total risk adjusted balances) ***	19.14%	16.41%

* Minimum 7.00 ** Minimum 8.5% ***Minimum 12.5%

Risk Adjusted On

- Balance Sheet Exposure -Rs.000'

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2019	2018		2019	2018
Exposures					
Cash- Local Currency	150,213	154,695	0%		
Sri Lanka Govt Treasury Bills & Bonds	2,963,655	4,141,534	0%		
Central Bank of Sri Lanka		89,723	0%		
Claims on Public Sector Entities (PSEs)		31	100%		31
Loan & Advances					
Claims Secured by Residential Property					
Claims that qualify for regulatory capital purposes	10,820,351	10,908,609	50%	5,410,176	5,454,305
Claims that not qualify for regulatory capital purposes	1,493,076	1,494,843	100%	1,493,076	1,494,843
Housing loans against EPF.	10,179,298	9,408,501	0%	-	
Cash Margin Loans	1,687,318	1,479,783	0%	-	
Gold Loans			0%	-	
Loan to Value Ratio equal to or less than 70%	14,301	15,189	0%	-	
Loan to Value Ratio over 70% and less than 100%	75,772	188,677	20%	15,154	37,735
Loan to Value Ratio equal to or over 100%	202,964	74,370	100%	202,964	74,370
Trading Investment	25,000	25,000			
Retail claims that qualify for regulatory capital purposes			75%		
SME exposures secured on Immovable Property	1,448,417	1,657,800	60%	869,050	994,680
Other SEM exposures	279,622	381,270	75%	209,716	285,953
Individual exposures	8,360,656	7,722,156	75%	6,270,492	5,791,617
Retail claims that do not qualify for regulatory capital purposes	53,240	48,979	100%	53,240	48,979
Claims Secured by Real State			100%		
Non Performing Assets					
Past Due Residential Mortgage Loans					
Specific provisions are more than 20%		955,836	50%		477,918
Specific provisions are less than 20%	1,393,860	526,128	100%	1,393,860	526,128

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2019	2018		2019	2018
Housing loans on Guarantors & others, Lease					
Specific provisions are more than 20%		489,577	100%		489,577
Specific provisions are less than 20%	1,239,491	332,491	150%	1,859,237	498,737
Due From local Commercial Banks Less Than Three Months (AAA to BBB-)	6,751,499	2,766,554	20%	1,350,300	553,311
Due From local Commercial Banks Less Than Three Months (BB+ to B-)	511,998	529,533	50%	255,999	264,766
Due From local Commercial Banks More than Three Months (AAA to AA-)		102,196	20%		20,439
Due From local Commercial Banks More than Three Months (A+ to BBB-)	1,204,187	1,171,669	50%	602,093	585,834
Due From local Commercial Banks More than Three Months (BB+ to B-)			100%		
Claims on Financial Institutions/Primary Dealers/Finance Companies (AAA to AA-)	201,283	387,241	20%	40,257	77,448
Claims on Financial Institutions/Primary Dealers/Finance Companies (A+ to BBB- and unrated)	1,784,488	255,727	50%	892,244	127,863
Claims on Financial Institutions/Primary Dealers/Finance Companies (BB+ to B-) & unrated	327,712		100%	327,712	
Claims on Other Financial Institutions(A+ to A-)	276,555		50%	138,278	
Claims on Corporate (BBB+ to BB-)		778,121	100%		778,121
Claims on Corporate (below BB-)	58,469	52,688	150%	87,703	79,033
Claims on Corporate (Unrated)	535,551	426,614	100%	535,551	426,614
Fixed Assets	227,519	300,843	100%	227,519	300,843
Other Assets	1,385,318	1,088,447	100%	1,385,318	1,088,447
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet					
Total Risk Weighted Assets On Balance Sheet	53,651,814	47,954,824		23,619,940	20,477,591
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet	5,870	3,940	100%	5,870	3,940
Total Risk Weighted Assets	53,657,684	47,958,765		23,625,810	20,481,532
Total risk adjusted balance for operational risk				3,265,752	3,088,782
Total risk adjusted balance for Market risk				40,000	42,105
Total risk adjusted balances (credit risk, market risk, operational risk)				26,931,562	23,612,419

