

Sheltering Dreams Fostering Life



A n n u a l **2020** R e p o r t



HDFC BANK OF SRI LANKA



In the midst of life's incessant challenges, we have stood by our customers for over three decades – sheltering their aspirations and fostering life. Now as we reach towards a transformational journey, we have embraced diverse opportunities and innovative technologies, growing in line with industry changes and customer expectations.

HDFC continues to foray into diversified financial solutions with the objective of commanding a well-segmented portfolio, ensuring that the interests of our customers and investors continue to be sheltered, and their expectations are fostered. And standing by our stakeholders through this immensely challenging period of time, we remain firmly dedicated to serving their financial interests and in implementing transformational initiatives - elevating our services for all Sri Lankans.

Sheltering Dreams
Fostering Life

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View HDFC Bank 2020 Annual Report online
version <https://www.hdfc.lk/>

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About the Report

Core Purpose

As with previous Annual Reports, the aim for the 2020 report is to provide consistent and comprehensive reporting, while aligning the report's focus to equip all stakeholders with comprehensive information, especially to assist shareholders in the productive allocation of capital for banking operations.

The current Integrated Report was developed to explanatorily offer information in both qualitative and quantitative forms, whilst financial information includes historical data in relation to the performance of 2020.

Integrated Approach

The Bank's Journey in reporting began in 2005, with the listing of the Bank with the Colombo Stock Exchange. HDFC Bank's foray into integrated reporting began in 2010 with the report titled "Sheltering the Nation". The Bank has since then incorporated a pattern of integrated thinking to its Annual Report, especially pertaining to the dissemination and communication of the Bank's financial and operational developments.

Scope and Boundary

Covering the 12-month period from 1st January to 31st December, the Annual Report presents financial and non-financial performance of the Bank in an integrated and cohesive manner. Not only does the report focus on the historical events of 2020, but it also provides an overview of the vision for the future. The report essentially provides information in relation to creating value, operational performance, the external environment, Bank's governance and risk management, as well as financial performance for the year 2020.

The Bank has identified material aspects that affect value creation for stakeholders over time. Hence, information within the report relate directly to these matters and to stakeholders.

In addition to information presented in the 2019 Annual Report, the Bank took measures to include additional information, as part of a holistic view of company operations: also in maintaining an integrated approach in reporting, the Bank has included aspects such as natural and manufactured capital. Wherever applicable the Bank has presented extended and additional data and information when comparing the same areas with last year's report. Such as additional quantitative information and analysis in the Human Capital section.

The Capitals

The report provides a cohesive account of how the Bank manages the key capitals. This includes the presentation of financial results under Financial Capitals, followed by developments on Human Capital, Social and Relationship Capital, Intellectual Capital, Manufactured and Natural Capital.

Quality Assurance

Each year, HDFC Bank elevates the quality of the report, taking into consideration feedback from stakeholders, while pursuing better knowledge of reporting practices. The report has been assessed for quality by focusing on both text and graphical aspects, with attention to detail.

Basis of Preparation and Scope

The report has been developed, after applying relevant principles of the International <IR> Framework. Additionally, the Bank complied with relevant statutory and governance regulations and requirements in preparing the report and its financial content.

As a Licensed Specialised Bank, HDFC is regulated by the Central Bank of Sri Lanka and is governed by relevant directives and guidelines. In addition, HDFC Bank also complies with the following governance, compliance and risk based frameworks and regulations.

About the Report

The Company and its operations are formed and governed by the Housing Development Finance Act No. 7 of 1997 and its amendments thereto, which recognised the Bank as an authority to providing housing based financial services, and sets the scope and boundaries through which the Bank operates.

Principal Reporting Framework

- The International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)
- Reporting Guidelines issued by The Institute of Chartered Accountants of Sri Lanka

Financial Reporting Frameworks

1. Sri Lanka Accounting Standards
2. Banking Act No. 30 of 1988 and amendments
3. Companies Act No. 07 of 2007
4. Financial Transactions Reporting Act No. 6 of 2006
5. Inland Revenue Act No. 10 of 2006
6. Finance Act No. 5 of 2005.

Compliance, Governance and Risk Guiding Frameworks

1. The Housing Development Finance Corporation of Sri Lanka Act No. 07 of 1997 (amendment Act No. 15 of 2003 and Act No. 45 of 2011)
2. Code of best practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka
3. Corporate Governance requirements of Central Bank of Sri Lanka
4. Banking Act Direction No. 12 of 2007, and subsequent amendments thereto, applicable to Licensed Specialised Banks
5. Capital Requirements under Basel III and the amendments pertaining to Banking Act Direction No. 01 of 2016
6. Listing Rules of the Colombo Stock Exchange (CSE)
7. Companies Act No. 07 of 2007
8. Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987.

Compliance

Financial statements presented herein, have been verified by the Auditor General of Sri Lanka for accuracy, as well as to ensure the presentation of both quantitative and qualitative information. Such information has been approved by the relevant senior managers who have also ensured information for accuracy and reliability.

Deriving Information

Information for the report has been gathered through a process of interviews from the higher and middle managements, in addition to reports and facts obtained through Bank reports and relevant documents. Information on economic developments and on the banking sector were written based on credible, external documents issued by the Central Bank of Sri Lanka, as well as international economic and financial institutions.

Forward-Looking Statements

The report includes several forward-looking statements related to the Bank's operations and financial results. Strategic plan for the next five years is one such area, which focuses on objectives, which are to be accomplished in the future. Such statements and forecasted aspects may involve uncertainty as they depend on future circumstances. Such uncertain circumstances and occurrences could lead to results being achieved or may cause developments to deviate from the statements and their expressed and/or implied expectations.

External factors that could also cause results to change materially from those stated in such forward-looking statements include economy-based developments and statements including financial markets rates, exchange rates and interest rates, regulatory aspects and industry dynamics. Risks pertaining to lending and investment activities and competitive factors can also cause results to change in the future.

Unforeseen factors such as pandemics and sudden unexpected occurrences can also impact operations and business activities, thereby altering results and expectations declared in such forward-looking statements. Consequently, the Bank Auditor has not reviewed all such forward-looking statements.

Report Mediums

As a primary communication tool in engaging with shareholders and overall stakeholder groups, the Annual Report was translated to Sinhala and Tamil from its English version. The report was distributed amongst Government ministries and the English version has also been uploaded to the HDFC website for easy access.

Feedback

HDFC invites all readers to present their concerns, ideas for improvement in elevating the content and structure of our 2022 Integrated Annual Report. Feedback of this report can be directed to:



The Chief Financial Officer

Mr. Anura Hettiarachchi



Email : anura.h@hdfc.lk

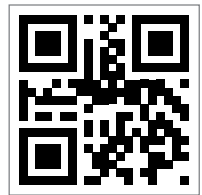


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The report can also be accessed
through our corporate website:
[https://www.hdfc.lk/pages/abt_us/
annual_reports.jsp](https://www.hdfc.lk/pages/abt_us/annual_reports.jsp)



Please visit our website www.hdfc.lk to
refer past reports



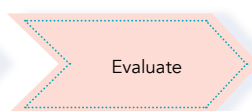
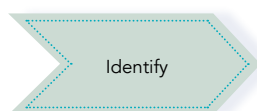
Materiality

Material matters are those which can significantly impact or change the Bank's ability to create value for its stakeholders across any period of time. Evaluating such matters regularly enables us to identify and review aspects that continue to change and evolve, as well as those aspects that continue to remain static. In the past year alone significant changes took place in both the internal and external environments. These changes occurred in aspects that have a sure impact on value creation, thereby making it our responsibility to bring them into full view for our shareholders and other stakeholders.

Process used to determine aspects

COVID-19 resulted in management re-evaluating these aspects and considered several new material topics that have arisen as an effect of the pandemic.

Across each of the following aspects, HDFC Bank places high importance on their impact on our operations. Each factor is qualitatively and quantitatively assessed to identify the level of impact and importance – since they contribute to uninterrupted business operations, growth in business and market position.



Materiality Focus	Reference to relevant areas in the report
Revenue and profitability	Financial information
Reducing cost of operations	Financial Capital Report
Shareholder dividends	Financial Statements and Related Notes
Financial integrity	
Sound financial management	
Risk Management	Risk Management Report
NPL ratio and credit quality	
Loan management and credit evaluation	
Regulatory guidelines and frameworks	Corporate Governance Report
Governance	Corporate Governance Report
Strategic Plan development and implementation	Strategic Vision
Sustainability practices	Focus on Sustainability
Health and safety against COVID-19	Human Capital Report
Remote work	
Recruitment and retention	
Training and development	
Advancement and succession	
Rewarding and recognising performance	
Pay and remunerations	
Encouraging workplace	
Equal opportunities	
Integrity and transparency	
Employee engagement	
Welfare	
Relations with union	

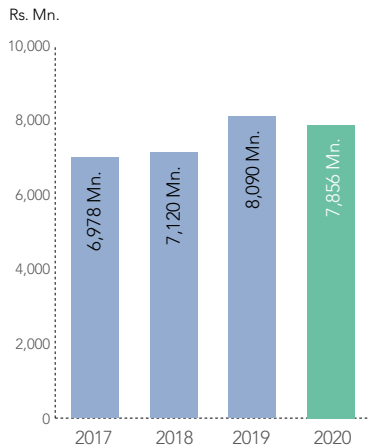
Materiality Focus	Reference to relevant areas in the report
Health guidelines and customer safety	Social and Relationship Capital Report
Savings and lending for the financially underprivileged	
Financial inclusion	
Product diversity	
Retail channels	
Digital channels	
Product development and diversification	
Market development	
Customer service	
Marketing and communication channels	
Business continuity	
Incentives for partners and suppliers	
Partner and supplier relations	
Developing communities	
Developing trades and industries	
Modern IT systems and digital technologies	Intellectual Capital Report
Physical assets for facilitating operations	Manufactured Capital Report
Mindful consumption of energy	Natural Capital Report
Nurturing the environment	
Renewable energy	

Financial Snapshot

	2020 Rs. Mn.	2019 Rs. Mn.	Change %
Results for the year			
Income	7,856	8,090	(3)
Profit before Taxation	1,381	1,244	11
Provision for Taxation	673	769	(12)
Profit after Taxation	708	476	49
Revenue to the Governments	679	774	(12)
Gross Dividends			
At the year end			
Shareholders' Fund	5,782	5,119	13
Deposits from Customers	47,947	42,504	13
Gross Loans & Advance to Customers	42,637	42,360	1
Total Assets	61,030	55,955	9
Information per Ordinary share			
Earnings (Basic) (Rs.)	10.94	7.35	49
Financial Ratios			
Return on Average Shareholders' Fund (%)	12.99	9.63	3.36
Return on Average Assets (%)	1.21	0.90	0.31
Shareholders Equity to Total Assets (%)	9.47	9.15	0.32
Statutory Ratios			
Liquid Assets (%)*	37.20	26.07	11.13
Common Equity Tier 1 Capital - Minimum Required 7.00%	19.34%	18.21%	1.13
Total Tier I Capital Ratio - Minimum Required - 8.50 %	20.20%	19.14%	1.06
Total Capital Ratio - Minimum Required - 12.50 %	20.67%	19.14%	1.53
Other Information			
Branches	39	39	-
Employees (No. of Staff)	633	647	(2)
Credit Rating - Fitch/Lanka Rating	BB+(lka) Stable	BB+(lka) Stable	

Gross Income

Rs. 7,856 Mn.



Net Profit

Rs. 708 Mn.



Decrease of Gross Income

3%

Total Gross Income recorded Rs.7.86 Bn. during the year under review.

Growth of Net Profit

49%

After Tax Profit during the year was Rs.708 Mn.

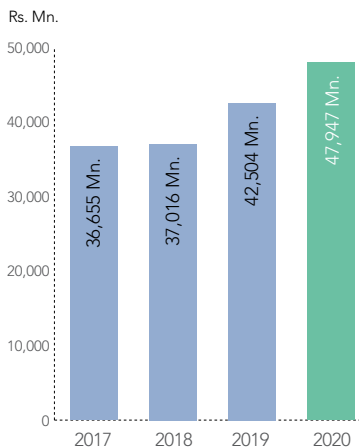
Total Assets

Rs. 61,030 Mn.



Total Deposits

Rs. 47,947 Mn.



Growth of Total Assets

5 Bn.

Total Assets increased by Rs.5 Bn. reaching Rs.61 Bn. as at the end of the financial year, a 9.07% growth.

Growth of Total Deposits

13%

As at 31st December 2020, the Company had achieved a Rs.47.95 Bn. Total Deposit base.

Operational Highlights

Customers

550,000+

Served by HDFC's diverse portfolio

Increase in total deposit

13%

Increase in deposit mobilisation to Rs.48 Bn.

Decrease in corporate fixed deposits

3%

Increase in retail fixed deposits

39%

Increase in total assets

Rs.5.0 Bn.

One of the top

100

Consumer brands in Sri Lanka

STRATEGIC

- Undertook discussions and evaluations to formulate a five-year strategic plan for 2021-2025.
- Strategic partnerships to financially assist home buyers and SMEs.

DIGITAL

- Improved digital presence with enhanced e-banking services.
- Partnered with JustPay to ensure cashless and frictionless mobile payments.
- Carried out measures required to facilitate POS transactions on the HDFC debit card
- Completed measures to launch HDFC's International EMV chip-based ATM card, in collaboration with JCB of Japan and Lanka Clear.

DEPOSIT

- Commendable growth in the Bank's deposit base with increased retail deposit mobilisation.

LOANS AND ADVANCES

- Distribution of Rs.56 Mn. working capital loans for businesses affected by COVID-19
- Debt moratoriums facilitated for 24,000 (approx.) customers to provide financial relief against the effects of the pandemic.

OPERATIONAL

- Enhanced process efficiencies in loan origination and loan processing through upgraded online systems that connects all branches, thereby reducing turnaround time.
- Ability to access partnered insurance companies online for branch personnel to obtain loan related insurance covers, for a more effective and efficient insurance process for the Bank's lending operations.



STRATEGIC FRAMEWORK

Vision

To be the premier financial partner in ensuring sustainable housing and living standards

Mission

Committed to provide financial solutions for sustainable living and assist entrepreneurs in value addition

Values

- Ethical
- Agile
- Resilient
- Respect for Diversity
- Transparent

HDFC at a Glance

Registered under the Central Bank of Sri Lanka, HDFC is classified as a Licensed Specialised Bank (LSB), one of six such banks in Sri Lanka. What is unique about the Bank's offering is its concentration on housing finance when compared to other LSBs. HDFC's main and largest shareholder is the Government of Sri Lanka, with a majority stake of 51%, whilst 49% of shares rest amongst private sector.

HDFC Bank's core focus lies in fulfilling housing based financial needs of Sri Lankans. As a majority state-owned specialised bank, we also fulfil the unique objective of empowering Sri Lankans with low financial capacities in rural and grassroots communities, including SMEs, and the self-employed – while also uplifting low to middle income persons.

With 70% of loan schemes formed by home loans, the Bank's core strength lies in its experience, capabilities and understanding of the housing market in Sri Lanka. Since its inception in 1984 and across a generation, HDFC Bank has provided housing loans to thousands of Sri Lankans – helping them shelter their dreams and foster hope for life.

The Bank is also one of four institutions, bestowed with the privilege of providing EPF backed loans to hard-working professionals of both state and private sectors.

Across its 37-year history, the Bank has built strong relationships with the rural community of Sri Lanka and continues to foster relationships with customers as part of its focus on social and economic sustenance of individuals and families living within the low to middle income brackets. The Bank's focus is on providing effective, bearable solutions to deserving individuals and businesses – helping them to see beyond the limitations that challenge them. As part of this effort, the Bank continues to expand its retail footprint, although with several challenges which must be surpassed. At present, the Bank's reach includes 39 branches as well as a team of 100 plus mobile banking officers, providing easy and accessible financial services to those who need it the most. The Bank's mobile banking officers or 'Palmtop Banking Officials' provide doorstep banking to all customers, in both rural or urban areas.

While focusing predominantly on financing housing needs of the low to middle income bracket of the country, the Bank is also gradually expanding its financial portfolio and the market segments it serves. This includes a growing focus on the corporate sector including corporate entities and professionals from the private sector.

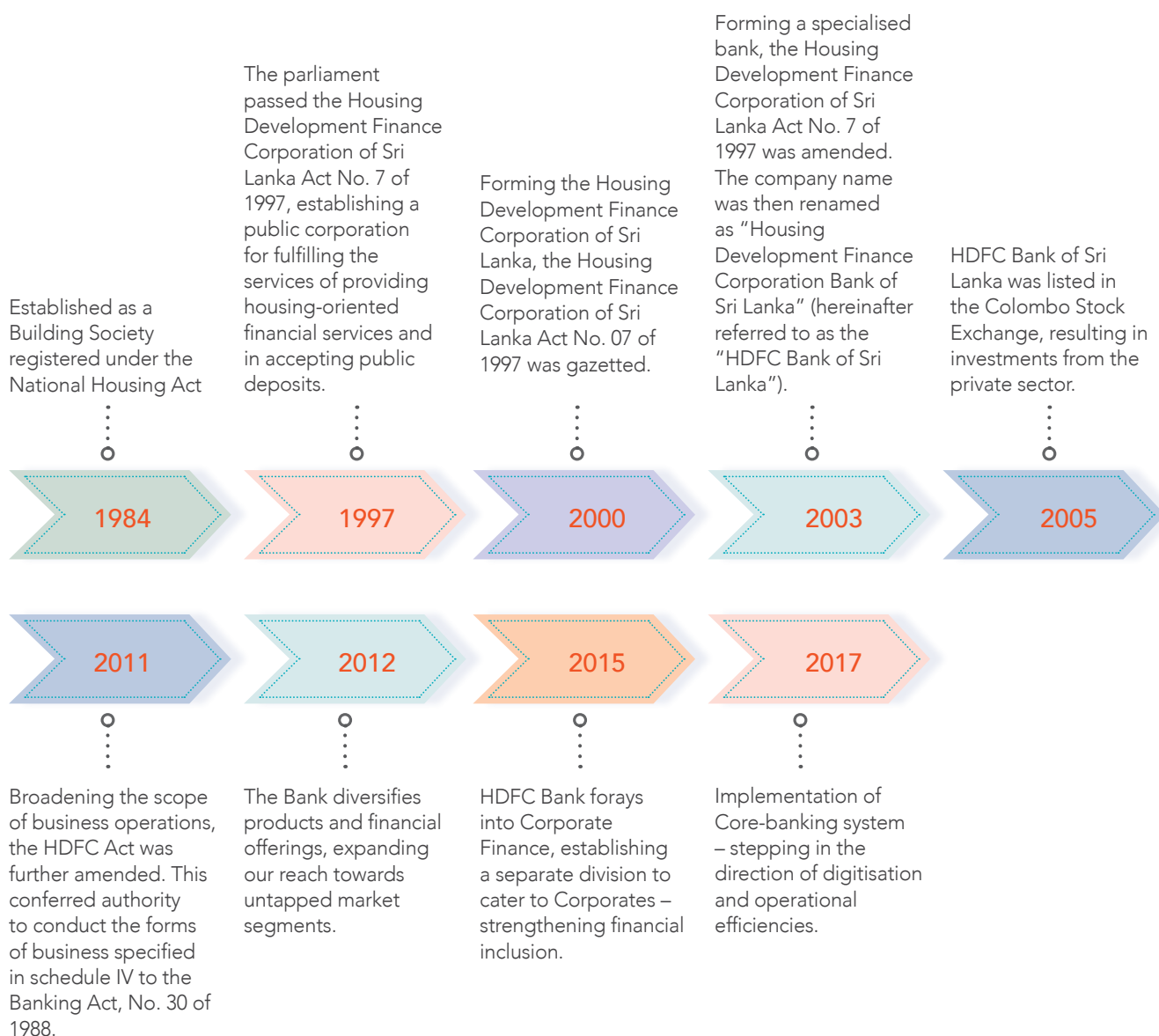
Fostering financial assistance and contributing to the social and economic progress of the Nation, HDFC Bank continues to promote a diversified portfolio, addressing a host of financial needs. Leasing, Gold Loans, EPF backed Housing Loans, Lifestyle Loans, Education and SME Development Loan Schemes and Corporate Finance are part of its unique loan portfolio. The Bank's savings portfolio also includes a selection of savings accounts and investment plans designed for customers of all ages and social dynamics.

With a strategic vision that keeps its focus grounded, HDFC Bank is now realigning goals and objectives to enable its strategic plan for 2021-2025. Realising the need to optimise efficiencies, the Bank continues to invest in new digital tools and technological platforms – reducing operational costs, eliminating time-consuming processes and streamlining operations to meet the strategic vision. IT based growth is a key strategy, which is gradually enhancing Bank operations and services in order to create an efficient and highly productive work environment.

Listed in the Colombo Stock Exchange since 2005, HDFC Bank currently holds a capital base of Rs.6.0 Bn.

Our Journey

Over the years, HDFC Bank experienced several transformations, resulting in its current context. The Bank, which began as an entirely state owned entity, is now part of both public and private sectors. Our business and operational focus continue to look towards new and diversified directions.