Share Information

As at 31-12-2019

Distribution and Composition of Shareholders (As per rule No. 7.6(X) of the Colombo Stock Exchange)

Shareholders	December 31, 2019								
	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	1,609	910,014	1.41	7	2,169	0.00	1,616	912,183	1.41
1,001 - 10,000	525	1,888,162	2.92	3	11,000	0.02	528	1,899,162	2.94
10,001 - 100,000	119	2,796,504	4.32	1	50,000	0.08	120	2,846,504	4.40
100,001 - 1,000,000	16	2,856,373	4.41	2	260,180	0.40	18	3,116,553	4.81
Over 1,000,000	3	46,781,118	72.29	1	9,155,000	14.15	4	55,936,118	86.44
Total	2,272	55,232,171	85.35	14	9,478,349	14.65	2,286	64,710,520	100.00

Shareholders	December 31, 2018								
	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	1,599	916,291	1.42	5	1,313	0.00	1,604	917,604	1.42
1,001 - 10,000	523	1,898,389	2.93	3	11,000	0.02	526	1,909,389	2.95
10,001 - 100,000	121	3,154,825	4.88	1	50,000	0.08	122	3,204,825	4.96
100,001 - 1,000,000	13	2,482,404	3.84	2	260,180	0.40	15	2,742,584	4.24
Over 1,000,000	3	46,781,118	72.29	1	9,155,000	14.15	4	55,936,118	86.44
Total	2,259	55,233,027	85.35	12	9,477,493	14.65	2,271	64,710,520	100.00

Composition of Shareholders (As per rule No. 7.6(X) of the Colombo Stock Exchange)

	December 31, 2019				December 31, 2018			
	No of Share holders	%	No of Shares	%	No of Share holders	%	No of Shares	%
Individuals	2,152	94.14	5,940,730	9.18	2,144	94.41	6,076,267	9.39
Institution	134	5.86	58,769,790	90.82	127	5.59	58,634,253	90.61
Total	2,286	100.00	64,710,520	100.00	2,271	100.00	64,71,520	100.00

Twenty Five largest Shareholders (As per rule No. 7.6(III) of the Colombo Stock Exchange)

	Name Of Shareholder	No. of Shares 2019	Percentage (%) 2019	No. of Shares 2018	Percentage (%) 2018
1	National Housing Development Authority	32,180,000	49.73	32,180,000	49.73
2	LOLC Holding PLC	9,707,740	15.00	9,707,740	15.00
3	Thurston Investments Ltd.	9,155,000	14.15	9,155,000	14.15
4	Sampath Bank PLC/ Dr. T. Senthilverl	4,893,378	7.56	4,893,378	7.56
5	Urban Development Authority	300,000	0.46	300,000	0.46
5	Condominium Management Authority	300,000	0.46	300,000	0.46
7	Dr. R.R. De Silva	295,126	0.46	295,126	0.46
8	Sampath Bank PLC/Mr. A. Sithampalam	258,054	0.40	258,054	0.40
9	Finco Holdings (Pvt) Ltd.	185,000	0.29	185,000	0.29
10	The Associated Newspapers of Ceylon Ltd.	180,000	0.28	180,000	0.28
11	Mr. D. A. De Soysa	170,000	0.26	170,000	0.26
12	Mrs. S. C. Perera	164,030	0.25	164,030	0.25
13	Richard Peiris Financial Services (Pvt) Ltd/M.A.A. Karim	141,485	0.22	141,485	0.22
14	Mr. S.N.C.W.M.B.C. Kandegedara	139,568	0.22	-	-
15	Dr. Y. Sena	133,180	0.21	133,180	0.21
16	Mr. S. Abishek	128,709	0.20	128,709	0.20
17	Acuity Partners (Pvt) Ltd/ Mr. S. Vasudevan	127,813	0.20	-	-
18	Sezeka Limited	127,000	0.20	127,000	0.20
19	State Engineering Corporation	120,000	0.19	120,000	0.19
19	National Water Supply & Drainage Board	120,000	0.19	120,000	0.19
19	Road Development Authority	120,000	0.19	120,000	0.19
22	DFCC Bank PLC/N.A.L.Dias & D.Dias	106,588	0.16	-	-
23	Miss. S. Durga	88,500	0.14	88,500	0.14
24	Mr. A.H. Munasinghe	85,000	0.13	-	-
25	CT Holding Plc	70,000	0.11	-	-
	Total	59,296,171	91.63	58,767,202	90.82