Value Creating Model

Creating Value for All Stakeholders

Supporting the Financially Deserving

As a licensed specialised bank, HDFC Bank has a 75% concentration on housing loan provisions with a relatively small average loan size, ensuring low risk for the borrower and the Bank. In addition, the Bank financially empowers thousands of SMEs and micro rural entrepreneurs, giving them the right funding in financing their business goals. Loans and advances, deposits and savings plans are part of the Bank's offerings, in addition to gradually increasing digital banking services and value added services such as insurance. Moreover, Bank is one of four banks with the ability to provide EPF-backed housing loans. The portfolio also includes leasing, gold loans and schemes designed especially for pensioners and beneficiaries of war heroes.

Supporting Businesses and Industries

The Bank also extends financial services to those in various industries: especially to those self-employed in small-scale local trades. We help sustain their livelihoods as well as contribute to the growth of small-scale national industries, other manufacturing and service segments. The cross-section of industries under the Bank's portfolio includes dairy farmers, agro-farmers, small and medium industries, technically qualified youth for self-employment, business start-ups, SME exporter sector, green and sustainable projects etc.

Financial Inclusion

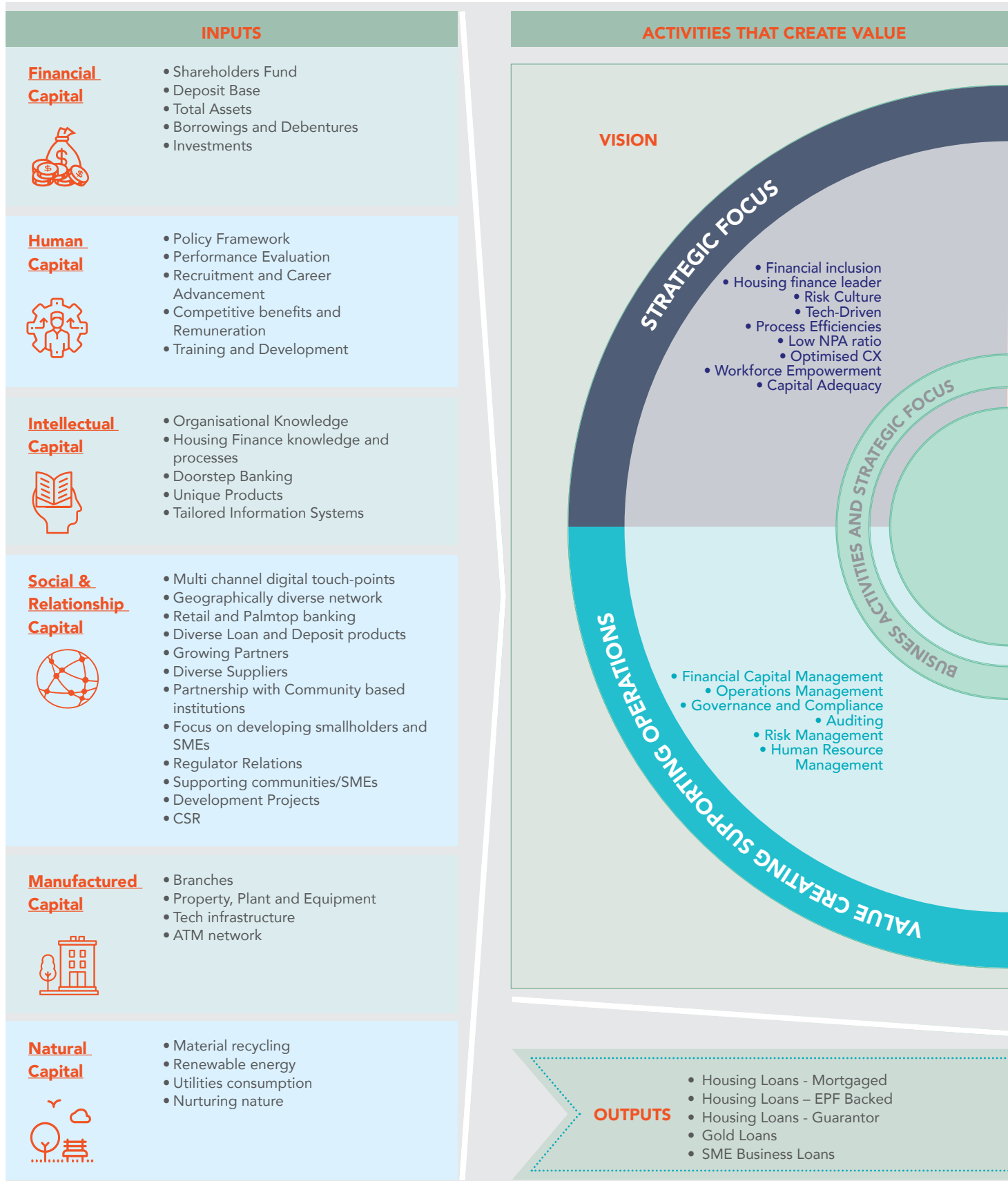
HDFC Bank has a predominant focus on the low and middle-income categories, as well as on MSME (Micro, small and medium enterprises) development. The Bank also has a wide access to rural areas communities. Furthermore, over the past several years, the Bank extended services to offer Corporate and Development Finance, providing business loans to the corporate sector ensuring financial services to all, through economical financial products and services.

Creating Value

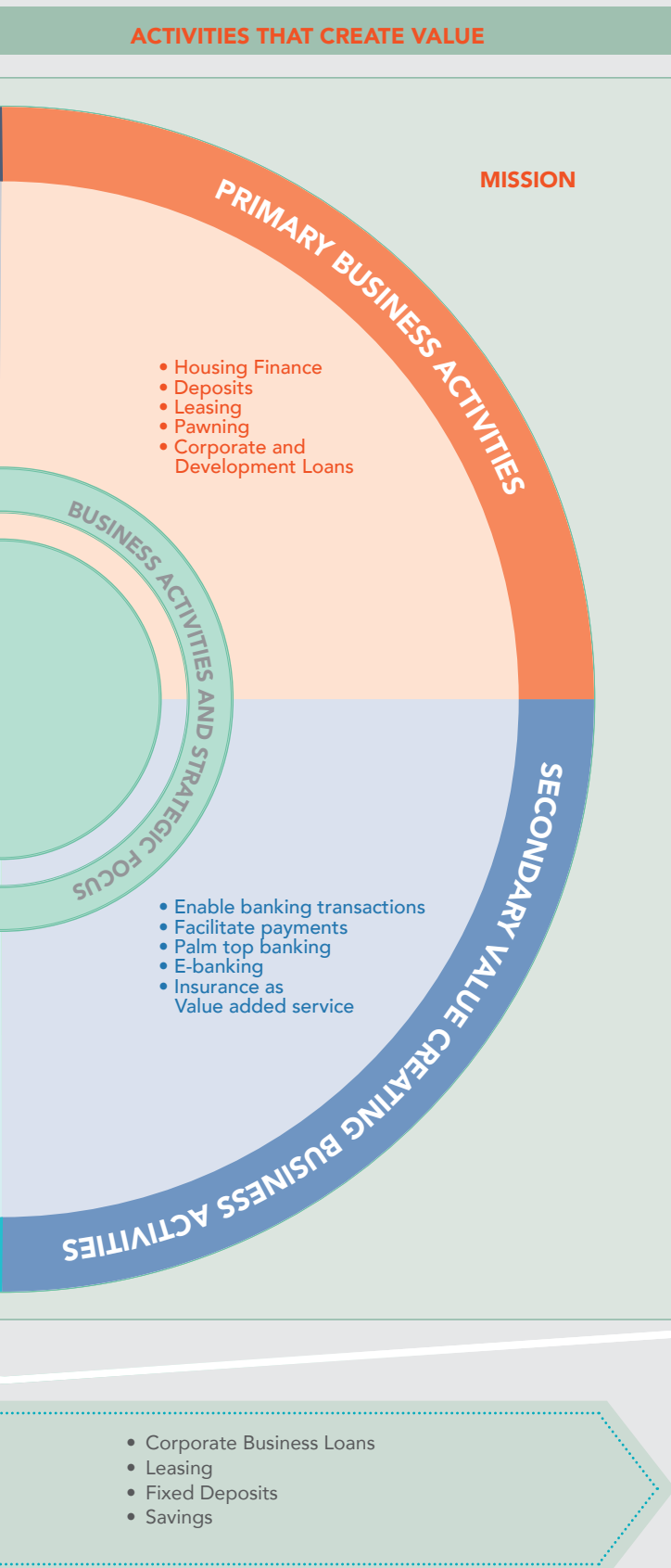
By managing capitals the Bank aims to deliver the expected outcomes, year after year, creating value for Customers, Shareholders, Employees, Regulators, Suppliers, Partners, the Community and the Environment.

Value Creation Model

EXTERNAL AND



REGULATORY ENVIRONMENT



DESIRED OUTCOMES

Financial Capital

- Continuous Profitability
- Tax revenue to GOSL
- Dividends to Shareholders
- Adequate capital base
- Good asset quality
- Good credit quality

Human Capital

- Training for all employees
- Professional growth
- Advancements and Successions
- Multi-skilling
- Increased productivity
- High retention rate
- Self-driven initiatives
- Creative thinking
- Increased knowledge in banking and technology
- Compliance to regulations
- Work with HDFC values
- Focus on Strategic objectives
- Achieve goals

Intellectual Capital

- New technological solutions
- Diversified products
- Palmtop banking
- Core banking system
- Loan and collection Management solutions
- Brand value
- Strategic Plan

Social & Relationship Capital

- Financial inclusivity through palmtop banking
- Value added provisions
- New financial instruments
- Digital banking and mobile services
- Financial support
- Partners and Service providers

Manufactured Capital

- Increasing Assets and PPE
- Growing branches and ATMs
- Increasing tech infrastructure

Natural Capital

- Paper recycling and reuse
- Solar energy generation
- Efficient power consumption
- Trees planted

Focus on Sustainability

Sustainability and sustainable banking are ongoing and continuously developed aspects within the Bank's operational framework. The Bank's focus on sustainability aligns with financial, social and up to a certain extent, environmental aspects. Hence, as a financial intermediary, HDFC Bank has made significant contributions to uplifting the low and middle-income families of Sri Lanka and is committed to sustainable decision making. The Bank constantly ensures good governance on decisions related to transactions, investments, while overseeing good conduct when interacting with customers and other stakeholders.

Financial Inclusion

As the Housing Development Finance Corporation of Sri Lanka, HDFC Bank's core purpose is to provide financial solutions to enable sustainable housing and living standards. This message is now clearly engrained within the Bank's revised vision statement - To Be the Premier Financial Partner in Ensuring Sustainable Housing and Living Standards. This is a reflection of the Bank's work in providing inclusive financial solutions to individuals and business owners, mainly from low-middle income levels. The solutions provided enable borrowers from grassroots to select from both EPF and Mortgage-backed home loans, in addition to loans around a wide range of funding requirements.

Serving all age demographics, the Bank's product portfolio is well-balanced to facilitate a sustainable life for those with limited financial capacities. Moreover, the Bank takes its services directly to the communities. Turning the focus around from more high income/urbanised populations, priority is given to reaching customers from rural backdrops and those with limited financial literacy. In this regard, the Bank's palmtop banking unit conducts an immeasurable and incomparable service to its customers. They travel to both urban and remote locations accepting deposits and loan payments in addition to utility bill payments. The Bank takes pride in its mobile banking team for the central role they fulfil in improving financial inclusion.

Sustainable Banking

Adopting a policy framework that aims to establish sustainable and accountable decision making, HDFC Bank signed the Sustainable Banking Principles (SBP) initiated by the Sri Lanka Banks' Association (SLBA). The Bank has now revised and realigned its business strategy, based on the core values of SLBA's sustainable banking ideals, directing an evolving focus on environmental and social risk management while strengthening governance practices. The Bank's operations continue to align with a focus on sustainable development from economic, social and environmental perspectives, whilst the Bank's policies will continue to be reviewed and revised to enable further sustainable banking and finance measures with positive contributions to the society.

UNs Sustainable Development Goals

In 2015, member states of the United Nations adopted the 2030 Agenda for Sustainable Development. The agenda includes 17 interconnected goals at the centre of its focus. Poverty elimination is a top focus alongside climate action. The 17 goals encompass 169 targets and are a blueprint for the sustainable growth of both people and the planet. Governments and businesses hold significant responsibility in adopting and meeting the SDGs, as their decisions and policies have a direct impact on the sustainable living standards of people and the planet. Both Governments and businesses are expected to take action on leadership in realising the goals by the end of 2030. Implementation of these global goals requires ownership and commitment by all institutions and by leaders who have the potential to converge society's key stakeholders to work towards making this framework a successful reality.

Honouring Sustainable Development Goals of the United Nations, HDFC Bank is now focusing on contributing towards SDG goals, based on relevancy and applicability to the Bank's operations. However, for years, the Bank has worked to uplift the social standards of customers - contributing to the country's progress. Hence, as a Bank with a direct contribution to reducing poverty and enhancing standards of living, HDFC Bank is taking efforts to address multiple goals within the agenda.

The Bank is also aware that due to COVID-19 ravaging the poorest of nations and developing ones, the UN's targets on eliminating poverty is now off track. The pandemic has pushed over 71 Mn. people into extreme poverty in 2020, with a massive loss of jobs reported from around the world.



Goal 1 No Poverty

HDFC Bank, since its inception, has been the financial service provider for thousands of financially impoverished individuals. The Bank has helped nurture thousands of micro, small and medium scale enterprises, enabling entrepreneurs to maintain livelihoods. The Bank enables customers to be financially stable by providing funds they can repay within their immediate capacity, without any significant debt burden.

As per the targets and indicators of Goal 1, the Bank is on track with ensuring that the poor and the vulnerable have equal access to economic resources and ownership and control of land and property. As the nation's housing bank, HDFC's average ticket size of Rs.400, 000/- amply demonstrates its commitment towards lower end of the income pyramid. As a financial intermediary, HDFC Bank has also given access to financial services and microenterprise funding, taking the Bank closer to such individuals through its mobile (palmtop) banking team. However, the Bank envisions the expansion of retail presence with plans to open 64 branches in the future.

2
ZERO
HUNGER**Goal 2 End Hunger**

Related to Goal number 2 is Rural Development and Sustainable Agriculture, in relation to this, HDFC Bank works with rural production communities and smallholder businesses – providing funds to start or develop their businesses. The Bank works with persons engaged in agricultural activities and dairy farming contributing to promoting rural development.

Moreover, back in 2019, HDFC Bank joined IESE to support dairy farmers and improve the production of fresh milk with the focus on increasing farm productivity and the quality of the dairy value chain. Market Oriented Dairy (MOD) is a project funded by the US Department of Agriculture (USDA) and implemented by the IESE. MOD works together with stakeholders from both public and private sectors in implementing the project.

5
GENDER
EQUALITY**Goal 5- Gender Equality**

HDFC Bank provides equal opportunities to employees from all genders; in fact, the majority of the Bank's top and corporate leadership are represented by female professionals, holding positions that oversee critical functions.

7
AFFORDABLE AND
CLEAN ENERGY**Goal 7 – Clean and Affordable Energy**

The Bank will continue to invest in solar energy, with an initial project of solar panels installed at the branch in Hyde-Park corner. The excess energy is in turn fed to the national power grid, contributing to producing sustainable energy.

8
DECENT WORK AND
ECONOMIC GROWTH**Goal 8 – Decent Work and Economic Growth**

The Bank's palmtop or mobile banking unit consists of employees from various rural townships covering various districts. Several belong to the same communities in which they serve. Not only are they drivers of financial inclusion, but they are empowered through a sustainable model of employment. The team is formed by 104 individuals, with 12 employees infused during 2020.

As a responsible and ethical employer, HDFC Bank is strictly against the employment of minors. The Bank also ensures equal treatment towards employees and a safe and healthy working environment. Moreover, the Bank provides equal pay for both men and women in similar job capacities.

With services in deposits and lending to people who deserve it the most, HDFC Bank actively promotes decent work and economic growth. Through SME and Corporate Finance credit, many small and medium scale entrepreneurs, as well as self-employed individuals, have been able to either start or develop their businesses, while in turn it gives them the capabilities to earn a decent income to support themselves and their families.

9
INDUSTRY, INNOVATION
AND INFRASTRUCTURE**Goal 9 – Industry, Innovation and Infrastructure**

As mentioned under SDG Goal 2, the Bank is increasingly contributing towards sector-based SME and smallholder development, alongside access to financial services and as per targets of SDG 9, affordable credit with support to access markets and value chains. Committed to supporting sustainable housing and living, the Bank is also increasing funds disbursed amongst enterprises and smallholders in small-scale industries.

In 2020, the Bank reached SMEs from the leather and footwear sector by partnering with the Industrial Development Board IDB to provide financial education, while referring existing customers to obtain technical guidance from IDB.

10
REDUCED
INEQUALITIES**Goal 10 – Reduced Inequalities**

HDFC Bank responsibly assures that no complaints or grievances related to discrimination were reported in the 12 months of 2020, as indicated under SDG 10's target indicator 10.3.1.

11
SUSTAINABLE CITIES
AND COMMUNITIES**Goal 11 – Sustainable Cities and Communities**

Goal 11 is related to the Bank's work in providing affordable credit for housing development for customers with less financial means. The Bank's work contributes towards providing adequate, safe and affordable housing and basic services according to target 11.1 of SDG 11. The Bank facilitates customers to obtain urban housing through affordable credit – while also facilitating the Government's plans for sustainable housing solutions.

16
PEACE AND JUSTICE
STRONG INSTITUTIONS**Goal 16 – Peace, Justice and Strong Institutions**

The Bank monitors illegal financial flows, monitoring unusual transactions that may be connected to terrorist financing. HDFC Bank complies with the prevention of Money Laundering Act No. 5 of 2006 and the Convention on the Suppression of Terrorist Financing Act No. 25 of 2005.

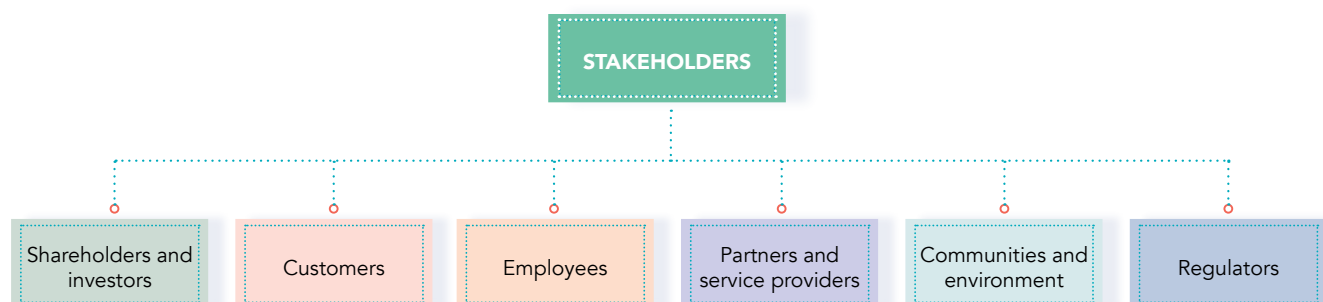
Stakeholder Engagement

As business continues to develop and as operations continue to expand, our engagement with various stakeholders also continues to grow. Over our three decade journey, our interactions and engagement with each group and individual stakeholder has undoubtedly shaped and sharpened our strategic focus, giving us the impetus to innovate and evolve in all aspects of our business activities and operational processes.

As our decisions, operations and strategic plans continue to renew and evolve, we have a duty to communicate and share such alterations and strategic decisions with all our stakeholders, regardless of the change involved. The operating environment also shifts dynamically and

unexpectedly, impacting bank operations and activities from time to time. With such changes taking place, we strive to inform stakeholders of new developments and future implications through clear and direct channels, remaining approachable through various means of communication.

The Bank's stakeholders include individuals and segregated groups that are directly impacted by our operations, financial achievements, decisions, performance and services. As a result, the mechanisms we use to engage with stakeholders takes on a myriad of channels and methods.



Moreover, our direct engagement with stakeholders also enables us to identify their interests, changes in such interests, their perceptions and also recognise how we can increase offered value in the short, medium and long terms. We also believe that engaging with them on a regular basis enables us to be benefitted from their knowledge and expertise on matters of strategic importance.