Share Information

Market Prices (As per rule No. 7.6(XI) of the Colombo Stock Exchange)

	2019 Rs.	2018 Rs.
Highest	35.00	36.50
Lowest	20.00	23.00
Year end	32.00	26.00

Information on Ratios (As per rule No. 7.6(XI) of the Colombo Stock Exchange)

	2019	2018
Dividend per share (Rs.)	-	-
Dividend payout ratio (%)	-	-
Net Assets value per share (Rs.)	79.11	73.51
Earnings per Share (Rs.)	7.35	8.72

Directors and General Manager /CEO Shareholding (as at 31st of December 2019)

Name	2019	2018
Mrs. R.A. Chulananda	Nil	Nil
Mr. N. Wijeyanathan	3,979	3,979
Mr. J. R. U. De Silva	2,241	2,241
Dr. K. D. Gunawardana	1,000	Nil
Mrs. N.R. Anees	Nil	Nil
Dr. S.N. Morais	1,000	Nil
Mr. Palitha Gamage (GM/CEO)	Nil	Nil

Public holding (As per rule No. 7.13.1 of the Colombo Stock Exchange)

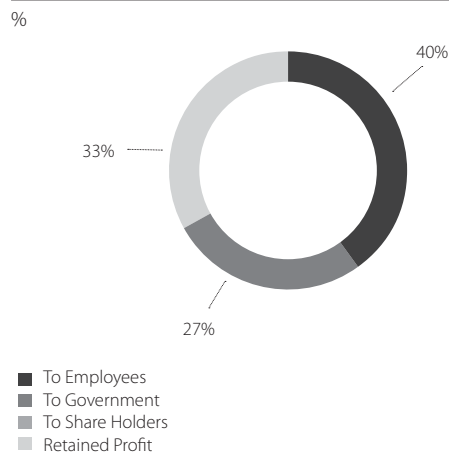
	2019	2018
Number of Public Shareholders	2,272	2,258
Public shareholding	23,156,274	23,121,273
percentage of public holding	35.784%	35.73%