Engaging with our stakeholders

	Shareholders and investors	Customers	Employees	Partners and service providers	Communities and environment	Regulators
STAKEHOLDER EXPECTATIONS	- Bank's financial standing - Periodic and annual financial and operational performance - Compliance and governance - Risk management - Strategic plans - Accountable, transparent and ethical conduct	- Financial products to fulfill housing finance - Financial products that fulfill financial needs - Friendly service - Financial inclusion - Access to services and approachability - SME support and development - Information on services - Empower the financially vulnerable - Financial education	- Pay and remuneration - Reward and recognition - Training and development - Supportive work culture - Advancement and succession	- Fulfillment of contracts - Timely payment and commissions - Easy communications - Friendly relations - Increasing business opportunities	- Help underserved communities - Support the socially and economically vulnerable - Provide housing related finance - Supporting communities, smallholder businesses and trade sectors - Positive impact on environment	- Timely compliance to laws and regulations - Support the national housing development agenda - Open and honest disclosures - Preparedness to provide relevant documentation as and when required
	Annual General Meeting (AGM) and Annual Report (yearly) One-on-one discussions (When required) Website for reports and statements (continually) Shareholder page on website (continually) Press and media communication (when required) Announcements to Colombo Stock Exchange (when required) Company Secretary (when required)	Branches (during branch hours) Palmtop Banking Officers and visits (during doorstep visits) Call centre (24/7) Head office (when required) Social Media (continually) Website and E-banking (continually) Advertisements (continually) Marketing Collateral (continually) Satisfaction surveys (yearly)	Open door policy (continually) E-mails (continually) Meetings (monthly and when required) Performance Appraisals (yearly) Annual award ceremony (yearly) Training programmes and workshops (continually) Grievance handling procedure (continually) Whistle blower policy (continually) Welfare and recreational activities (continually)	Meetings (when required) E-mails (continually) Telephone Calls (when required) On-site or office inspections (when required) Tender Notices and supplier/service provider selection process (when required)	Media communications and Press releases (when required) Website Notices (when required) Community events (occasionally)	Notices and Announcements (when required) Conferences, forums and meetings (when required) Compulsory compliance and accounting submissions (periodically) Periodic Audits (periodically) SEC Announcements (when required)
ENGAGEMENT CHANNEL AND FREQUENCY						

Business Segments

Retail and Institutional Deposits

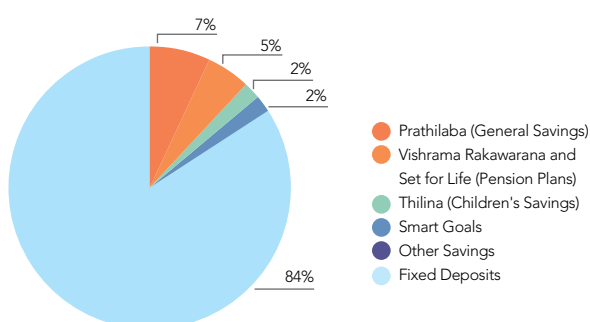
The period which commenced with the initial lockdown in 2020, brought with it surmounting uncertainty, but also presented causes for optimism in sustaining growth. Subjected to the circumstances that ensued, the Bank's deposit base saw a decline in institutional deposits, followed by an increase in retail deposits during the year. This withdrawal of institutional state-based funds encouraged the Bank to pursue retail deposits. Overall increase in retail deposits contributed to offsetting the gap left by withdrawals in the month of April, May and November – all three months coinciding with the lockdowns and restrictions in travel and social activity.

Fixed deposits grew by 12.72% during the 2020 financial year accounting for over Rs.40.50 Bn. in deposits, which is a segment of 84% from the total deposit portfolio. General savings made up 16% of deposits, contributing to a total deposit base of Rs.48 Bn.

Fixed deposits showed a decline in the months of April and May mostly impacted by withdrawals in institutional deposits. However, the total deposit base met with an increase in retail deposits as a result of prompt promotions and customer rewards; moreover, due to the widespread nature of uncertainty, public sentiment skewed towards deposits.

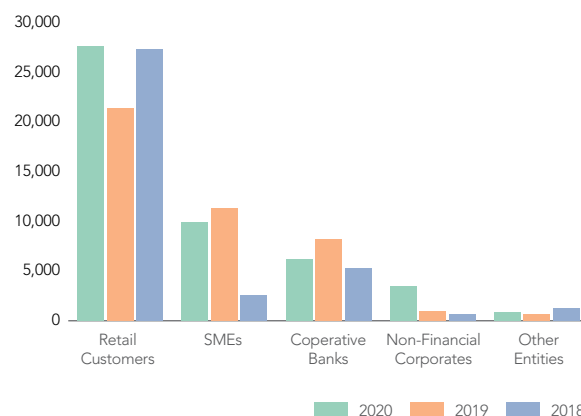
In 2020, total deposit mobilisation grew by 13%, with a 39% increase in retail customer deposits and a 3% decrease in corporate deposits.

Deposit Portfolio

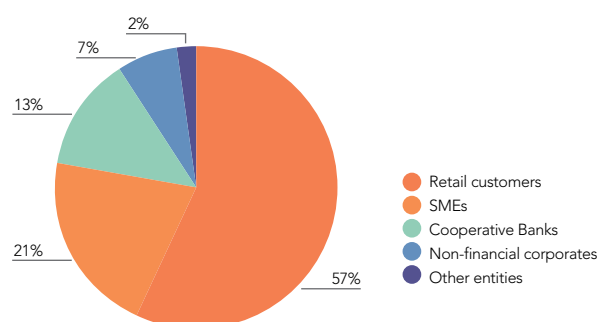


Retail customer deposits make up the majority of the deposit base while SME deposits and Cooperative bank based deposits rank subsequently in terms of customer segmentation.

LCR-Based Customer Segmentation Rs. Bn.



Deposit Customer Segmentation 2020



Strategic Goals

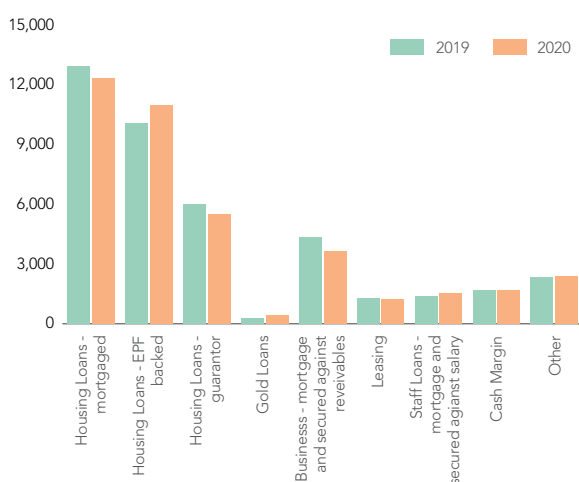
The Bank now aims to increase deposit mobilisation through targeted and concentrated focus on product diversification and product-based value additions. Fixed deposits, children's savings and general savings that experienced growth in the financial year will be products of focus in increasing deposit mobilisation.

The Bank expects to introduce new products in terms of salary-based savings plans taking into consideration increasing income capacities and the increasing employment rate that has direct impacts on improving prospects for deposit mobilisation.

Retail and Institutional Loans

The HDFC Bank's total loan portfolio included a marginal decline in mortgage-backed housing loans and a marginal increase in EPF-backed housing loans. Housing loans which are backed by guarantors declined during the year by Rs.483 Mn. Moreover, during the year, there were marginal increases in customers of gold loans and cash loans facilities.

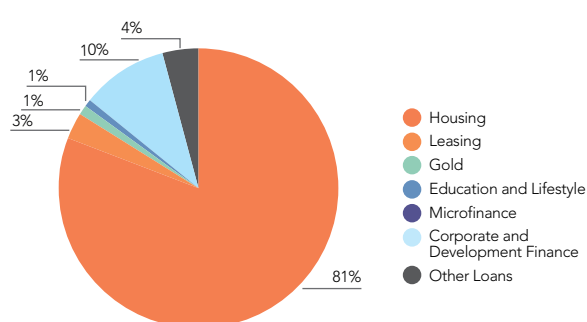
Collateral-wise Distribution



NPLs

Reflecting the NPL increase within the banking sector, the non-performing loan ratio of HDFC Bank increased within the year to 33.04% from 25.25% in 2019. NPLs of the gold loan portfolio reduced marginally from 3.85% in the corresponding period to 3.33% in the period under review.

Segmentation of Loan Portfolio %



Debt Moratoria and Working Capital Loans

In 2020, HDFC Bank put its best step forward at a time when the Bank's services became a lifeline for thousands of customers. As a financial intermediary dedicated for ensuring financial sustenance of HDFC's SMEs and corporate clients, the Bank dispensed funds under the CBSL 'Saubagya' working capital loan scheme. The Bank also made provisions and adjustments in restructuring existing loans of borrowers in addition to waiving default fees for borrowers who completed payments of arrears before the end of 2020.

The Bank disbursed Rs.56 Mn. working capital loans and provided credit support to SMEs affected by the pandemic and lockdowns, stabilising customers from business disruptions and losses in income.

Strategic Goals

Setting sights on the sustainable growth of the Bank's business and service aspects, the Bank will be focusing on the growth of the loan portfolio and in improving related services.

Loan processes are now mapped to restructure workflows, to streamline activities and reduce total turnaround time. While improving both front-end and back-end loan operations will be a key focus, the Bank also plans on introducing new loan schemes under corporate and development loans, gold based lending, and staff loans for private sector employees in addition to limited diversifications in housing finance. Existing and new products will be complemented with floating interest rates while measures to attract high income clients on risk-based pricing formulas will also be a key area of focus for business growth.

Training of staff on credit evaluation and on the new Delinquency Management System is also a critical component in improving loan processing and quality of credit. For the Bank's efforts to be truly successful, these strategies will be continuously reviewed and assessed to ensure productivity in loan processes.

Business Segments

Development and Corporate Finance

With plans for the year affected due to the pandemic, the Bank's Corporate Finance and Development Unit focused on providing financial relief and credit to its SME and corporate customers. Furthermore, it achieved several strategic partnerships within the industrial community in providing benefits to customers.

At present, the Bank's SME portfolio includes bank specific finance schemes in addition to providing financial facilities to SMEs under 'Saubagya' and 'Swashakthi' -both introduced by the Central Bank of Sri Lanka and the Government.

With a base of 8000 clientele, the portfolio of small scale entrepreneurs and medium scale enterprises include those mostly engaged in agricultural activities such as dairy farming. The Bank continuously recognises their needs and provides loans to empower entrepreneurs to push through production and market barriers. In 2020, the Bank disbursed Rs.278.71 Mn. in loans to the SME sector. Inclusive of funds as part of 'Saubagya COVID-19 Reconnaissance Facility' the value disbursed in 2020 was a reduction in comparison to the value provided in 2019 due to the increasing risk in providing loans amidst last year's unstable environment.

Under the Government backed Swashakthi loan scheme, HDFC Bank has provided a total of Rs.32.20 Mn. over the years. Through the scheme the Bank provides loans below the sum of Rs.500,000. Through this scheme, young entrepreneurs and start-ups are provided with a grant of Rs.50,000. Sharing the benefits of these schemes with customers, the Bank carries out and contributes to the State's work in empowering Sri Lanka's SMEs and micro scale entrepreneurs.

During the year, the unit partnered with the Industrial Development Board (IDB) in reaching leather and footwear related small and medium scale enterprises. The initiative is expected to link IDB's footwear and leather industry members with the Bank's financial services, while enabling customers' access to industrial assistance from IDB. IDB's incubator programmes, market links and support services will be an immense strength to entrepreneurial customers.

Developing smallholder industries and local trades, the Bank's SME development is now venturing towards providing assistance to those within the batik and handloom industry and other such trades. The Bank conducted discussions with the Ministry of Batik and Handloom in identifying potential local talent to promote handloom as a burgeoning sector. Discussions will continue in the short-term, to outstretch plans through this strategic initiative.

In a new stride towards enhancing sustainable finance, the Bank initiated discussions with the 'Green Climate Fund' to financially support environment friendly industries. HDFC Bank is now progressively focusing on increasing sustainability based financing and supporting the nation's goals on sustainable energy. Under the initiative, the Bank plans to fund green buildings and hybrid vehicles, in addition to other sustainable, eco-friendly solutions.

In the future, the department will focus on the construction industry as opportunities continue to grow within the sector. The Bank is also keenly focused on diversifying towards non-housing related loans and funding initiatives, which began with the Bank's foray towards leasing and education loans and thereafter microfinance and corporate finance in the recent past.

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



An 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 Rekewarana



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

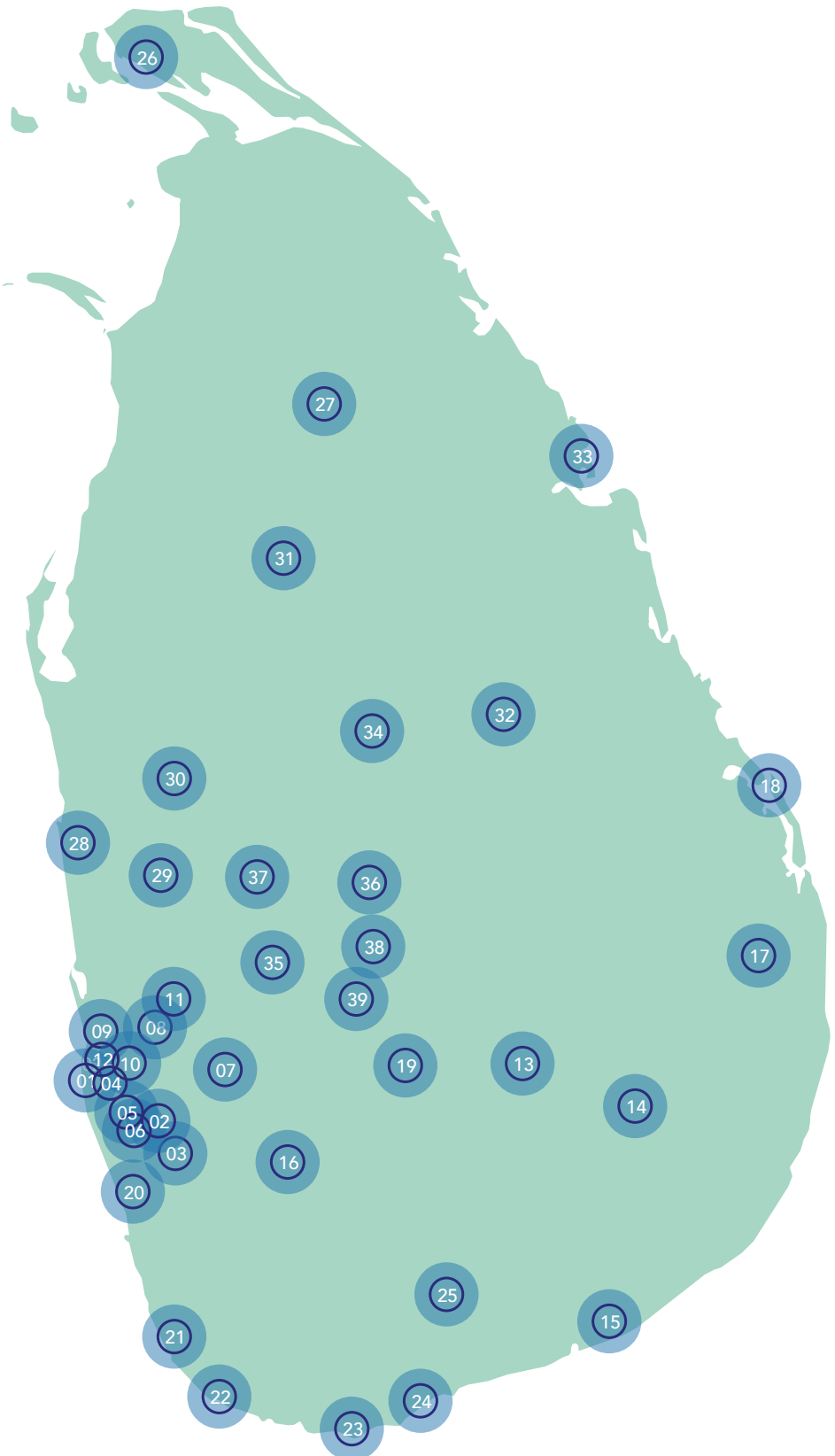
Smart Goals



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

Branch Footprint

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



No. of Branches
39

Strategic Vision (2021-2025)

Since 2019, the Bank's leadership was in the process of realigning goals with the Bank's envisioned strategic direction; in addition, with changes in the Board composition, volatility in the external environment and with residual impacts from the pandemic, the Bank made the decision to formulate a robust strategic plan in 2020.

The Bank's future growth plans are laid across several key dimensions. Nonetheless, the Bank has the immediate goal of reaching the CBSL minimum capital requirement of Rs.7.5 Bn. by end 2022, this will become a key reason for the envisioned business growth as part of the Bank's efforts to fulfilling the capital deficit.

The following is an overview of the detailed strategic plan for 2021-2025.

Strategic Area	Objective	Action Plan
Profit Growth	Increase non-interest income and profitability	Policies through bank appointed insurers and brokers
		Diversified and low cost funding base
		Increase bill payment collections
		Increase digital payments and fund transfers
Market growth	Diversify lending products and solutions	Solutions for higher income clients
		Financing development projects
		Floating rate products
		Enhance corporate credit
		Preferential interests to performing customers
		Personal/cross selling
		Diversifications of existing loans
		Increase retail deposit composition
		Attractive gifts on children's savings and general savings accounts
		New savings accounts for professionals
Productivity	Improve operational efficiencies and improve processes	Promote children's savings
		Frequent savings promotion campaigns
		Granular deposit portfolio
		Limit single depositor concentration in fixed deposit portfolio
		Increase market penetration
		Increased advertising
		Expand branch network
		Expanding digital touch points
		Expanding palm top operations
		Review workflows and remove bottleneck activities/reduce turnaround time of loan processing and streamline
Digitisation	Increase digital touch points and digital banking	Paperless digital processes
		Develop Bank mobile app
		Implement co-branded debit card
		Revamped bank website
Statutory and Compliance	CBSL minimum capital requirement Improved capital adequacy ratio Reduced Non-Performing Loan ratio	Increased social media presence
		Achieving Rs.7.5 Bn. in minimum capital
		High Profit retention
		Focus on low-risk weighted assets
		Target higher income clientele
		Increase quality of new loans
		Closer Follow-up on loan collections
		Effective use of DMS and continuous training and awareness creation
		Focused training on credit evaluation
		Loans to customers from recognised and stable institutions
		Continuous reinforcement of customer-bank relationships
		Flexible repayment options
		Continued and regular follow-ups on the DMS from Head Office
		Continuing higher profitability
Shareholders	Enhanced Shareholder Engagement	New Dividend Policy
		ROA > 1% p.a.
		ROA > 1% p.a.
Employees	Improve staff motivation and productivity	External, internal and foreign training to improve technical skills
		Increased accountability
		Skill gap assessments to identify gaps
		Soft skill development
		Management trainee recruitment



CORPORATE STEWARDSHIP

Chairperson's Message

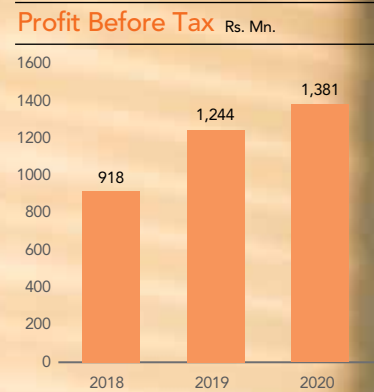


Wasanthi Manchanayake

Mrs. Wasanthi Manchanayake
Chairperson

The pandemic was a defining moment in our lives, and will likely continue to define how we live and conduct ourselves for several years to come. While we cannot project its full impact, it is factual that the economy took a direct and hard push from the pandemic and lockdowns, while disrupting the livelihoods and businesses of millions of Sri Lankans including many of our customers. Although the operating environment was volatile and uncertain, the Bank confronted all adversities and continued to deliver services to customers across the Nation.

Our profit before tax for the year increased by Rs.137 Mn. to Rs.1.4 Bn., in comparison to 2019, making it a commendable win for the Bank, even amidst the stress levels and tough circumstances of 2020. While it was 12 very cautiously navigated months, the time period was a test of our resilience and the increasing soundness of our governance and risk controls.



From a strategic perspective, we were already on a path of gradual modernisations and strategic operational realignments before the pandemic hit Sri Lanka. Entering 2020, the Bank focused on growing our deposits, growing our credit and improving asset quality, and importantly injecting IT and digital tools to our service portfolio.

Chairperson's Message

The Bank also achieved operational continuity in a short time, resuming services through the dedication of our courageous staff members. Operations resumed as per regulations, while our online platform was revamped across the months to facilitate an improved online banking experience for our customers.

Sheltering the Nation

Subsequent to the initial lockdown on 17th March 2020, under the direction of H.E. the President, CBSL commenced its measures for financial relief and economic revival from March 19th onwards. On 24th March a circular was issued introducing measures aimed at relieving the financial burden on businesses and individuals. This mainly entailed debt moratoriums for individuals on leasing and personal loans, as well as financial aid for businesses. While this was revised in future months extending the said concessionary facilities, CBSL also issued extraordinary regulatory measures to ensure adequate liquidity of financial banks.

As regulatory holds were relaxed, HDFC Bank had the immediate task of reaching our customers mainly consisting of low-middle income persons, state and private sector professionals, SMEs, the self-employed, state institutions and corporate entities. We took measures required of us to communicate these measures promptly and in ensuring that all eligible customers received these provisions. I am humbled to state that we provided moratorium benefits to approximately 24,000 of our customers. Your Bank also financed roughly 70% of SME customers based on their eligibility, aiding business survival.

The Bank also facilitated the withdrawal of Samurdhi based deposits, which were distributed by Government authorities amongst beneficiaries in 2020. As a specialised

bank with a strong focus on aiding the low and middle income earners, the self-employed and the financially vulnerable, HDFC Bank fulfilled its duties as expected by our shareholders and stakeholders in reaching our financially underprivileged customers during this most debilitating time.

Fostering Shared Value

As we continued to offer financial relief and concessions, we also kept our focus firmly on streamlining operations and expediting our strategic plans. In 2020, the Board along with CEO/GM Mr. Palitha Gamage and the Corporate Management revised and redrafted a new strategic plan for 2021-2025. This new plan sets the tone and pace for the Bank, in improving our market and financial positions.