Value Added Statement

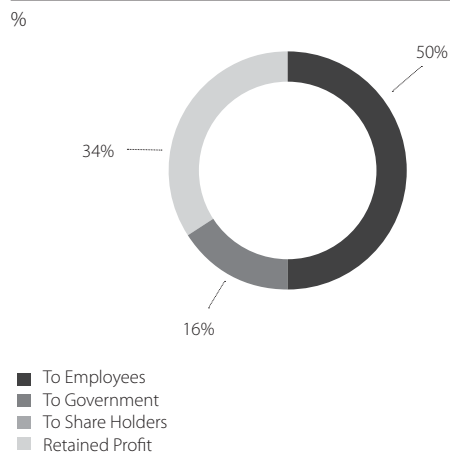
For the period ended 31st December

LKR "000"	%	2019	Bank	%	2018
Interest Income		7,683,162			6,679,052
Other Income		407,303			441,183
Gross Income		8,090,465			7,120,235
Cost of Service		5,189,793			4,904,857
Total Value Additions		2,900,672			2,215,378
Value Distributed					
To Employees					
(Remuneration & Benefits)	40.1	1,164,469		50.3	1,113,572
To Government	26.7	773,834		16.2	358,995
Income Tax	10.3	298,795		2.9	64,390
Value Added Tax , NBT & DRL Fs	16.2	469,973		13.1	289,882
Nation Building Tax	(0.0)	(0)		-	-
Crop insurance Levey	0.2	4,822		0.3	5,804
Stamp Duty	0.0	245		(0.0)	(1,081)
	26.7			16.2	
To Share Holders (Dividend)	-	-		-	-
* *					
Retained in the Business		962,369		33.5	742,811
Retained Income	16.4	475,712		25.5	564,391
Depreciation	5.6	163,763		3.9	85,714
Loan Loss Provision	11.1	322,893		4.2	92,706
Total Value Distributions	100.0	2,900,672		100.0	2,215,378

Value Distributed 2019



Value Distributed 2018



Ten Year Statistical Summary

Year ended 31st December (LKR. Mn)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
OPERATING RESULTS										
Income	2,250	2,386	2,744	3,803	4,566	4,925	5,928	6,978	7,120	8,090
Interest Income	2,165	2,261	2,635	3,528	4,378	4,660	5,473	6,614	6,679	7,683
Interest Expense	1,339	1,354	1,805	2,469	2,535	2,539	3,509	4,742	4,441	4,783
Other Income	85	82	110	275	188	265	455	365	442	407
Operating Expenses	513	620	762	938	1,123	1,288	1,409	1,472	1,668	1,740
Provision for Loss	107	10	1	87	131	89	160	-57	93	323
Profit Before Tax	291	402	176	309	777	1,009	848	821	919	1,244
Income Tax & Finance VAT	156	186	120	151	402	500	365	407	354	769
Profit After Taxation	135	216	56	158	375	509	483	414	564	476
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer Deposits	8,526	12,336	14,695	18,902	24,479	28,593	32,123	36,655	37,016	42,504
Borrowings	3,629	3,556	3,214	5,257	6,213	9,037	8,863	7,917	6,653	6,600
Other Liabilities	1,383	1,699	500	834	840	920	872	920	860	1,732
Shareholders' Funds	1,849	2,337	2,391	2,575	2,886	3,364	3,821	4,232	4,757	5,119
Total	15,387	19,927	20,801	27,567	34,418	41,913	45,679	49,724	49,285	55,954
ASSETS										
Loans and Advances	12,519	14,888	15,966	19,701	23,357	26,685	30,260	34,968	37,949	41,216
Cash, short term funds and statutory	1,920	3,960	3,679	6,601	8,997	11,852	11,807	11,027	7,592	12,842
HTC & Sell, FVTPL Investments					850	2,043	2,053	2,115	2,014	19
Property, plant and equipment	756	250	288	290	296	435	478	513	466	380
Other assets	192	830	868	975	918	898	1,080	1,101	1,264	1,498
Total	15,387	19,927	20,801	27,567	34,418	41,913	45,679	49,724	49,285	55,954
RATIOS										
Return on Average Shareholders Funds (%)	7.6	10.3	2.35	6.36	13.72	16.30	13.46	10.29	12.56	9.63
Income Growth (%)	(0.8)	6.0	15.0	38.6	20.1	7.9	20.3	17.7	2.0	13.6
Return on Average Assets(%)	0.9	1.2	0.27	0.65	1.21	1.33	1.10	0.87	1.14	0.91
Advance to Deposits and Borrowings (%)	97.1	106.7	112.2	122.6	131.4	141.0	135.4	127.5	115.1	119.1
PPE on Shareholders Funds (%)	40.9	10.7	12.0	11.2	10.3	12.9	12.5	12.1	9.8	7.4
Total Assets to shareholders funds (times)	8.32	8.53	8.70	10.70	11.93	12.46	11.95	11.75	10.36	10.86
SHARE INFORMATION										
Market Value per Share (Rs)	For Rs 100/= Shares				For Rs 10/= Shares					
High (Rs)	600.0	1,900.0	119.0	52.5	52.5	76.5	70.0	44.5	30.0	35.0
Lower (Rs)	135.0	546.0	44.0	48.2	48.2	58.5	46.5	31.7	23.0	20.0
Close (Rs)	550.0	1,400.3	50.6	49.6	49.6	67.1	47.2	32.7	26.0	32.0
Earnings per Share (Rs)	2.63	3.34	0.86	2.44	5.79	7.87	7.47	6.40	8.72	7.35
Price Earnings Ratio	209.13	419.47	58.84	20.31	8.57	8.53	6.32	5.11	2.98	4.35
Net Assets per Share(Rs)	28.56	36.11	36.95	39.80	44.60	51.98	59.05	65.39	73.51	79.11
PROFILE										
Ownership - Government %	51	51	51	51	51	51	51	51	51	51
- Private %	49	49	49	49	49	49	49	49	49	49
No of employees	425	505	488	488	477	561	570	567	561	558
No of branches	28	31	32	33	36	38	38	39	39	39
No of ATM (Access)	225	255	360	652	775	854	3000+	4350	4850	5,132