From a strategic perspective, we were already on a path of gradual modernisations and strategic operational realignments before the pandemic hit Sri Lanka. Entering 2020, the Bank focused on growing our deposits, growing our credit and improving asset quality, and importantly injecting IT and digital tools to our service portfolio. Our plans also included actively pursuing growth in our Corporate Finance and Development Portfolio, and in reducing procedural bottlenecks.

Planned strategic measures took an impact, as we were compelled to adjust our direction to combat the financial effects felt by our customers. Encouragingly, the situation also highlighted the effectiveness of our increasingly enhanced risk control measures and the tolerability of the Bank's liquidity position in providing debt relief and working capital loans to our customers.

Amidst challenging incidents, our retail deposit base grew commendably during the year, while

our housing loan and gold loan segments increased marginally. The year's impediments and the crisis had a significant impact in curbing the growth of our loan portfolio. However, looking onward we are optimistic in our ability to further enhance deposit mobilisation and increase our disbursements of home loans with increased asset quality by adopting healthy controls when approving loans.

Balancing the business portion of the Bank alongside regulatory measures and moratoriums, the Bank succeeded in recording a Profit Before Tax of Rs.1,381 Mn. It is also a demonstration of our efforts at managing cost of funds in 2020, and the effect of a 4% reduction of our operational expenditure. The Bank's organic growth in retail deposits, good risk conduct and disciplined approach to credit approval also deserves commendation.

Despite the deterrents of 2020 share price remained at Rs.36.20 per share preserving the value we created for our shareholders in 2019. Furthermore, we benefitted the Government in 2020, with a tax payment of Rs.747 Mn. including income taxes and value added tax (VAT), creating financial value amidst the challenges.

Stewards of Sustainable Growth

In 2020, the Bank's Board composition changed as a result of resignations and retirements of four Board Members. Thereafter, four new members to the Board were appointed during the year. During this time, the Board also adopted a Board Charter in a strategic effort to further strengthen our governance and best practices in stewardship.

In the same period, the Board maintained clear communications with the corporate management and key personnel, to ensure facilitation

of pandemic-related concessions to our customers and in monitoring operational performance. Moreover, through feedback from the Board, we aligned our Bank Vision, Mission and Value statements, to reflect the current strategic direction and our renewed objectives as a specialised bank.

Focusing on regulatory compliance, the Bank maintained a higher than average capital adequacy ratio at 20.67% (Min. 12.5%). However, we are still faced with a shortfall of Rs.1.5 Bn. due to the revised minimum regulatory capital to Rs.7.5 Bn. from Rs.5 Bn. The Bank is now tasked with raising the additional equity by the end of 2022 and several measures will be pursued in the months to come.

From an operational perspective, the Bank focused on streamlining processes and removing bottlenecks. The Bank achieved progress in improving loan approval process by switching to an online system that reduced a substantial bottleneck. Such additional improvements will be implemented in the next five years through IT system upgrades and digitisations for greater efficiencies and customer convenience.

Realigned Growth

In 2021 we will continue to plan and monitor the implementation of our five-year Strategic Plan. We will work towards achieving the strategic objectives and yearly operational goals, with the final focus on increasing equity to Rs.11.5 Bn., total assets to Rs.116.9 Bn., bring down our NPL ratio to 6% while increasing our retail deposit composition to 70% by 2025.

The strategic plan provides a roadmap for business growth, to leverage existing strengths and take advantage of market opportunities. The Government's mission of providing affordable housing to

middle income segment is also a focus as we continue to financially empower Sri Lankans. In this regard, we hope to take the benefit of the recently introduced concessionary interest rate in funding homebuyers.

Complementing the implementation of the strategic plan, the Bank will pursue low-risk weighted assets, and exercise healthier and prudent controls on lending. We are optimistic these measures will increase asset quality and reduce our overall NPL ratio in the coming year.

While we are yet to ascertain the full implications from the debt moratoriums, the Bank will continue to exercise further restraint in cost of funds and will mostly focus on limited diversifications in housing finance, gradually expanding SME Development and Corporate Finance. Following our ongoing business diversification strategy, we expect to reduce our concentration on housing finance with the objective of reducing our risk profile, while focusing on increasing low risk lending.

We also expect to expand our branch network in reaching more customers through additional 15 branches in the coming years; however, this remains challenged due to the additional capital requirement.

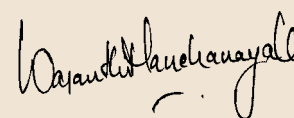
Simultaneously, we will continue to upgrade our ICT platforms to streamline operations. The Bank is also increasing our value added services through new digital solutions in addition to service improvements. Bank will allocate further funds for these purposes, which will also benefit in controlling operational costs. We also look forward to transitioning from paper-based to paperless operations, which are now underway through upgrades, such as document management through our Loan Origination System and virtual meeting systems.

In the months ahead, the Board will continue to provide guidance and direction on management's work on the strategic plan with the expectation of achieving our goals at the end of each financial year.

Appreciations

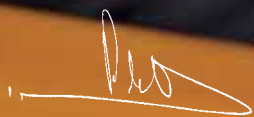
On behalf of the Bank and the Board of Directors, I wish to convey my gratitude to our CEO Mr. Palitha Gamage for successfully leading the Bank through the most challenging period of time, the banking system has ever experienced. I wish to mention my sincere gratitude to our Shareholders for your continued patronage and to employees for your staunch support and understanding across the year – your commitment was our biggest strength. To our customers, I also convey my appreciation, for your trust and confidence in us and for allowing us to serve you across the years.

I hope that the year ahead will bring all a greater level of certainty, normalcy and prosperity.



Mrs. Wasanthi Manchanayake
Chairperson

GM/CEO's Review



Mr. Palitha Gamage
General Manager / CEO

Stepping into 2020, the Bank had already envisaged the execution of several plans that were to speed up strategic growth objectives. Little did we realise the full extent of the pandemic that was unfolding. But, as we began to assess the risks and the uncertainty of the situational context, it became quickly apparent that the pandemic will indeed impact business continuity. At that point, all other priorities were replaced with a focus on strengthening operational resilience and improving accessibility for our customers. However, there was one strategic route that we would focus more in the coming months - as the time had never been more appropriate to expedite our digitisation and tech based growth plans.

Reminiscing the Onset of COVID-19

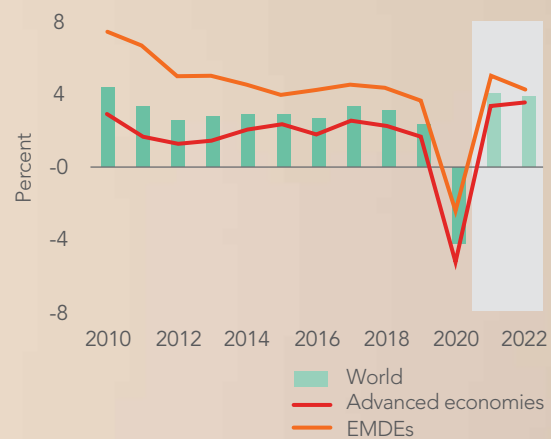
What occurred after the initial lockdown was nothing short of unprecedented, as the economy became muted and social interactions came to a grinding halt. The country's financial system witnessed immediate relief measures come into place, at a time when businesses went into survival mode. The Bank now had the impetus to provide our customers financial relief and extend concessions for debt relief. The Bank also supported the Government by swiftly facilitating the withdrawal of Samurdhi based deposits, in providing economic relief to beneficiaries, across the Island.

While at the time of penning this message, it has been a little over a year since the first COVID-19 positive patient was identified in Sri Lanka. With the virus's spread still seen across the Island, we have many reasons for optimism, as growing vaccine availability, improved PCR tests and contact tracing are netting the spread.

COVID-19 brought out global inadequacies in curbing the spread of the virus, which had deadly consequences: it was also a moment when the world's populations shared the same fears and same devastation, without exceptions. Even the most developed economies and healthcare systems crumbled under the seriousness of increasing patients. However, it is somewhat heartening to see that Sri Lanka managed to control the spread, compared with certain developed nations, with similar populations. We are proud of our healthcare professionals for their selfless work in the frontlines and in saving countless lives in the process.

The economic force of the pandemic and the lockdowns were unmistakable. At the onset, containment remained a priority, but at the cost of heavy financial losses. Nevertheless, the decision to impose containment measures resulted in countless lives spared, while thwarting undue distress on the country's healthcare systems.

Moreover, the fast spread of the pandemic compelled restrictions on cross border travel, while disrupting global value chains. As a result, the global economy contracted -4.3%. The local economy also contracted by -3.6%, reflecting the repercussions of limited trade and commercial activity, including tourism activities, which plunged drastically as most countries halted cross border travel.



Sources: Google COVID-19 Community Mobility Report (database); Haver Analytics; Our World in Data (database); World Bank, as cited in Global Economic Prospects. January 2021. World Bank Group

According to UNCTAD, large declines in international trade occurred in 2020 with the services sector feeling the impact more heavily. In October of 2020, the WTO projected the world merchandise trade to plummet 9.2% but expected to rebound in 2021 to 7.2% - remaining below the pre-crisis trend. Global debt levels are said to have increased massively with Government debt expected to increase by 9% in emerging and development economies, as cited in the Global Economic Prospects by the World Bank Group.

GM/CEO's Review

Locally, greater flexibilities and proactive monetary measures introduced by the Central Bank was indeed a catalyst for temporarily alleviating financial burdens. Not only did individuals and businesses receive a respite, but banks within the financial system also received the necessary relaxations and incentives in providing concessions beyond their scope and limitations. Although policy changes were positive reinforcements, the impact from reduced interest rates on lending, extensions in debt repayments, increasing NPLs and weakened asset quality can only be ascertained subsequent to the moratoriums.

Economic Relief

In March 2020, as the economy went under lockdown and as livelihoods met an abrupt disruption, the Bank had two roles it needed to fulfil. As a specialised licensed bank with more rural customers and low to middle-income earners, the Bank had the immediate duty of providing debt relief. Also, as a bank with the Government as its majority Shareholder, we had a broader purpose in supporting economic revival.

Most of our clients already burdened by economic limitations, witnessed a further deterioration of their financial positions as the pandemic worsened. As a bank dedicated to financial inclusion, this was the time our customers needed our understanding and assistance the most.

Consequently, HDFC Bank's retail customers, SME customers and the self-employed were given financial support through flexible credit facilities in addition to the restructuring of existing loans, extended repayment periods while conditionally waiving interest from defaulted loan payments.

We also had the serious task of ensuring the health and safety of our employees. The first step was sanitising branches and the head office, in addition to providing hand sanitisers, foot sanitiser mats and face masks. Transport facilities were provided to

employees using six vehicles along main routes, while employees using private transportation were paid an allowance.

Overall, HDFC Bank exerted healthy control over operations and in providing services with minimal disruptions. Our work before the pandemic enabled us to look beyond the initial shocks of the virus and to move ahead with our near-term strategies, gearing for long-term strategic objectives. For 2020, the end financial outcome is the ultimate demonstration of the strength of our capable teams, the dedication of the corporate management and the resilience of our customers that drove HDFC Bank to record a profitable year.

Undeterred Developments

Total assets of the Bank rose by Rs.5 Bn. in the year from Rs.55.9 Bn. from the year before. Despite the challenging backdrop, profit after tax grew by 49% to Rs.708Mn. with profit before tax reported as Rs.1,381 Mn. for the year 2020. The backdrop of debt moratoriums, financial concessions and limited branch operations affected the Bank's aims on profit and revenue. Waivers on default charges, rescheduled repayments, suspensions of recoveries also affected the bottom-line. The Bank also provided an increased amount of Rs.326 Mn., as impairment charges against loans, advances and other receivables, which could turn non-performing.

NPL ratio excluding EPF increased to 20.2% in 2020 from 13.7% recorded in 2019: this was a direct result of extended repayment facilities and reduced repayment capacities of our customers due to the pandemic's economic implications. Within the backdrop of moratoriums, it became challenging to maintain our NPL level target of <10%. Amidst the increasing risk of credit and NPL ratios, the Bank's loan book was contained to Rs.41.1 Bn. compared to Rs.41.2 Bn. at the end of the previous year. Greater prudence by the Bank, amidst rising credit risk and

non-performing loans, resulted in this marginal decline.

Bringing into play several promotional activities, the Bank managed to increase its retail deposit portfolio by 39%, a necessary reinforcement in countering withdrawals related to corporate deposits. Corporate and other entity based deposits decreased by nearly 3%, but retail deposits grew by 39% contributing to the total growth in deposits by 12.8%. The deposit portfolio stood at Rs.48 Bn. at the end of 2020, up from Rs.42 Bn., out of which Rs.27.62 Bn. was retail deposits.

The Bank also pursued specialised efforts at helping smallholder trade sectors and SMEs through discussions with the Industrial Development Board (IDB). The Bank disbursed Rs.1.8 Bn. for customers of the Corporate and Development Finance division during 2020. Furthermore, taking steps towards sustainability financing, the Bank commenced discussions with the Green Climate Fund. This is to spearhead our efforts in funding green business ventures and eco-friendly commercial projects. Moreover, in 2020, improving retail operations, branch refurbishments were conducted at two of our branches, with one branch relocated to a spacious and improved location.

A Digital Future

The Bank commenced an aggressive digitisation strategy, in 2019 with the primary purpose of improving operational efficiencies and providing enhanced customer service. Although our entry into the digital sphere is relatively young, our plans for mobile and ICT based innovations carry a greater potential in integrating advanced modernisations and enhanced features. A culture of IT and digital innovations will continue to be instilled amongst our employees, as we continue to shift from manual processes to online systems.

Heading towards a digital future, our focus on innovation remained persistent across the year. Digital transformations integrated in 2020 are now bringing

efficiency to internal operations, also providing convenience for our customers. During the year, the Bank's IT team took measures to improve and strengthen the Bank's e-banking platform – 'HDFC Click'. Moreover, linking with LankaPay's 'JustPay' system, the Bank facilitated usage of mobile payment apps, allowing customers to make mobile payments for purchases and utility bills by transferring funds through our 'Prathilaba' savings account. We anticipate the platform to grow continually, making it a greater competitive advantage for the Bank.

In 2020, the Bank transitioned to SD-WAN, a Software-Defined Wide Area Network. This network seamlessly connects the head office with our 39 branches, located across the Island. The network infrastructure automates the disaster recovery system, and it helps to ensure business continuity of the Bank.

Our plans for increased retail touch points are also underway, with preparations made for the launch of our Debit card that facilitates POS transactions. The Bank now plans to move ahead with its launch in 2021 despite the delay in 2020 due to the pandemic.

Compliance and Governance

In supporting banks at this critical period, CBSL revised the minimum regulatory capital requirement deadline to the end of 2022, allowing us to pursue alternatives in building up the extra capital infusion. Nevertheless, the Bank will pursue a steady growth plan in the next two years, with diversifications, market developments and tech-based growth objectives coming into effect as part of our five-year strategic plan. The resultant increase in profitability will enable the Bank to meet the enhanced minimum Tier I capital requirement of Rs.7.5 Bn. through profit retention.

As mentioned in the Chairperson's Message, the Board regrouped during the year with several new appointments, bringing on board years of combined experience over multiple

sectors. Moreover, across this most challenging year, the Board rendered their support, discussing critical matters in terms of business growth, the new strategic plan and digitisation efforts, providing their insights and feedback as well as approvals.

The Board members also oversaw proper governance practices, ensuring that mitigating external circumstances did not compromise our accountability and integrity.

Prudent Risk Management

The Bank's risk management process continues to be reviewed and strengthened, which was carried out across 2020, ensuring tolerance levels to the shock of the pandemic's economic effects. In 2019, the Bank set in place prudent controls to ensure better asset quality, which remained adhered to across 2020. In 2019, the Bank adopted a two-tier centralised loan disbursement process, which now requires final approval from the credit administration department with oversight by the risk department. The risk department is responsible for independently assessing requests for loans above the cut-off level of Rs.1.5 Mn. New ICT systems are integrated within this process to ensure compliance with criteria and close monitoring of new loans by the head office. Through this revamp, NPL ratio for new loans granted since the beginning of 2019 has reduced significantly.

The Path Ahead

The immediate focus of the Bank rests on realising the required capital infusion to fulfil the minimum regulatory capital. Committed to achieving it by the end of 2022, the management has made it a top priority in the Bank's five-year strategic plan, which focuses on time-bound growth objectives. Implementation of the plan will remain a top priority in 2021, with periodic reviews and revisions. Overall performance of the business is to be reported to the Board monthly,

while the progress of implementation will be reviewed bi-annually. Overall responsibility for reviewing and communicating rests with the CEO and COO. The plan will be reviewed and readjusted annually across the upcoming five-year term.

Appreciations

I wish to thank our Chairperson, Mrs. Wasanthi Manchanayake for her insights and prudent leadership and in guiding the staff to sharpen their competencies to achieve better results. I am also thankful to the Board of Directors, for their resolute foresight and guidance, and their feedback on the Bank's strategic measures to remain stable throughout 2020.

Our employees deserve praise, as each and everyone strived to sustain operations amidst the lockdown, most having worked selflessly to serve our customers: Their hard work is highly commendable. I am also grateful to the Corporate Management and Heads of Divisions for their continued support in adapting to the new normal, ensuring business continuity through prudent planning amidst the uncertainties. In addition, I commend the work of all Regional Managers and Branch Heads for being the eyes and ears of the Bank, and in providing customers much needed support during the economic downturn.

To our customers and depositors, my sincerest appreciation to all, for making HDFC Bank your banking partner. We will continue to support you to the best of our capabilities, in the conviction that your progress is the ultimate success of the Bank.



Mr. Palitha Gamage
General Manager / CEO

Board of Directors



Standing from Left to Right:

Mr. D.M.A.K. Dassanayake
Director

Mr. P.A.S.A. Kumara
Director

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

Mr. L.E.S. Silva
Director



Standing from Left to Right:

Senior Professor
A. Jayamaha
Director

Mr. M.P.D.U.K. Mapa Pathirana
Director

Dr. S.N. Morais
Director

Senior Professor
K.D. Gunawardana
Director

Board of Directors Profiles



Mrs. R. M. R. W. Manchanayake
Chairperson / Non-Executive,
Independent Director

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

An Attorney-at-Law by profession, Mrs. Manchanayake provided her professional service to the Department of Inland Revenue since 1984 as an Assessor, and was subsequently promoted to the position of Commissioner General in 2014. From then on, she provided professional expertise and acumen as a Senior Tax Policy Consultant at the Ministry of Finance from 2015 to 2019.

During her tenure at the Inland Revenue Department she was an active figure in contributing to the implementation of the RAMIS Project (Automation Project) as Project Director. In addition, she has attended several overseas workshops and training programmes including E-Governance practice and innovation at the Singapore E-Government Leadership Centre, Tax Fraud Auditing and Collection Techniques in California USA, Negotiation of Tax Treaties in Malaysia, Training programmes in Tax Administration in Nagpur and Delhi, OECD Transfer Pricing in Paris and Practical training on Best Practices in Public Service in Thailand.

Mrs. Manchanayake completed her primary and secondary education at the Gampaha Bandaranayaka Vidyalaya and obtained her Degree in Economics specialising in Industrial Management from University of Kelaniya thereafter. Further, she has obtained a Diploma in Foreign Languages and a Diploma in English from the Sri Lanka Technical College. Parallel to qualifying as an Attorney-at-Law at the Sri Lanka Law College. She obtained a Diploma in Advanced Professional English from the University of Colombo. The Sri Lanka Institute of Development Administration awarded her the Diploma in Information Technology, and in 2009 she was awarded the Post Graduate Degree of Master in Public Management.



**Senior Professor
K. D. Gunawardana**
Non-Executive, Independent Director

Senior Prof. Kennedy D. Gunawardana was appointed as a Director of the HDFC Bank with effect from 14th March 2019.

His professional repertoire includes work in several public sector and private sector organisations as Chairman. At present, Senior Prof. Gunawardana, is a 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). He also renders services as the Professor of Accounting Information Systems at the Department of Accounting, University of Sri Jayewardenepura, Sri Lanka.

He also holds the position of Chairman of the Board of Studies and works as coordinator of the PhD in Management Program of Management - Faculty of Management Studies and Commerce. His areas of teaching expertise include Cost and Management Accounting, Accounting Information Systems, Artificial Neural Networks for Accounting and Research Methodology in Accounting and Finance for undergraduates and Postgraduate students.

Senior Prof. Gunawardana is the first Sri Lankan who made link with Artificial Intelligence to the Field of Accounting and Finance for Corporate sector predictions, based on which he has developed a new course lesson on artificial neural network for accounting, which is now popular among university students.

Senior Prof. Gunawardana also works as a visiting Faculty member of the University of Moratuwa, University of Kelaniya and University of Colombo's MBA programmes in the area of Accounting, Management Information Systems and Research Methodology.

Senior Prof. Kennedy has published over 100 research articles in refereed conferences proceedings, numerous other papers and monographs, 6 text books in English and 3 books in Sinhala, in addition to 2 chapters in International books under his credentials. He is ranked at the highest level in teaching, training and research in the field of Academia. At present, he also works as Senior Professor of Accounting Information Systems at the University of Sri Jayewardenepura.

Board of Directors Profiles



Dr. S. N. Morais

Non-Executive, Independent Director

Dr. Morais, was appointed as a Board Member of the HDFC Bank with effect from 28th June 2019.

A Development Economist with wide international exposure, Dr. Morais currently leads the Head of Department of Social Studies of the Faculty of Humanities and Social Sciences at the Open University of Sri Lanka. Dr. Morais has extensive experience in the areas of teaching, research, academic administration and national development frontiers and remains actively involved in the policy development work of the United Nations System, the private sector, non- governmental organisation, both locally and internationally. 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 Program since 2014.

He has also taken a keen interest in practical measures that can be taken in empowering people through Micro Finance Programs 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 other programmes he has engineered, the Micro Finance Research Program in collaboration with the University of Lund in Sweden. He has also internationally represented issues relating to Sri Lankan Youth development training in global conferences in the United Kingdom, South Africa, Uganda and 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 not only from a scholarly perspective 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.

Dr. Morais concluded 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.



Mr. P. A. S. Athula Kumara

Non-Executive, Independent Director

Mr. P. A. S. Athula Kumara was appointed as a Director of the HDFC Bank with effect from 11th March 2020.

A past pupil of Bandaranayaka College, Gampaha, he holds a strong background in accounting and finance with over two decades of experience in the arena. He joined Public Service in 1991 as an Audit Examiner in the Department of the Auditor General and commenced his career as an Accountant in Lankaputhra Divisional Secretariat of Polonnaruwa and well as Thalawa Divisional Secretariat of Anuradhapura from 1992 – 1997. During the period of 1997 – 2005, he served as an Accountant at the Director's Office of Agriculture in the North Central Province. He worked in the Ministry of Mahaweli, Irrigation, Rajarata Development and Agriculture in Battaramulla up to the period of 2007.

He subsequently joined the Department of Public Enterprises, Ministry of Finance in 2007 and holds several positions in the Department of Public Enterprises. Currently, he works as Director General in the Department of Public Enterprises.

At present, he holds directorships in the Boards of Hotel Developers Lanka PLC, Selendiva PLC, De La Rue Lanka Security Print and Currency Ltd, and the Kothalawala Defense University.

He was also a Director/Board Member of several Statutory Institutions including Colombo Commercial Fertilizer, Mantai Salt Ltd., Building Material Corporation, Ceylon Agro Industries Ltd., Lanka Hydrolic Ltd. and Ceylon Ceramics Corporation. Furthermore, he has also served as a member of several expert committees at the Sri Lanka Transport Board, National Water Supply & Drainage Board, and the Road Development Authority. Mr. Kumara held the position of Chief Executive Officer of the Local Development Fund from 2012 - 2014.

Mr. Kumara has gained overseas training and exposure related to Accounting and Financial Management from reputed international Institutions / Universities.

He gained his BSc. in Management (Public Admin) (Special) degree from the University of Sri Jayawardhanapura, in 1992. In 2015, he obtained his Masters Degree in Business Studies from the University of Colombo. In addition, he is a Class I Officer of Sri Lanka Accounts' Service and a member of Chartered Public Accountant in The Institute of Chartered Accountants of Sri Lanka and a member of Chartered Institute of Public Finance & Accountancy, London.

Board of Directors Profiles



Mr. L. E. Susantha Silva

Non-Executive, Independent Director

Mr. Susantha Silva, was appointed as a Board Member of the HDFC Bank with effect from 10th August 2020.

Mr. Silva holds nearly four decades of experience in leadership positions at leading establishments, both locally and globally. He also holds numerous fellow-member qualifications from both local and global professional bodies.

He is a fellow member of the Institute of Chartered Accountants of Sri Lanka (FCA), Institute of Certified Management Accountants of Sri Lanka (FCMA), Institute of Chartered Professional Managers of Sri Lanka (FCPM). He also holds memberships of Certified Practicing Accountants of Australia (MCPA), Association of Computer Society of Australia (MACA). He is also a graduate of B. Com (Sp) from the University of Kelaniya, and has obtained an MBA Qualification from the Open University of Malaysia.

At present, Mr. Silva functions as the Group Chief Executive Officer / Director of Prestige Group (Authorised Agent of BMW). In addition, he represents the Councils of the University of Kelaniya and the Post Graduate Institute of Pali and Buddhist Studies of the University of Kelaniya as a Council Member. He is also Chair to the Audit Committee of the University. In the past, he has served as Executive Director at Litro Gas Company

Limited and was the former Managing Director/CEO and Board Member at the Ceylon Petroleum Corporation; He also functioned as acting Chairman of Litro Gas on several occasions. He has also held multiple positions in Cabinet appointed committees in Sri Lanka.

Mr. Silva has also held the position of Vice Chancellor/CEO of the IBS University of Papua New Guinea that is affiliated to Southern Cross University of Australia and as the Regional Director for the African Business operation for Group of UK-based Companies. Additionally, he was also a member of the Board of Directors of Airport Aviation Services (Sri Lanka) Limited and chaired its Audit Committee during 2019. In Addition, Mr. Silva chaired the Audit Committee of the HDFC Bank, as a Board Member during June 2012 to May 2015.

Mr. Silva has also held Senior and Board Director level positions with multinational companies in the UK, Africa, Maldives, and Middle East & Papua New Guinea. Closely associated with the IT sector he has spearheaded many IT verticals, as President of Papua New Guinea Computer Society in the global context and has been at the centre of IT Departments in local establishments. Mr. Silva is also a trainer of human capital development and has provided professional guidance as a lecturer at many recognised institutes, universities, both locally and globally.



Senior Professor A. Jayamaha
Non-Executive, Independent Director

Senior Prof. Jayamaha, was appointed as a Board Member of the HDFC Bank with effect from 10th August 2020.

Senior Prof. Jayamaha counts for over 35 years of service at the University of Kelaniya, serving as Head of the Department of Human Resource Management, Head of the Department of Accountancy and Coordinator of the Master of Business Administration programme in the Faculty of Commerce and Management studies. At present, he is the Dean of the Faculty of Graduate Studies of the University.

In 2005, he moved to the University of Southern Queensland, Australia, pursuing his Doctoral studies, and in 2010 he was awarded the Degree of Doctor of Philosophy. His PhD research at the University of Southern Queensland, Australia, was on "Accounting and Financial Practices and Efficiency of Small Financial Institutions in Sri Lanka". His work focused on the efficiency of small and medium size enterprises in Sri Lanka and his finding was presented in national and international Conferences and was published in many peer reviewed local and international journals and has appeared in many researches around the World.

Senior Prof. Jayamaha is also a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and practitioner and precedent partner of Jayamaha, Pushpakumara and Company. As a qualified Chartered Accountant he rendered his duties as a consultant for numerous extension programmes and thereby he would be able to contribute policy making endeavours for the National Education system of Sri Lanka. Further, Senior Prof. Jayamaha offers his service as a reviewer of the institutional review of Sri Lankan Universities and higher educational institutions conducted by the University Grant Commission in Sri Lanka and is also a Director, Board Member of the Sri Lanka Accounting and Auditing Monitoring Board.

Board of Directors Profiles



Mr. D. M. A. K. Dassanayaka

*Non-Executive, Non Independent
Director*

Mr. D. M. A. K. Dasasnayaka was appointed as a Board Member of the HDFC Bank with effect from 10th August 2020.

Commencing his career with the Tea Small Holdings Development Authority, Mr. Dassanayaka has held several key positions such as Chairman of the Co-operative Employees Commission (2005 – 2015) under the Ministry of Internal Trade and Co-operative. At present, he serves as the Vice Chairman of the National Housing Development Authority. An attorney by profession, he also holds a National Diploma in Technology (Agriculture) from the NDT.

He has undergone numerous foreign and local training programmes such as 'Developing and Managing Extension Approaches' conducted by Development Consultant for Asia and the Pacific (DCAP) held in Manila, Philippines; this is in addition to a training programme on Management Skill Development, held in University of Centro Soyuz, in Russia, an Efficiency Development Program conducted by Sri Lanka Institute of Development and Administration (SLIDA) in 1991, a training course on 'Efficiency Enhancement' conduct by National Institute of Plantation Management (NIPM) in 1993, and In Plant Training Programs conducted by the National Apprenticeship Board.



Mr. M. P. D. U. K. Mapa Pathirana
Non-Executive, Independent Director

Mr. M. P. D. U. K. Mapa Pathirana was appointed as a Director of the HDFC Bank with effect from 14th December 2020.

With over three decades of service in the public service sector Mr. Pathirana presently provides his expert services as Secretary to the Ministry of Labour, Chairman of National Institute of Occupational Safety and Health, and as Chairman of National Institute of Labour Studies.

Mr. Pathirana has an extensive repertoire in public service and has been a Chief Negotiator with multinational agencies and bilateral development partners in securing borrowed funds. He also represents multiple committees appointed by the Cabinet of Ministers to select suitable constructors and investors for the priority development project by the Government of Sri Lanka and has also represented Board of Directors in State Owned Public Enterprises as a Treasury Member.

Mr. Pathirana is recognised as a Special Grade Officer of Sri Lanka Administrative Service and has also served as Board Member of Asian Development Bank (ADB) – the largest Multinational Development Corporation in the Asian and Pacific region. He was also engaged in the position of Minister Counsellor of the Sri Lanka Embassy in Tokyo. Prior to

being appointed as the Secretary to the Ministry of Labour he held several high ranking positions in public service as Secretary to the Ministry of Industrial Export and Investment Promotion, Secretary to State Ministry of Mahaweli Development and Environment and Additional Secretary to the Ministry of Mahaweli Development and Environment. He has also served in the Ministry of Finance across several capacities, including Director General of the Department of External Resources.

Academically, Mr. Pathirana holds a Bachelor's Degree in Estate Management and Valuation (Special Degree) from University of Sri Jayawardhanapura, and Master of Commerce and Management in the stream of Economics from Lincoln University, Canterbury, New Zealand. Furthermore, he obtained his Post Graduate Diploma in Economic Development from University of Colombo and a Diploma in International Affairs from the Bandaranaike Centre for International Studies, Colombo.

Corporate Management



Mr. Palitha Gamage

CEO/ GM

B. Sc (Engineering) Hons degree (University of Moratuwa)

MBA -Asian Institute of Technology, Thailand

Date of Appointment - 16th August 2018

Mr. Palitha Gamage, a Senior Banker with over 30 years of experience in banking has been 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 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 the 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 as the Head of Risk Management Committee of Acuity Securities Ltd.

During his career, Mr. Gamage has attended a multitude of local and foreign training programmes 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. A. J. Athukorala

Chief Operating Officer

Date of Appointment - 01st July 2009

Mr. Athukorala possesses extensive executive experience for more than 30 years in the banking industry. He has served in Seylan Bank and People's Bank for more than 10 years each, prior to joining HDFC Bank. Before entering the banking sector he also served in the manufacturing sector.

He is an Associate Member of the Chartered Institute of Management Accountants, UK and holds a Bachelor of Science from the University of Colombo. He also holds the titles of 'Certified Information Systems Auditor' and 'Certified Information Security Manager' of Information Systems Audit & Control Association, USA and the Diploma in Computer Systems Design awarded by the National Institute of Business Management, Sri Lanka.



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

*Deputy General Manager – Legal & Recoveries
Attorney-at-Law and Notary Public
Date of Appointment - 16th November 1992*

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

She counts over 31 years of professional experience in the field of law, specialising in housing finance, banking and litigation.



Mr. C. R. P. Balasooriya

*Deputy General Manager – Treasury & Payment
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 and specialised Banking sector.

Corporate Management

**Mr. Manjula Kithsiri Dissanayake**

Assistant General Manager – Credit
ACA, ADCM (IBSL)

Date of Appointment - 18th June 2012

He has over 21 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.

**Mrs. K. T. Dharshani D. De Silva**

Assistant General Manager – HRM & Company Secretary
Attorney-at-Law and Notary Public

Masters in Business Administration (MBA), Masters in Law (LLM) and Higher Diploma in Banking Finance and Insurance
Date of Appointment - 01st September 1999

She started her HDFC career as a lawyer attached to the legal department and thereafter was appointed as the secretary to the Bank/Board. She counts experience of more than 27 years as an Attorney-at-Law and possesses 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 joining HDFC.



Mr. H. A. Anura

Chief Financial Officer

*MBA, PGDM (RJT), B.Sc. Accy (Sp) (USJ), FIPA (Au), FFA(UK),
MAAT, Inter. of CA Sri Lanka,
Date of Appointment - 01st October 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 subsequently joined HDFC Bank in 2004 in the capacity of Branch Manager Gampaha and from 2007, he served in the capacity of Accountant Treasury, Accountant Finance and Senior Manager Finance.



Mrs. W. N. D. Botejue

Assistant General Manager – Administration

*Bsc. Business Administration (special),
CBA (CA Sri Lanka), CBF
Date of Appointment - 01st July 1995*

She holds over 30 years' experience in private and banking sector in the field of management, finance, HR and other disciplines.

Before joining the HDFC bank, she worked as an Accountant in the export sector. She joined HDFC Bank in 1995 as a Credit Officer. Since then she has worked in the positions of Accountant Treasury, Manager Accounts Control, Senior Manager (Human Resources) and Chief Manager (Human Resources & Administration) and was appointed as AGM (Administration) in 2020.

Corporate Management

**Mr. K. R. M. Aruna Bandara**

*Assistant General 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 31 years' experience in the field of Auditing, Accounting in organisations in the public and private sectors. Prior to joining HDFC Bank he served as Audit Examiner - specialising in auditing of public corporations and Audit Executive for a foreign funded project. 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 25 years of experience as an IT Professional in Banking and Public Sectors. He has extensive experience in installing, configuring and maintaining a wide range of UNIX based systems, configuring and maintaining Databases and Network Administration. He worked as the Project Manager of HDFC's New Core Banking implementation and System transformation. He has also worked in the Computer and Technology Council for two years.



Mr. I. Nishantha

Chief Manager- Risk Management

MBS, Bsc. Business (sp.), AIB, LICA

Date of Appointment – 26th June 2000

Mr. I Nishantha is an Associate Member of the Banking Institute of Sri Lanka and he has obtained a Master of Business Studies (MBS) degree from the University of Colombo. He embarked on his banking career in 2000 by joining HDFC Bank and over the last twenty years has held several positions in recoveries, finance, credit administration and branch operations prior to being appointed as the Head of Risk Management in December 2011. He played a key role in the new core banking implementation process, which was concluded in 2017.

Heads of Divisions



Mr. T. H. K. P. De Silva

Chief Manager
- Information Security



Mr. D. N. Dharmaratna

Chief Manager
- Credit



Mr. W. D. K. Senevirathne

Chief Manager - Recoveries



Mrs. R. R. Gunawardena

Chief Manager
- Credit



Mrs. M. R. S. Fernando

Chief Manager
- Legal



Mrs. M. U. S. De Costa

Senior Manager
- Operations



Mr. D. M. A. Dissanayake

Senior Manager - Corporate and
Development Finance



Mrs. L. D. S. H. Liyanage

Senior Manager
- Payment



Mr. W. M. Chandrasena

Senior Manager
- Valuation



Mr. G. D. K. H. Perera

Manager
- Deposits and Business Development



Mr. B. M. P. Perera

Manager
- Credit Administration



Mr. T. B. Karunabandu

Manager
- Gold Loan



Mrs. K. H. D. Priyanka

Manager
- Marketing



Mrs. N. L. Wijesiri

Manager
- Technical and Premises Maintenance



Dr. K. A. A. Nirmali

Manager
- Accounts Control

Regional Managers



Mr. R. A. J. N. Ranasinghe
Region 1 - Regional Manager



Mrs. L. Gunatilaka
Region 2 - Regional Manager



Mr. B. W. M. C. Kumarasiri
Region 3 - Regional Manager



Mr. G. W. A. N. Kalinda
Region 4 - Regional Manager



Mr. I. K. Dawatanga
Region 5 - Regional Manager



Mr. H. M. U. Samaraweera
Region 6 - Regional Manager

Branch Managers

S_N	Title	Name	Branch
1	Ms.	A. A. S. I. T. Somathilaka	Ambalangoda
2	Ms.	H. M. D. Kumarihamy	Ampara
3	Ms.	R. A. Pilapitiya	Anuradhapura
4	Mr.	D. R. G. D. B. Jayathilaka	Avissawella
5	Ms.	M. G. D. P. Seneviratne	Badulla
6	Mr.	L. Jayashankar	Batticaloa
7	Mr.	S. H. K. Gamage	Chilaw
8	Mr.	D. K. P. De Silva	Colombo
9	Mr.	D. S. R. Dissanayake	Dambulla
10	Mr.	H. D. S. Senarathna	Embilipitiya
11	Mr.	S. A. R. C. P. Kumara	Galle
12	Ms.	W. B. M. A. Fernando	Gampaha
13	Ms.	N. A. A. N. S. Nissanka	Gampola
14	Ms.	D. T. A. Jayasinghe	Homagama
15	Mr.	P. A. Viraj Sampath	Horana
16	Mr.	A. I. Kiriella	Hyde Park
17	Mr.	K. A. A. P. S. Kumara	Ja-Ela
18	Ms.	S. Suyaniya	Jaffna
19	Ms.	R. S. I. Silva	Kalutara
20	Mr.	L. S. B. Rathnayake	Kandy
21	Mr.	R. A. C. S. Pushpakumara	Kegalle
22	Mr.	H. A. S. L. Hapangama	Kiribathgoda
23	Mr.	A. M. U. S. B. Attanayake	Kuliapitiya
24	Ms.	C. A. K. Abeykoon	Kurunegala
25	Mr.	T. G. R. M. R. M. Ratnayake	Matale
26	Mr.	P. Ekanayake	Matara
27	Mr.	M. P. Dekam	Monaragala
28	Mr.	D. A. N. P. K. Piyadasa	Nikawaratiya
29	Ms.	S. K. P. Samanthi	Nittambuwa
30	Ms.	A. U. T. Fernando	Nugegoda
31	Ms.	H. R. S. P. Senanayake	Nuwara - Eliya
32	Mr.	T. H. M. A. Hewage	Peliyagoda
33	Mr.	H. N. J. Perera	Piliyandala
34	Mr.	H. R. M. Tharaka	Polonnaruwa
35	Mr.	S. M. S. K. Bandara	Rathnapura
36	Mr.	M. A. S. Desapriya	Tangalle
37	Mr.	M. L. N. Anuradha	Tissamaharama
38	Mr.	A. G. Stephan	Trincomalee
39	Mr.	T. Velshkuma	Vavuniya



MANAGEMENT DISCUSSION & ANALYSIS

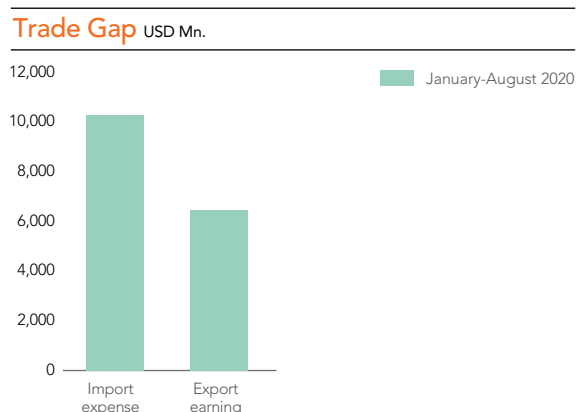
Operating Environment

Economic Performance

A -3.5% contraction was estimated for the global economy in 2020.¹ The pandemic's adverse effects were mostly felt by the impoverished, by youth and women, by those in the informal job sector and those engaged in frontlines and contract-based work.

As reported by Department of Census and Statistics, Sri Lankan GDP growth rate contracted by 3.6%, in relation to 2.3% growth in 2019. The lockdown in April, especially in Colombo and Gampaha, which are home to industrial zones and businesses, resulted in negative growths for multiple sectors of the economy - resulting in a 16.4% economic drop in Q2 of 2020. However, the economy has expanded by 1.3% in the last quarter of 2020.²

Trade deficit narrowed between January and August of 2020, in comparison to the corresponding 2019 period – due to contraction in import expenditure. However, export earnings also declined in the same period, relatively.



According to DCS statistics, all three major economic sectors have experienced negative growth, with the Industry sector having the biggest impact. Service sector performance was impacted positively by the wide expansions in telecommunication (15.4%) and financial services (10.9%), respectively. Within the industrial sector the manufacture of F&B and tobacco products, as well as chemical products expanded by 4.4 %. Within agricultural activities all except marine fishing, growing of oleaginous fruits such as coconut, forestry and logging and tea growing contracted considerably. Growing of cereals and other beverage crops marked commendable growths of 41.3% and 21.6%, respectively.

Monetary Policy

In minimising the economic effects of the pandemic and mandatory lockdowns, the Central Bank of Sri Lanka adopted an accommodative monetary policy in 2020. In March, April and May of 2020, CBSL reduced the standing deposit facility rate on multiple occasions and similarly reduced the standing lending facility rate and the SRR in a move to revive economic activity and support individuals and businesses under duress due to the pandemic. The lowest reductions of SDFR and SLFR came in July of 2020.

CBSL became the first Central Bank to have slashed policy interest rates at the onset of the pandemic. These reductions were made in order to facilitate reduced market lending rates enabling financial relief to businesses and persons affected.

Additional liquidity of Rs.180 Bn. was injected to the domestic market prompted also by reduced SRR on rupee deposit liabilities of commercial banks; this not only reduced cost of funds of LCBs, but it also provided an adequate buffer to weather any negative circumstances. Yet, despite these measures credit flow to the private sector was not as expected on account of apprehensive lending amidst risk exposures during a muted economy.