Corporate Information

Name and Address:

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

Registered Head Office:

Address: P.O. Box 2085, Sir Chittampalam A Gardiner Mawatha, Colombo 02.

Telephone : 2356800, 2446241, 2446239, 2447354

Fax : 2446392, 2356829, 2356827

Web Site : www.hdfc.lk, E-mail : hdfc@hdfc.lk

Legal Form:

A Licensed Specialised 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 main board of the Colombo Stock Exchange (CSE)

Board of Directors:

Mrs. Wasanthi Manchanayake (Chairperson)

Mrs. R. A. Chulananda (Director)

Mr. N. Wijeyanathan (Director)

Dr. K. D. Gunawardana (Director)

Dr. S. N. Morais (Director)

Company Secretary:

Mrs. Dharshani De Silva

Attorney - at - Law & Notary Public, MBA & LLM

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

As a Licensed Specialised Bank:

2003

Auditor:

Auditor General

Credit Rating:

The Bank has been assigned BB + (lka) by
Fitch Rating Lanka (Pvt) 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.

Nations Trust Bank, No 242, Union Place, branch, Colombo 02.
MCB Bank Limited, Main Branch, No. 8, Leyden Bastian Road,
Colombo 01.

Corporate Management

Mr. Palitha Gamage - CEO/GM

Mr. M.K. Nambiyarooran - Chief Operating Officer

Mr. D. V. Pathirana - Chief Financial Officer

Mr. A. J. Athukorala - Chief Internal Auditor

Mrs. W. W. D. S. C. Perera - AGM (Legal)

Mrs. H. S. Gunathilake - AGM (Business (Development & Marketing))

Mr. C. R. P. Balasuriya - AGM - Treasury

Mr. D. M. D. M. K. Dissanayake - Head of Credit

Mrs. K. T. Dharshani Deepika De Silva -

Chief Manager - Bank /Board Secretary

Mr. H. A. Anura - Chief Manager (Finance)

Mrs. W. N. D. Boteju - Chief Manager (HR & Administration)

Mr. K. R. M. Aruna Bandara - Chief Manager -Compliance

Mr. A.M. Neelachandra - Chief Manager (IT)

Investor Information

Mr. D. Vidana Pathirana

Chief Financial Officer

T.P. 2356800, 244624, 2446239

D/L 4717864 Fax : 2356829

E-mail - cfo@hdfc.lk



HDFC Bank of Sri Lanka,
P.O. Box 2085, Sir Chittampalam A Gardiner Mawatha, Colombo 02.