By mid 2020, liquidity declined to Rs.120 Bn. as a result of foreign debt repayments, maturities in treasury bills and reverse repurchases. CBSL in an effort to support the GOSL in foreign debt repayments bought primary market Government securities, while conducting prompt term reverse repo auctions in partially offsetting liquidity absorptions from repayments.⁵

Financial Relief

The most dominant of measures introduced by CBSL in netting economic effects of the pandemic was Rs.50 Bn., refinancing facility in assisting individuals, the self-employed and businesses. Accordingly, debt moratoriums and a 4% p.a. working capital loan were introduced. Eligibility criteria were also introduced for the latter. Amongst which tourism, export based, apparel, IT, spices, tea and logistics sectors received focus. These sectors were the most impacted by international lockdowns and restrictions.

1. Source – IMF (January 2021) World Economic Outlook Update.

2. Source – 2021, 4th Quarter and Annual, National Account Estimates of Sri Lanka, Department of Census and Statistics. Ministry of Finance.

3. Source - CBSL (2020), Ch. 1, Recent Economic Developments.

4. Source – 2021, National Account Estimates Annual 2020, Department of Census and Statistics.

5. Section Source: CBSL (2020) Ch. 7, Monetary Policy, Interest Rates, Money and Credit, Economic Developments.

Operating Environment

Meanwhile, concessions for performing loans were also presented by the Central Bank, allowing existing borrowers the benefit of several concessions and moratoria. Nonetheless, concessionary facilities were also introduced for NPLs, with penalty interests waived off up to a certain time period, alongside rescheduling loans and advances. Similarly, working capital and loans for investments were provided for entitled borrowers of both performing and non-performing loans, based on conditions.

The Central Bank also made reductions in interest rates applicable with credit cards, pawning, temporary ODs and penalty rates. The Government also considered deferred capital repayments on refinance loans obtained by licensed banks.⁶

Banking Sector

Asset growth between January-August 2020 improved in relation to 2019's corresponding period, expanding by 10.5% to Rs.13.8 Tn. Deposits and borrowings funded the sector's asset base. Credit growth (Y-o-Y) reached 13.5% at the end of the period. Loans and advances of the sector increased 8.9% compared to 1.3% growth in the corresponding period in 2019. Of the total increase, a majority included lending to Government and State enterprises.

Y-o-Y loan growth of the sector was at 13.5%, whilst NPL ratio grew to 5.4%. Deposit growth was recorded as 17.1% (Y-o-Y). Deposits helped the sector to expand, contributing to 74.8% of total assets in the same period.⁷

Economic outlook

According to the IMF report, global economy is forecasted to reach 5.5% and 4.2% growth, in 2021 and 2022, respectively. However, the organisation foresees the extending effects of the pandemic on growth, as the 2022 global output is expected to fall to 3.8%. However, with roll-outs in vaccines, there is optimism for the gradual decline of the pandemic. Moreover, economic data in latter 2020 shows improved momentum.

Multilateral cooperation can arrest the pandemic's negative effects, while ensuring equitable access to vaccines, around the world. Help from the global community can also help minimise the burdens of high debt on developing and low income nations.⁸

In Sri Lanka, the growth recorded towards the latter part of 2020 provides optimism for renewed sentiments, as business activities return to normal conditions.

6. Source: Circular, No. 5, 2020, Central Bank of Sri Lanka

7. Source: CBSL (2020). Ch. 8, Monetary Policy, Interest Rates, Money and Credit, Economic Developments

8. Source: January 2021, World Economic Outlook Update, International Monetary Fund

Capital Reports

Financial Capital



Sustaining Shareholder interests and securing expectations, HDFC Bank is proud to declare a profitable year despite the heavy economic impacts and suspended commercial activities in the year under review.

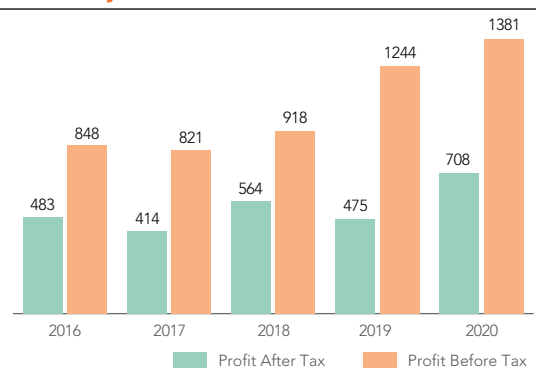
Financial Performance

Profitability

2020 was a financial year with unprecedented challenges, which impacted the Bank's goals on its financial indicators. As discussed across the report, the pandemic and the imposed lockdowns had a tremendous impact on the Banking sector as regulatory directives continued to shape the financial landscape. For HDFC Bank, despite the challenges from reduced economic activity and regulatory demands, financial bottom-line or profit after tax rose by 49% to Rs.708 Mn. from Rs.475 Mn. reported in the previous year. Operating profit before taxes improved by 11% from Rs.1.24 Bn. from the previous year to Rs.1.38 Bn. in the year under review.

This increase was due to a combination of prudent asset and liability management, mindful and proactive risk controls, and cost optimisations. This favourable result is in spite of the increasing risk environment in relation to the negative economic performance and subdued commercial activities in the external environment.

Profitability Rs. Mn.



Capital Reports

Financial Capital

Income and Expenditure

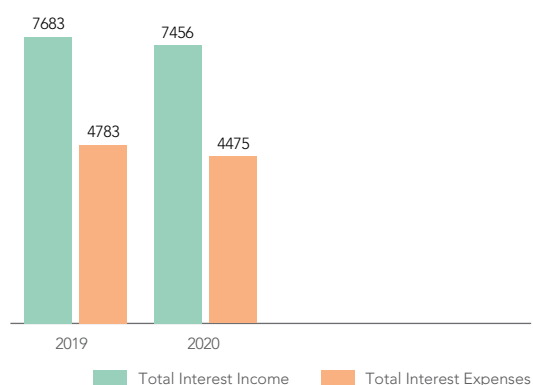
Interest Income and Expenditure

Income in the period considered, dipped by 3%, from Rs.8,090 Mn. to Rs.7,856 Mn.; the drop in interest income can be attributed to lower interest rates, lack of growth of the loan portfolio as well as repayments, which underwent a muted scenario due to moratoria and debt relief measures introduced by CBSL. Interest income was recorded as Rs.7.4 Bn. against Rs.7.6 Bn. in the financial year 2019.

Meanwhile, non-interest income also declined in 2020 to Rs.399 Mn. from Rs.407 Mn. in 2019. Despite the overall decrease, income from placements with banks increased from Rs.686 Mn. to Rs.741 Mn. in 2020. Moreover, reflecting the interest environment of the time under review, all new lending was priced appropriately.

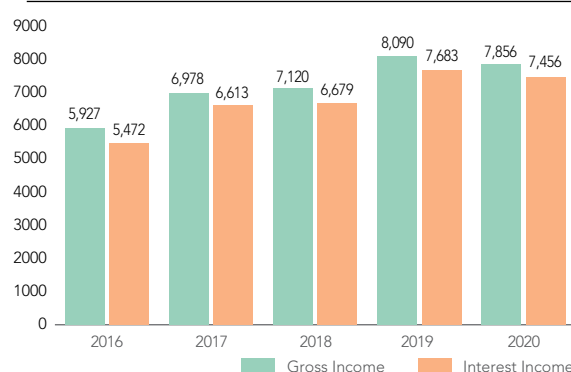
Interest expenses dropped from Rs.4.8 Bn. to Rs.4.5 Bn. in 2020. Interest dues to other borrowers, debt security holders and depositors declined during the year, in addition to dues to banks, which contributed to this decline.

Interest Income and Expenditure Rs. Mn.



Net fee income and commission decreased to Rs.303 Mn. in 2020, against Rs.358 Mn. reported in 2019. Nevertheless, net interest income increased marginally during the year under review, from Rs.2.89 Bn. in 2019 to Rs.2.98 Bn.

Income Rs. Mn.



Operating Income and Expenses

Net Operating income after impairment in the year grew to Rs.3.1 Bn. increasing from Rs.2.98 Bn. from the previous year. The increase in operating income is in relation to the increase in other operating income. Operating expenses declined by Rs.66 Mn. due to declines in other expenses and depreciation and amortisation expenses.

Deposits and Loans

Deposit Mobilisation

Amidst the uncertain milieu in 2020, the Bank managed to expand the deposit base from Rs.42.5 Bn. to Rs.48.0 Bn. The difference is an 12.81% growth prompted by the Bank's efforts in attracting retail deposits, mainly FDs. Fixed deposits represented 84% from the total portfolio with savings based deposits representing 16% of the entire segment. Nevertheless, in total, the fixed deposit base and savings deposit base have grown by 12.72% and 13.28%, respectively. The total base of savings stood at Rs.7,445 Mn. at the end of the financial year 2020, while total fixed deposits was reported as Rs.40.50 Bn. for the year 2020.

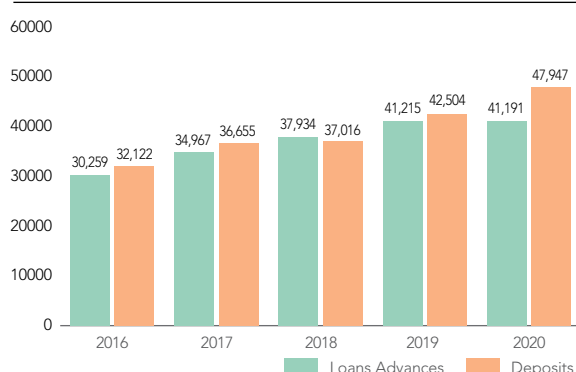
Promotions by the Bank's Marketing and Promotions department, as well as through cross selling initiatives by the mobile banking operation contributed towards this increase in savings and deposits. Activities focused on the lower and middle income groups as well as the state and private institutions and small and medium businesses.

Loan Portfolio

Amidst restrained lending and muted borrowing, the Bank's loan book dropped marginally to Rs.41.21 Bn. from Rs.42.19 Bn. in the previous year. Housing loans formed 80.90% of the entire portfolio, followed by Corporate and Development Loans which made up 10.25% of the total portfolio. Corporate loans declined by 2% by the end of 2020. With collateral based lending being the mainstay of the Bank's total portfolio, residential mortgages made up

34%, followed by 28% in EPF-backed loans and 20% by personal guarantees.

Loan Portfolio Rs. Mn.



Borrowing and Corporate Debentures

The Bank settled Rs.2.5 Bn. in debentures which were due in the period under review. This has come subsequent to a debenture of Rs.2,000 Mn. raised in 2013 followed by a second debenture of Rs.4,000 Mn. in 2015. The debenture of 2013 was settled in 2016 followed by another settlement of Rs.1,080 Mn. of debentures in 2018.

Non Performing Loans

The year's external determinants imposed restrictions in improving the Bank's non performing ratio against the previous year's figure. For 2021, the Bank's NPL ratio stood at 20.22% excl. EPF-backed loans. Such deterrents included the temporary cessation of debt/loan repayments by customers due to regulatory requirements in arresting the financial burdens caused by lockdowns. Moreover, NPLs were more visible in the EPF based loan portfolio.

While the Bank faced challenges in recovering repayments in 2020 due to disruptions to mobility, social and commercial activities, the Bank's non-performing loan ratio faced exposure to limited payment capacities from the low and middle income clientele in the housing finance segment. However, despite these challenges, the Bank continued to follow, prudent risk control measures alongside a stringent process of credit quality control, preventing the NPL ratio from escalating further in the future.

Moreover, limiting further escalation of NPLs is also partially a result of the restructure of the credit approval process that has now given the risk department more purviews in reassessing loans beyond the limit of Rs.1.5 Mn.

Assets and Liabilities

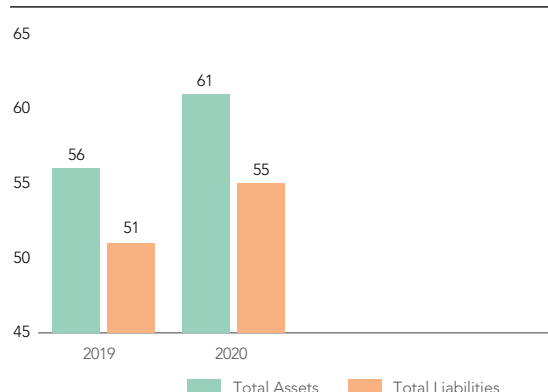
Total Assets

Total assets stood at Rs.61 Bn. in the year under review. Total assets was inclusive of an increase up to Rs.9.9 Bn. in Bank placements, an increase in debt and other instruments to Rs.7.5 Bn. Moreover, cash and cash equivalents declined during the year from Rs.421 Mn. to Rs.305 Mn.

Total Liabilities

Total liabilities included an increase in the funds due to banks from Rs.953 Mn. to Rs.2.4 Bn., in the year under review. Total liabilities also increased as a result of an increase in dues to depositors and borrowers. The increase in dues to depositors can be attributed to an increase in deposits during the year under review. In terms of debt securities dues decreased during the year, as a result of settlement of the five year debenture, which matured in November 2020. The remaining debenture is to be settled in 2025.

Total Liabilities Rs. Bn.



Investment portfolio

The Bank's investment portfolio represented a sum of Rs.17 Bn. at the end of the year 2020. This was impacted by continued efforts to diversify the Bank's investments through fund placements in other banks, Government Bonds and Commercial papers, etc., and also impacted the financial performance of the Bank and in maintaining the compulsory Liquid Assets Portfolio, Statutory Liquid Assets Ratio (SLAR) and Liquidity Coverage Ratio (LCR).

Capital Reports

Financial Capital

Shareholder Returns and Stated Capital

Creating Value for Shareholders

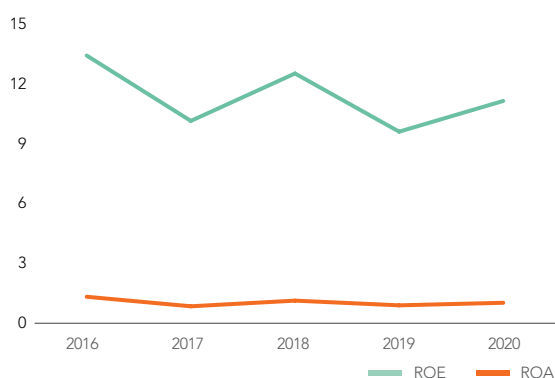
Within the climate of volatile business impacts and high-impact regulatory measures, HDFC Bank continued to stay committed to enhancing financial returns to Shareholders. The earnings per share (EPS) increased by 49% to Rs.10.94 in the year under review, from Rs.7.35 in 2019, attributed to the increase in profits. Shareholder funds increased by 13%, reaching Rs.5,782 Mn. for the year under review. Moreover, Net Asset Value Per Share increased from Rs.79.11 to Rs.89.35 in 2020, which marks a 13% growth. Moreover, stated capital remained at Rs.962 Mn.

Equity and Liabilities

Total equity and liabilities stood at Rs.61 Bn., increasing from Rs.56 Bn. from the previous year. The Bank's statutory reserve fund increased by Rs.35 Mn. during the period under review, while retained earnings rose from Rs.3.6 Bn. to Rs.4.2 Bn. at the end of the financial year, 2020. Moreover, total Shareholders' equity stood at Rs.5.8 Bn.

In relation to the overall bottom line growth, Return on Average Assets (ROA), shows a 34% increase, recording it at 1.21% in 2020, compared to 0.90 in 2019. Return on Average Equity (ROAE) rose by 35%, taking the indicative figure from 9.63 to 12.99 in the year under review. Shareholder Equity to Total Assets saw a slight increase of 0.33% from 9.15 to 9.47 in the financial year 2020.

Equity and Liabilities



Return on Shareholders' Equity (ROE) has improved to 12.99% from 9.63% in 2019. The Bank also benefitted significantly from the change in tax laws pertaining Debt Recovery Levy and Nation Building Tax.

Liquidity and Capital Adequacy

Liquidity

During the year, the Bank maintained prudent measures in order to ensure proper liquidity base. Increasing by 43% in the year under review, the Bank's SLAR (Statutory Liquid Assets Ratio) stood at 37.20% higher than the regulatory threshold of 20%. The Bank also maintained its Liquidity Coverage Ratio (LCR) at 138%, above the regulatory requirement. Across the year, the Bank's stress levels against financially challenging circumstances were assessed and aspects were overseen by the Asset and Liability Committee. They ensured that the Bank maintained liquidity levels within the healthy limits, and in accordance with the limits mandated by the Central Bank. The Bank's prompt moves in balancing withdrawals of institutional deposits due to COVID-19 also enabled to maintain a better liquid asset portfolio, at an optimum point across 2020.

Capital Adequacy

During the year, the Bank injected Rs.692 Mn. in meeting the shortfall within the minimum regulatory capital requirement, which reduced the previous gap of Rs.2.2 Bn. at the end of 2019 to Rs.1.5 Bn. in 2020. The existing shortfall is expected to be met by the end of 2022.

Nevertheless, proving the Bank's credibility in maintaining a healthy capital buffer, the Bank ensured Common Equity Tier I Ratio (CET 1), Total Tier I ratio and Total Capital ratio above minimum limits, which stood at 19.34%, 20.20% and 20.67% by the end of 2020, in relation to the minimum regulatory threshold of 7.00%, 8.50% and 12.50%, respectively.

Social and Relationship Capital



Sheltering Relationships

As a financial intermediary, HDFC Bank believes in creating meaningful relationships that foster growth for both the Bank and its stakeholders. In upholding this belief, the Bank encourages staff to maintain ethical conduct, resilience in the face of challenging situations while showing respect for all and transparency in each transaction with all stakeholders.

Customers

As a specialised bank, HDFC Bank is tasked with empowering customers towards social and economic growth. With this focus in mind, the Bank always makes the best effort to offer an empathetic ear to customers, and in sharing with them the benefits of growth.

The Bank's reach and reputation amongst the rural communities, low-middle income families and SMEs continue to elevate its social capital, which is sustained through a myriad of efforts, initiations and innovations. As a bank that commenced its journey at the heart of grass root communities, HDFC Bank is now expanding towards new

cross-segments of customers – creating new interpersonal relations, with the potential to span another generation.

The Bank's growth is clearly visible through the steady increase of its deposit and lending portfolios, indicating an increasing potential in providing a better service to all customer segments.

The Bank maintains several streams of open communication with customers in strengthening relationships beyond the initial transaction. In this aspect, the Bank's values, branches, social media presence, website and palmtop banking channels add value to fostering meaningful relations.

Values that Foster Relationships

Growing social capital and enhancing its value begins with HDFC values. The Bank constantly reminds its employees to work with honesty, flexibility, and friendly service, while creating knowledge on financial sustenance amongst customers. Whether the Bank reaches customers at branches or through field operations, employees continue

Capital Reports

Social and Relationship capital

to uphold these values, even during challenging times. This was more than evident during the onset of the COVID-19 pandemic and during periods of lockdown, as employees fulfilled their duties without demands and by staying committed.

Geographically Diverse Network

With a branch network of 39 geographically dispersed offices, HDFC Bank maintains direct communications with customers through transactions and by disseminating information through marketing collateral and electronic signage Boards, which were introduced in 2019 for better visibility. The Bank also holds strategic plans to increase the network to 54 locations, reaching further market segments and enhancing financial inclusivity.

While expansion remains a core focus of the Bank, it is also focused on refurbishing existing branches in order to provide an efficient and friendly service. In 2020, five branches underwent improvements including the Tissamarama branch.

HDFC Palmtop Banking

A team of over 104 personnel, serves as palmtop bank officers and travels across locales to reach both retail customers and enterprise owners providing doorstep-banking services, and covers over 140 towns. The palmtop banking unit of HDFC Bank fulfils an essential role by connecting customers with the Bank's financial services. Due to their mobility, palmtop banking officers reach customers who lack access to banking facilities.

New Offerings and Value Added Services

In 2020, the Bank further extended its floating-rate-based lending portfolio through guarantor based loans and leases. Customers with a preference for the floating rate option can now obtain home loans either at a fixed or floating rate.

In addition, the Core Banking System was upgraded in 2020, to facilitate POS transactions through the Bank's debit card. All preliminary work was well underway at the time of compiling the Annual Report. This new service is expected to increase market competitiveness, while providing customers with the choice of cashless payments on Point-of-Sale (POS) transactions.

Reflecting on one of the Bank's new ventures in 2019, it must be noted that HDFC Bank took steps to remove the bottleneck encountered in foreign transactions. As the Bank is not authorised to hold dollar accounts, it partnered with a leading commercial bank in resolving the gap. This enables international transactions through the

Bank's international EMV-Chip based ATM card made in collaboration with the Japan Credit Bureau (JCB) and Lanka Clear, which is to be launched in 2021.

Moreover, reducing administrative bottlenecks, the Bank partnered with insurance service providers in providing web based solutions to borrowers, which now facilitates insurance quotations and policy covers, in real-time. Customers can compare premiums and obtain the right cover at no additional charge.

Ensuring Customer Safety

Due to the pandemic, the Bank took all necessary precautions to ensure the safety of its customers who visits branches or the head office for transactions and related procedures.

As part of its protocols, the Bank installed polythene sheet covers at counters and at areas where employee and customer interaction was required – ensuring proper distancing measures. In addition, Managers of branches and at head office continue to ensure that office floors are regularly sanitised apart from sanitisation of equipment, doors and other surfaces frequently touched by people.

Financial Relief

In 2020, the Bank continued to place people before monetary gains, as it extended support to customers, at a time when the need for financial support and relief was at its peak.

The financial impact of the pandemic and mandatory lockdowns created challenging circumstances for many customers. As a bank that caters largely to the state sector, small and medium enterprises and the low and middle-income recipients and daily wage earners, HDFC Bank offered customers all relief measures as directed by CBSL. In addition, the Bank management also approved working capital loans to 46 businesses, honouring the 'Saubagya' working capital loan scheme introduced by CBSL. All in all, the Bank provided over 40% of customers moratorium facilities, excluding EPF Security Loans.

Apart from regulator specified financial relief, the Bank restructured facilities, extending grace periods to provide financial relief to customers who were negatively affected. In addition, for customers of loan and leasing facilities based on their repayments before 31st December 2020, the Bank waived off default charges. The Bank also displayed notices of the financial concessions on its website, social media platforms and on the Bank's digital signage boards at each branch. A new e-mail ID was given to customers for sending applications. Additionally, the Bank also provided a dedicated contact number for customer queries.

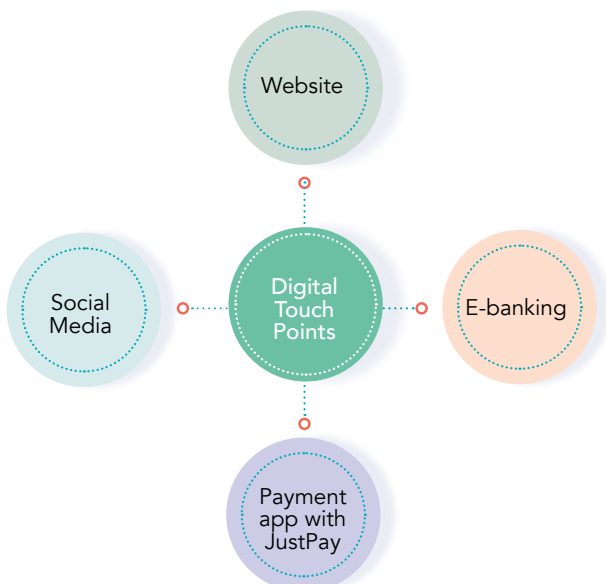
Development Loans

As the Housing Development Finance Corporation Bank of Sri Lanka, the Bank is constantly on the move to provide new benefits to customers. In 2020, HDFC Bank held discussions with officials from the National Housing Development Authority (NHDA) to provide housing loan facilities for home unit buyers of the housing project at the De Zoysa Place.

Additionally, the Chairperson, the CEO/GM and the top management of the Bank also held discussions with the management of the Urban Development Authority (UDA) to arrange housing loan facilities for buyers of apartments from UDA housing projects. Both initiatives were taken subsequent to the 7% p.a. concessional loan scheme proposed by the Government in 2020.

Driving Digital Transformations

HDFC Bank's digital presence continues to grow. However, it must be noted that although the Bank was relatively late in adopting digitisation and automation solutions, it is now progressing with a digital and IT based growth strategy, with a focus on increasing digital touch points and operational efficiencies. Investments will increase in expanding digital gateways as well as in modernising operations across both front and back-end operations.



The Bank aims to invest in new digital products, card-based financial instruments, mobile applications and enhanced e-banking services.

Social Media and Online Advertising

HDFC Bank remains active on several social networking platforms, gaining traction with customers from varying

demographics. It is needless to say the immense value of social media as a marketing tool and its contribution to creating a sustainable presence in the digital sphere. Social networking and its use as an interactive tool also enables the Bank to track customer behaviour and understand their needs, while responding to concerns and critical feedback, promptly.

With over 14,000 followers on Facebook, the Bank engages on a regular basis with its loyal customers, while providing information to potentially new customers. The networking platform is now one of its most utilised below-the-line advertising mediums.

The Bank also partnered with an e-commerce platform in marketing and communicating leasing solutions, creating direct engagement with customers. The medium created a substantial inflow of over 1000 inquiries and leads.

Mobile Payment App

The Bank, as envisioned in 2019, expedited plans to invest in a mobile-based payment application through JustPay. HDFC Bank customers now have the convenience of making payments through this new digital solution, transfer funds to merchant accounts or pay utility bills – all in just a few taps on any mobile device.

Powered through the JustPay system, customers of HDFC Bank can connect with 14 mobile apps registered under the JustPay system. Retail payments can be made to a maximum of Rs.10,000 by transferring funds from customer savings accounts directly to a merchant account or a utility service provider. HDFC Bank anticipates the network

Capital Reports

Social and Relationship capital

to grow constantly making it a highly competitive and beneficial digital payment solution for customers.

Website

The Bank's online banking interface was also upgraded in 2020, adding further enhanced features for the convenience of customers. Through the Bank's website, customers can access comprehensive information on deposits and loans, branch and ATM locations. In addition, the website also provides access to relevant application forms, interest rates and online e-banking facility.

HDFC Click

Aptly titled 'HDFC Click', the dedicated e-banking site now hosts all e-banking facilities, giving customers absolute convenience in conducting transactions without visiting branches. In 2020, the platform was further modified to enhance security and to provide additional feature functionalities. During the year, the Bank adopted CEFT, facilitating online transfer of funds to any bank.



HDFC Click e-banking platform now facilitates a host of services from checking account balances to bill payments and access to past transactions.

Customer Engagement

Interactive Media

HDFC Bank partnered with YouTube entertainer duo 'Janai Priyai' in creating an interesting advertainment video. Uploaded on the video-sharing platform, the video has gathered considerable views since it aired on the video-based network.

Mihira-HDFC Children's Day Competition

In tandem with World Children's Day 2020, HDFC Bank held a special competition for kids under the age of 11. A crossword puzzle carrying a coupon was published in the Mihira newspaper, requiring children to send answers. Clues of the puzzle included general knowledge based prompts in addition to a prompt, which inquired the brand name of the Bank's children's savings account.

Our investments will increase in expanding our digital gateways as well as in modernising our operations across both front and back-end operations.



Mihira Puzzle Competition Winners

Based on a draw held at Lake House premises, three winners and 10 consolation award winners were picked and awarded through an event held at the head office. Bicycles were awarded as winning prizes.

Customer Rewards

As part of its plans to achieve increased retail deposit mobilisation, the Bank provided vouchers in the amount of Rs.5,000 to deposits above Rs.1 Mn. As a result, the Bank received a commendable response to the give-away, resulting in 39% increase in retail deposits in 2020.

Promotions and Branding

Field Promotions

For years, the Bank has trusted in its mobile banking officers (palmtop officers) in providing services, information and in promoting financial inclusivity to customers across the country. In 2020, this people-focused mobile unit continued to take awareness into the society on financial solutions by scheduling visits to selected garment and apparel factories, focusing on the workforce and their financial requirements – especially in terms of housing.

Branch Promotions

In September 2020, the Bank's Anuradhapura branch launched a special promotional programme, conducted at Sandahiru Seya. 300 staff members of the institution were given awareness, carried out by the regional Manager, branch Manager and the branch staff. Awareness mostly centred on details pertaining to EPF-backed loans and Guarantor loans, awareness on bank savings and investment plans such as Vishrama Rakawaranaya, Smart Goals and Prathilabha Savings were also done.

Promoting EPF-backed loans and guarantor loans, several promotional campaigns were conducted by the Bank's marketing department. These programmes took place at several industrial workplaces with groundwork conducted by staff members of Anuradhapura and Monaragala branches.

Street promotions were also another aspect of promotional activities. In 2020, the Matara, Galle and Ambalangoda branches conducted several such activities under the participation of respective branch officers.

Online Promotions

With the purpose of increasing engagements on Facebook, the Bank created a competition for the participation of cricket fans during the Lanka Premier League (LPL) T20 in 2020. 103 lucky winners were gifted with mobile reloads. The top 7 fans that correctly predicted the winning team received Bluetooth speakers and Bluetooth earphones as prizes.

Media Communications

Focused on providing information on products and services, we invested in scroller advertisements with a leading television broadcaster, during their prime news hours. In addition, the Bank also invested in a prominent radio news broadcast securing prime air-time for a period of one week each month, across a six-month term. Moreover, in promoting the Bank's financial products, Chairperson Mrs. Wasanthi Manchanayake made a guest appearance on a live programme aired by a popular youth radio station.

Exhibitions

Annually, the Bank participates in exhibitions in creating awareness on services amongst the public. In October 2020, the Bank participated in the Build Sri Lanka, Housing and Construction Expo. The Bank stall received over 10,000 visitors during the event.



HDFC Participates in the "Build Sri Lanka 2020 - Housing & Construction Expo"

Call Centre

Call centre operations were improved during the year, increasing staff by an additional operator. The call centre provides trilingual customer support.

Limitations in 2020

It is not unknown that due to the pandemic and regulatory landscape, the country and its institutions did not operate in full capacity. The same applied to HDFC Bank in expediting additional promotional activities and community based activities. Despite the challenges, the Bank continued to realign business strategy with certain modernisations and IT based strategies, thereby creating value for all customers.

Partners, Suppliers and Service providers

Across all areas of operations, HDFC Bank works with insurance service providers, vendors and third party suppliers for both goods and services. In 2020, a value of Rs.148 Mn. was created for partners, suppliers and service providers.

The Bank aims to invest in new digital products, card-based financial instruments, mobile applications and enhanced e-banking services.

Capital Reports

Social and Relationship capital

Partnerships

Insurance

HDFC Bank continues to partner with insurance companies in providing insurance to customers who obtain home loans and leasing facilities. Partnerships of this nature serve the dual objectives of increasing social capital, while enhancing value to customers.

In 2020, the Bank partnered with an insurance brokerage company to provide title insurance. Customers can now obtain title insurance through the Bank prior to obtaining a home loan or leasing facility, without the inconvenience of visiting an insurer for the said purposes. Such policies safeguards customers against irregularities and defects in the titles, acting as a security for the borrowed sum.

In 2019, in an effort to enhance value added provisions, an MOU was signed with People's Insurance, to facilitate customers with fire and natural peril insurance for mortgaged properties. HDFC Bank customers can now obtain a blanket fire insurance policy from People's Insurance, insuring properties against fire, lightening, floods, cyclones, earthquakes, tsunamis and other natural perils.

The Bank also has plans to form alliances with other insurance service providers, through MOUs and agreements. Such partners will be selected based on competitive benefits, in providing additional value to customers and in increasing the Bank's market competitiveness.

State Institutions

Each year, the Bank partners with various organisations to create awareness programmes on savings and loan schemes. In 2020, the Bank partnered with IDB for such an event, held with the purpose of informing leather and footwear based SMEs on services and schemes for enterprise development.

A partnership was formed with the Industrial Development Board and the Bank with the objective of supporting the MSME sector. Discussions resulted in an agreement to execute a Memorandum of Understanding (MOU) to offer financial support to MSMEs, thereby increasing the respective loan portfolio of the Bank.

Similarly, the Bank partnered with the National Housing Development Authority (NHDA) and the Urban Development Authority (UDA) to provide concessionary loans to homebuyers of both these state institutions; taking

into account the 7% concessionary rate in accordance with CBSL directions.

Suppliers

As at December, 2020 HDFC Bank has a supplier network of 323 registered with the Bank – engaged in providing various goods and services.

Screening Process

The vendors and suppliers the Bank engages with are sourced based on a formal screening process, requiring all selected suppliers to provide Business Continuity Plans (BCPs). Such parties are acquired to furnish the Bank with furniture and fittings, IT hardware, office stationeries, and office related machineries, in addition to obtaining services related to security, maintenance and sanitation. Across the years as well as in 2020, the Bank maintained clear communications with suppliers, honouring commitments to them and maintaining friendly relations with each service provider.

In 2020, the Bank engaged the services of technological service providers in upgrading its Core Banking System to facilitate POS transactions, in upgrading the e-banking platform and in upgrading the Bank website.

Engagement

HDFC Bank maintains cordial relations with partners and service providers. The Bank's partnerships are based not only on obtaining products and services, but also include engaging with public and private sector institutions in educating targeted segments of the public on financial solutions of the Bank.

HDFC Bank maintains formal communications with suppliers and other third party service providers when obtaining services. A tender process is followed prior to selecting any supplier or service provider and is conducted in a formal and transparent manner.

Communities

Across the years the Bank has taken special measures to increase contributions to the communities it works with. Empowering the financially challenged will always be at the core of all services and the mission behind product developments, as it has been for the past 37 years, since 1984.

As a Specialised Licensed Bank with a focus on housing and enterprise development, the Bank takes a special interest in the progress of low-middle income earners, industrial sectors, smallholder communities and SMEs, providing funds to these customer segments for their housing and business financial needs. In a sense, HDFC is a catalyst in uplifting the underprivileged communities of the nation, venturing on increasing stakes in developing community industries and small-scale trade sectors of the economy.

Joint Program to Promote SMEs

HDFC Bank collaborated with the Centre for Development of Leather Products and Footwear of the Industrial Development Board (IDB) and conducted a programme to create awareness on SME Loans and other loan products of the Bank. The programme was hosted for 125 entrepreneurs from various parts of the country, engaged in the leather and footwear industry. The programme was conducted at the Centre for Development of Leather Products and Footwear of the Industrial Development Board (IDB).



HDFC Bank and IDB jointly conduct an awareness programme to promote solutions among SMEs.

The Corporate and Development Finance department of HDFC Bank took the initiative to disseminate awareness on credit schemes for SMEs such as Saubagya and Swashakthi. Information was shared through informative presentations on the said loans schemes. The programme took an interactive mode, when participants presented their concerns, which were discussed, and were directed to the relevant branches and SME Development Division's district offices. Participants were informed to present the requests for loans to any branch in close proximity to their locales.

As society and stakeholders increasingly demand for transparency and good conduct, the relationships with regulators provide clear direction in maintaining best corporate conduct and financial management.

Development Projects

HDFC Partners with International Executive Service Corps (IESC)

In an effort to offer technical assistance and training programmes, the IESC implemented 'Market Oriented Dairy (MOD)', funded by the U.S. Department of Agriculture (USDA). In 2019, HDFC partnered with IESC to support the local dairy industry – enabling smallholder dairy farmers sustainable growth.

MOD operates with the objective of increasing the production of fresh milk through improved productivity and quality within the dairy value chain. The project will help improve quality of inputs, implement best practices in dairy management, introduce new technologies in order to improve production and productivity, and also enable buyers and sellers to collaborate.

CSR Initiations - Staff Donation to "Itukama"

In the midst of a global pandemic and during a time when benevolence was needed the most, the staff of HDFC Bank entrusted a day's pay to 'Itukama' – the COVID-19 based Health and Social Security Fund, which was established by H.E. the President. Employees achieved in gathering a total of Rs.1.2 Mn. which was deposited to the Itukama account.

Capital Reports

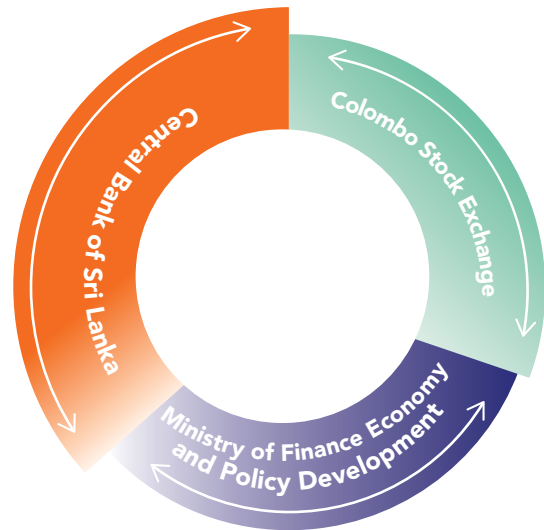
Social and Relationship capital



Donation to COVID - 19 Health Care and Social Security Fund

Regulators

The Bank considers its relationships with regulatory bodies as entrenched in operations. As a financial institution, regulators have a significant influence on how the Bank operates; hence, HDFC Bank cooperates with each institution based on mutual trust and cooperation. As society and stakeholders increasingly demand for transparency and good conduct, the relationships with regulators provide clear direction in maintaining best corporate conduct and financial management.



Regulators provide the right direction for the Bank to inculcate a culture of risk management and compliance, one that ultimately fosters sustainable business growth. In enhancing relationships with regulators HDFC Bank engages in timely disclosures, periodic audits and regular reporting – taking proactive actions in providing information required from the Bank.

Human Capital



Fostering and Empowering People

The Bank's employees are the strands that align its strategic objectives and operational goals with everyday operational reality. The pool of knowledge, experience, skills and inventive thinking the Bank's employees possess and continue to develop, is what it recognises as human capital, which undoubtedly adds value to the services delivered and connections maintained. As their employer, the Bank has a tremendous role in enriching the lives and uplifting the spirit of its people.

2020 was an exceptional year that demonstrated the resilience of the Bank's staff, as well as their commitment to assisting customers. As COVID-19 disturbed services across the nation, and within the banking sector, most of the Bank's employees showed great focus and dedication, both during and post pandemic lockdowns.

Importantly, the Bank's Human Resource department remains the backbone of the Bank's HR based strategic layouts. Their collective experience and professionalism has taken the Bank through many hurdles, including, the unprecedented challenges posed by the pandemic. While navigating the

unusual circumstances of 2020, the Bank's HR department succeeded in carrying out various initiatives, planned prior to the pandemic.

Annually, the Human Resource department focuses on key areas in supporting and fostering the growth of staff members. These include changes and reviews in the HR policy framework, training and development policies, benefits and remunerations, and recognition. One of the most pertinent highlights of the 2020 HR calendar was the introduction of the new performance evaluation system. The Bank also considers its labour union as a key partner in the Bank's eco-system, one that is vital to sustaining better relations with those who represent the collective workforce.

HDFC Bank Employees - The Thread That Binds

Across the Bank's 39 branches and the head office, the Bank's workforce is a collective team of 633 individuals, working towards common goals and strategic objectives; out of which, 403 are male employees and 230 are female employees. Gender parity across this total figure can be seen at a 64:36 male to female ratio.

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PERMANENT EMPLOYEES (Nos.)

MALE		FEMALE	
2019	2020	2019	2020
309	308	230	221

PROBATION EMPLOYEES (Nos.)

MALE		FEMALE	
2019	2020	2019	2020
12	2	2	4

CONTRACT EMPLOYEES (Nos.)

MALE		FEMALE	
2019	2020	2019	2020
54	64	08	05

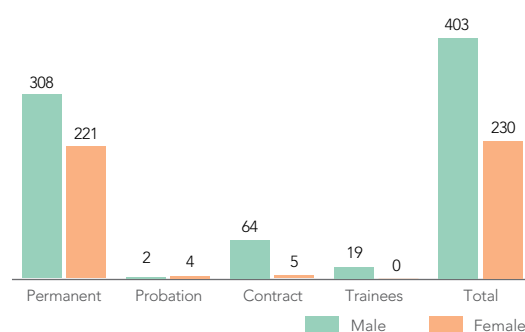
TRAINEE EMPLOYEES (Nos.)

MALE		FEMALE	
2019	2020	2019	2020
31	19	01	-

From the 230 female employees of the HDFC team, 221 belong within the permanent cadre, which is 96% from the total female cadre at the Bank: whereas only 76% from the total male cadre belong within the permanent cadre.

Looking closely at the workforce, 53% of positions within executive level designations, senior and top management positions are filled by female professionals – holding a leading stake in managerial and executive level responsibilities, across the Bank.

Composition



Total employees by job category and gender:

Category	2020		2019		2018	
	Male	Female	Male	Female	Male	Female
Corporate Management	8	3	9	4	8	4
Chief/Senior Managers	9	17	4	8	6	7
Regional Managers	5	-	-	5	-	6
Executive Staff	127	152	83	115	85	117
Non-Executive Staff	148	57	171	110	168	110
Business Promotion Assistants	12	1	46	3	46	3
Junior Business Promotion Assistants	22	-	22	-	25	-
Business Promotion Trainees	27	-	31	1	53	1
Palmtop Assistant	45	-	35	-	-	-
Total	403	230	406	241	397	243

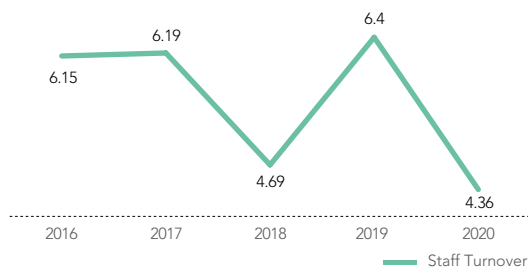
High Retention

The Bank has a high employee retention rate, which remained at 97.4% in 2020. In addition, the average period of employee service amounts to over 12 years, which creates a humble sense of pride as it reflects the positive impact of Bank initiatives in employee development and wellbeing. Nevertheless, the turnover rate has declined to 4.36 from 6.40 in 2019, a result of measures taken to address and reduce turnover, such as promoting staff members and recognising and rewarding best performers.

633
Employees

97.4%
Retention Rate

Retention Rate

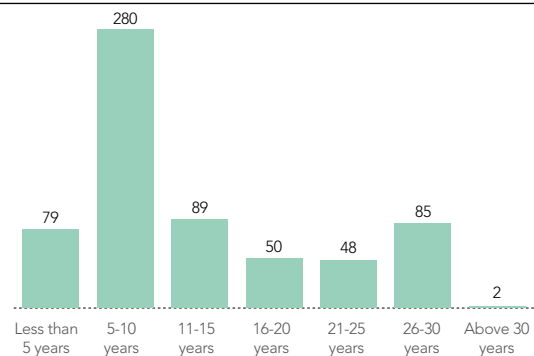


A Diverse Team

With the Bank's mainstay as a people-based financial institution, HDFC Bank is run by a diverse team of employees.

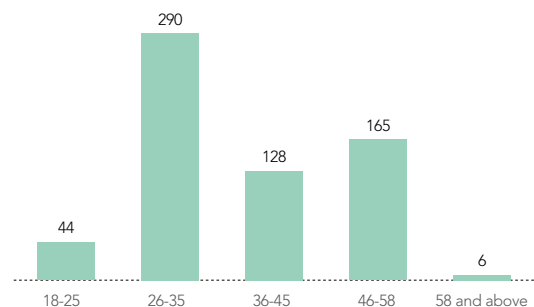
The public-private roots of the Bank's ownership also have an influence that has a resonating impact on how staff members feel and work. As a result of this mixed identity, HDFC Bank's employees experience stability and job security, while carrying the drive for modernisation and a focus on being competitive within the markets being served.

Employees by Service



HDFC Bank's team of employees are a diverse mix of individuals from varying age demographics. 53% of employees belong within the 18-35 age bracket, while 47% are above the age of 36. HDFC Bank also has a 27% concentration of staff members with decades of experience. This multi-generational composition has brought on Board a wholesome mix of experience, ideas and knowledge.

Employees by Age - 2020



Policy Framework

HDFC Bank's policy framework for Human Resource management has a well-balanced spread of policies, focused on providing value for employee growth and also in obtaining the best possible service for the Bank's growth. The Bank continuously reviews and updates these policies, aligning them with employee growth expectations as well as Bank operational goals and objectives – in order to positively impact employee development and organisational growth.

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Employee Recruitment and Advancement

Recruitment at HDFC Bank has increased rather slowly but steadily over the years, which can be related to the low turnover rate.

In fulfilling vacancies when they arise, the Bank follows a clear recruitment policy and conducts a transparent process in recruiting the right individual for the position in question.

The Bank begins this process by advertising the vacancy within the Bank through an internal circular. If no suitable candidate is found, advertisements are placed in newspapers and websites for external recruitment. In 2020, the Bank recruited 17 new members to the cadre.

During the year, the recruitment policy was revised to identify and hire the right candidates to the Bank's cadre. This includes identifying internal candidates for vacant positions as well as recognising the right candidate from external recruitment.

In 2020, HDFC Bank promoted 367 staff, which accounts for 58% of staff members across the Bank network. This well received initiative was carried out after a hiatus of six years. This was initiated through the Bank's newly implemented staff promotion policy in 2020. Under this initiation 109 promotions were within the head office and 258 across branches.



Promotions in 2020		
	Head Office	Branches
Corporate Management	9	-
Chief/Senior Managers	13	1
Regional Managers	-	2
Branch Managers	-	30
Executive Staff	69	108
Non-Executive Staff	18	117
Total	109	258

Succession Planning

Succession planning is a main focus of the HR department and enables the Bank to ensure that potential candidates with the right knowledge and competencies are identified to take over senior positions specifically in managerial grades. No changes were made to the succession policy; however, it will be reviewed in 2021.

Employee Training, Development and Empowerment

HDFC Bank acknowledges the unmistakable impact training and development has on employee empowerment. Not only does training sharpen technical knowledge and professional capacity of staff members, the value it brings in engaging with them on an off-the-job level is considerable.

In the financial year that concluded, the HR department organised 42 training programmes covering various operational, technical and sales based areas.



Not limited to training, the Bank has set in place several other initiatives in an effort to enhance employee empowerment and engagement in all functions within the Bank. Job rotation is implemented within branches to delegate and develop employees as multi-skilled individuals and all-rounders. Internal staff promotions are also another strategic route taken in empowering employees to take initiative and higher responsibilities in handling daily operations.

External Training Program Title	Category	No. of Participants
Procurement management and tender procedures	Admin	3
Procurement management and tender procedures	Admin	3
Emerging technologies in digital banking	Audit	1
Implementation of BASEL III	Audit	1
Awareness programme on CRIB	Branch	4
Importance of rural development for economic growth in SL	Branch	2
Enhancing the efficiency of branch manager's role	Branch Managers	2
Best practices for bank tellers	Cashiers	5
AML and CFT compliance for finance institute	Compliance	1
Credit information bureau of SL in Eastern Province	Credit	2
Enhancing skills of drivers	Drivers	1

External Training Program Title	Category	No. of Participants
Budget preparations, implementation and evaluation	Finance	1
Comprehensive in depth analysis on recent tax reforms with practical applications	Finance and Reconciliation	3
The legal implications of transfers and secondments	HR	2
Workshop on training need analysis	HR	1
Workplace arrangement under the shop and office act	HR	1
Effective dealing with employee misconduct and domestic inquiry procedure	HR	2
Pay as you earn	HR and Finance	6
Leasing - Smart in challenging time	Leasing	6
Conference on conveyancing and money laundering	Legal officers	5
The national law conference	Legal officers	3
AML and EFC	Operations staff	2
Emerging trends in fraud mitigation of electronic transfers	Operations staff	2
Advance functions of MS Excel	Risk	1
Diploma in bank integrated risk management	Risk	1
Telephone skills and etiquette for front line staff	Telephone operators	2

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Human Capital

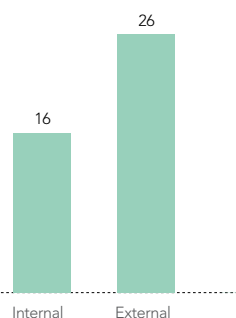
Internal Training Program Title	Category	No. of Participants
Special training session on pawning	Assistant managers	38
Business related credit evaluation 2020	Branch managers and credit officers	39
Discussion on operational matters	Branch staff	48
Discussion on operational matters	Branch staff	33
Delinquency management system for branch officers	Branch staff	20
Delinquency management system for branch officers	Branch staff	29
Delinquency management system for branch officers	Branch staff	19
Delinquency management system for branch officers	Branch staff	20
Delinquency management system for branch officers	Branch staff	23
Budget for the year 2020 and 3-year revolving plan	Divisional heads	27
Formulating tactical plan to achieve branch target	Leasing officers	22
How to achieve 2020 targets for business promotion	Palmtop operators	30
Special training session on pawning	Pawning officers	41
Delinquency management system for recovery officers	Recovery officers	48
How to do recoveries effectively and efficiently	Recovery officers	28
Awareness programme on loan moratorium concessions	Recovery officers	30

In 2020, the Bank invested Rs.5.2 Mn in the development of staff members. 88% of the Bank's employees received training in their respective technical areas, which is a total of 558 employees from a cadre of 633.

The Bank is affiliated with professional education bodies such as IPM, CISA for selected employees, based on job profile. Web-based programmes for branch employees are also in place. In addition, internal resource persons have been identified in carrying out internal training programmes.

For new employees, orientation and internal training programmes are conducted, acclimatising them to the internal environment and to job responsibilities.

Training Programs



Category	Programs
Banking	19
Marketing	2
Digital/ICT	3
Customer Service	2
Health and safety	-
Other	16

Personal Growth

In an effort to improve the personal growth of employees and in improving their performance while on the job, a programme titled, "In Reaching Beyond Excellence" was conducted at Waters Edge Hotel in Battaramulla for the entire staff of the Bank. The resource person for the event was trainer Mr. Dammika Kalapuge who holds over two decades of experience in services marketing, with over 2650 workshops to his name, both in Sri Lanka and overseas.

Remuneration and Benefits

Each year, HDFC Bank invests in remuneration and benefits, ensuring the welfare of all employees, including employees recruited on contract and as business promotion trainees. Remuneration options are inclusive of statutory EPF as well as provisions for ETF and gratuity payments.

HDFC Bank employees have access to a host of benefits, some of the most competitive in the industry. These include staff loans on concessionary interest, two-month bonus payments in April and December and payment for unutilised leave balances. Employees are also given an honorarium inspiring them to perform the best they can.

Benefits	Permanent	Probation	Contract	BPT
Medical Reimbursements	✓	✓	-	-
Housing Loan	✓	-	-	-
Distress Loan	✓	-	-	-
Guarantor loan	✓	✓	-	-
Bike Leasing	-	-	-	✓
Bonus	✓	✓	✓	✓
Leave Encashment	✓	✓	✓	-
Subsistence	✓	✓	✓	✓
Risk Allowance (Cashier and Palmtop only)	✓	✓	✓	✓
Commission	-	-	-	✓
Vehicle Loan	✓	-	-	-
Festival Advance	✓	✓	✓	-
Difficult Area Payment	✓	-	-	-
Honorarium	✓	-	-	-
Key Handling Allowance (Safe key)	✓	-	-	-
Branch Manager Allowance	✓	✓	-	-
Second Officer Allowance	✓	✓	-	-

What best reflects the Bank's increased spending on employee development and remuneration is the rise in cost per employee, which continues to increase steadily. Cost per employee stood at Rs.1.85 Mn. at the end of 2020.

Year	2017	2018	2019	2020
Total Employees	647	640	647	633
Cost per Employee (Rs. Mn.)	1.45	1.73	1.81	1.85

The Bank also takes care of its retiring employees. Appreciating the service they have provided, a farewell function is organised for each and every retiree. The Bank welfare society pays Rs.100,000, while special gratuity is offered to retiring employees with more than 15 years of service in the Bank. In addition, retired employees continue to benefit from reimbursements of medical claims after retirement.

Employee Health and Safety

Amidst operational restrictions and challenging circumstances, employees continued to report to work during periods of lockdown, giving customers access to funds, and facilitating transactions. For the safety of all staff members, the Bank ensured that all necessary equipment, such as sanitisers and facemasks were set in place across

branches and at the head office. In addition, the Bank introduced a work roster and provided transport facilities to all staff members to ensure that they are not exposed to uncontrolled environments.

Working hours were relaxed during this time period and employees were advised to report to the nearest branch at times when COVID-19 reported cases were at its highest. The Bank also enabled expectant staff members and nursing mothers to work from home till any threat to their health dissipated.

In compliance with health guidelines and proactive measures, routine temperature checks are done for all staff members. Additionally, sinks were installed at each branch entrance with adequate cleaning liquid. Shoe sanitizer mats are now placed at the entrances of each branch in addition to regular sanitisation of each branch, which is overseen by branch managers or staff.

Apart from the mandatory health and safety measures implemented in 2020, HDFC Bank ensures the overall wellbeing of employees by providing the right financial incentives to ensure their health. The Bank also provides employees with medical reimbursements for hospital charges and medical consultations.

New Performance Evaluation System

Evaluation of employee performance was reintroduced in 2020 with a new structure to measure overall performance. This entails a new method of appraisal based on KPIs, assigned on both branch and individual basis. As per the new evaluation method, team target achievement is assigned a weight of 70% while the remaining 30% weight is assigned for personal attributes of the individual employee. In 2020, additional increments were also paid based on the best and highest performances across each business and service units.

Recognition and Awards

Each year, the Bank organises an annual employee awards ceremony in pomp. However, due to COVID-19 based restrictions and over concerns for the health and safety of all, the 2020 ceremony was postponed till conditions become ideal.

Back in 2019, the event was hosted at Galadari Hotel, attended by over 500 of staff members from across the country. 57 employees were recognised for their outstanding service over a period of 25 years. Moreover, in recognising the importance on staff recognition, and its value in empowering and uplifting the work spirit, the Bank's management issues commendation letters to staff

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Human Capital

members with exceptional performance – recognising those that deserve sincerest gratitude.

In 2020, during the period of lockdown, most employees showed great resilience, going above and beyond their call of duty. In one such case, the Bank took the necessary step of recognising the services of a noteworthy employee, who through her resilience helped keep HDFC Bank on its feet during lockdown.



Relationship with the Employees' Union

The management of HDFC Bank maintains a harmonious relationship with the Union. In January 2020, the Bank honoured its obligation to pay the third and final salary increment as agreed under the 2018's Collective Agreement. 99.7% of the Bank's permanent cadre including the corporate management holds membership of the Ceylon Bank Employees' Union; thereby making it a strong collective.

During the year under review, the Bank signed the collective agreement 2018-2020 with the Ceylon Bank Employees' Union (CBEU) at the Bank head office. The agreement facilitates non-salary benefits for employees.

Staff Annual Get-together

The welfare society of the Bank organised a get together for branch and head office staff at Lavenro Gardens, Avissawella. The excursion included several activities such as dancing, competitions, fun activities and competitions for kids. Chairperson and CEO/GM as well as members of the corporate management team attended the event.

Intellectual Capital



Knowledge that Powers Growth

Powering the growth of HDFC Bank, the following collection of intellectual capital includes intangibles, such as organisational and tacit knowledge, ICT systems and digitisations in addition to specific products and unique offerings specific to HDFC Bank. The Bank's capacity to modernise and innovate is facilitated by this collective base of intangible knowledge and organisational capital. The Bank also considers its hybrid leadership culture, unique to the Bank.

Organisational Knowledge in Housing Finance

As a Specialised Licensed Bank, and one of the very few such banks in the country, HDFC Bank has focused keenly on providing housing related financial assistance to individuals with relatively lower financial capacity. As a result, the Bank possesses an HDFC-specific eco-system of processes, products and services supported by a network of branches with employees who possess an immeasurable and invaluable level of tacit knowledge on the local housing market.

This unique strength brings to the Bank those from both public and private sectors and from rural and middle-income segments giving the experience, the procedures and protocols necessary to provide services to thousands of such customers.

Palmtop Banking Operation

With customers scattered across the country, HDFC Bank runs a unique outreach, doorstep banking operation through palmtop bankers / mobile banking assistants who perform an invaluable role in reaching those within the distant and rural areas of the country. Those who reside far from branches are reached by the palmtop banking team, accepting deposits, collecting loan payments and accepting utility bill payments - providing rural retail customers and entrepreneurs an easy outlet to receive financial assistance.

All this is made possible through the convenience of the palmtop banking software utilised through mobile devices by HDFC palmtop officers and the entire team engaged in field/palmtop operations. The software makes cash

Capital Reports

Intellectual Capital

collections convenient, enabling rural and customers to make timely payments without visiting the branch.

Technology and Digitisation

Core Banking System

Taking a transformational direction by adopting technologically central systems and solutions, the Bank initiated its Core Banking System in 2017, with an initial investment of Rs.160 Mn. The Core Banking System, which was developed through a technological service provider, now connects branches and head office, streamlining functions effectively. Branch connectivity was assured through the CBS providing a more centralised and digitised approach to branch operations. The system was upgraded in 2020 to facilitate POS transactions through the HDFC debit card, which will be launched in 2021. Plans for the debit card launch was disrupted due to challenges from the pandemic and the operating environment.

Loan Origination and Loan Management Systems

Designed to facilitate HDFC's loan products and related operational procedures, the Loan Origination and Loan Management Systems are now an integral part of the Bank's core system. In 2019, the Bank began to revamp the Loan Origination system with a pilot run conducted in one region. The system was expanded across all branches in 2020, streamlining the loan approval process and making it more efficient and transparent to officers with access to the system.

Branch connectivity was assured through the CBS providing a more centralised and digitised approach to branch operations. The system was upgraded in 2020 to facilitate POS transactions through the HDFC debit card, which will be launched in 2021.

The Loan Origination System now enables online approval of requests for loans. Branch officers now have more convenience in sending documents for approval by digitally scanning and uploading the documents for management's review. The system eliminated exchange of documents between branches, removing the cost, which was previously incurred in delivering documents to the head office from each of the Bank's 39 branches.

Delinquency Management System

Implemented at an investment of Rs.9.9 Mn. a DMS tailored to the functions of HDFC Bank, was launched in 2020, in order to streamline the receipt of loan instalment payments promptly and in documenting them effectively. The system also functions as a back-end CRM system but limited to sending payment reminders to customers, avoiding the hassles involved in defaulted payments.

Inclusive Solutions

HDFC Bank was the first local bank to create a deposit product designed specifically for Tamil speaking individuals. Named 'Arumbu', the savings plan is a unique investment proposition that is a solution to ensure the financial stability of children in their future.

EPF-Backed Loan Operations

HDFC Bank is one of four institutions with authority to issue EPF-backed loans in Sri Lanka. This is tremendously unique within the vastness of the Bank's system, and gives the Bank a distinct capability to fund housing development needs of state and private sector professionals against their EPF balances. Due to this unique offering, the Bank is in possession of an organisational capital that is unique with procedures and protocols surrounding this operation, specific to HDFC Bank.

Ethics and Regulatory Compliance

As a financial intermediary registered and licensed under the Central Bank of Sri Lanka, HDFC Bank holds a significant responsibility in maintaining financial and operational transparency, while upholding the highest standards of integrity and ethical conduct. Obligation to transparent and accountable conduct is also necessary in creating sustainable value for the Bank's stakeholders and shareholders.

As part of regulatory, governance and legal obligations, HDFC Bank has complied with all applicable laws and regulations. The Bank has complied with all directives issued by the Central Bank of Sri Lanka under the Banking Act and those applicable to HDFC Bank as a Licensed Specialised Bank (LSB).

Committed to upholding accountable and ethical conduct, the management of HDFC Bank trusts and expects all employees to maintain good moral conduct when executing decisions. The Bank also ensures that borrowers (customers) utilise the funds disbursed for the intended purposes by issuing funds directly to the relevant parties as per loan requirements.

The Bank and the management also has in place a whistle blowing policy, encouraging employees to be open and bold in bringing to light unethical conduct and financial discrepancies across the Bank and its branches. Any deviations or direct non-compliance with policies and guidelines can be brought forward with necessary steps taken by the relevant level of management.

Such control is necessary in ensuring that the Bank upholds honesty and integrity while ensuring the safety of customer funds placed with us, honouring the value on their trust in the Bank's ability to provide financial intermediation. The Bank places primary focus on existing and new customers when formulating solutions and in improving operational efficiencies. Moreover, it continues to identify the needs and challenges of low-to-middle income customers, in formulating solutions that provide affordable, inclusive and holistic solutions to their financial needs.

Brand Value

With over three decades of operations in the banking and financial sector, beginning from 1984, HDFC Bank has gathered a brand reputation that is now synonymous amongst the customer segments served. And as the Bank continues to diversify, it will offer customers new services and value added services with a strong focus on improving processes, increasing speed of service and providing digital conveniences for an improved and better customer experience.

The Bank considers its brand name as intellectual capital in addition to branded financial products and solutions – across deposit and loan portfolios.

Strategic Vision

In line with the Bank's plans of modernisation and diversification based growth, the Bank has begun focusing on realigning processes, services and technological innovations for achieving a broader market share and in emerging financially stronger than the current position. In doing so, the higher management has formulated and approved a five-year Strategic Plan: A roadmap that will help realign core functions, systems and processes to contribute to achieving core objectives.

Capital Reports

Manufactured Capital



Assets that Foster Growth

HDFC Bank's pool of manufactured capital is inclusive of all physical assets that support operations, in reaching customers, and in providing continued financial services to those served.

The Bank's manufactured capital includes the head office, branch premises, property and equipment, IT systems and intangible assets, all vital elements of delivering financial products and services. Over the years, manufactured capital was instrumental in taking the Bank closer to clients across various cross-sections of society. It continues to power operations across the Island, creating accessibility, enabling the Bank to provide financial support and empowerment to thousands of Sri Lankans.

In 2020, despite the roadblocks that emerged from COVID-19, HDFC Bank invested in Property, Plant and Equipment, incurring a capital expenditure of Rs.55.14 Mn., adding further to its manufactured capital and increasing capacity to manage and expand operations. Total PPE of HDFC Bank now stands at Rs.1,005 Mn.

Total PPE

Rs. **1,005** Mn

Capital Expenditure (2020)

Rs. **55** Mn

Access to ATMs

5,075

No. of Branches

39

Combined branch space Sq.Ft.

105,524

Buildings and offices

Rs. **386** Mn

Property, Plant and Equipment

The head office located at Fort, and 39 branches spread across the Island are the Bank's most vital customer touch points. The number of branch buildings has gradually increased over the years, helping to establish physical

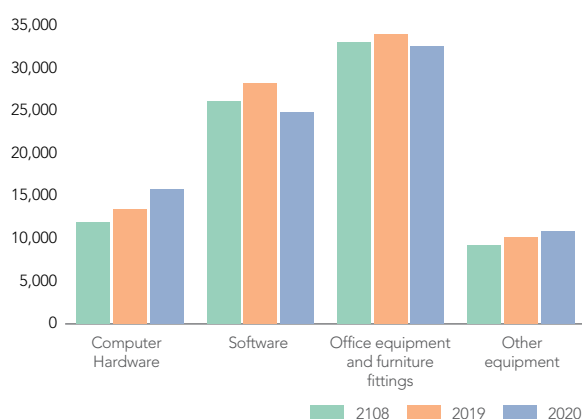
presence, facilitating the Bank to take financial services to customers in all provinces of the nation. The space at the head office includes horizontal and vertical space in the area of 29,344 sq. ft.; moreover, the Bank holds and manages a collective branch space of 105,524 sq.ft.

During the financial year under review, the Ambalangoda branch was relocated with the aim of providing services from a spacious branch office. Additionally, the branch at Tissamaharama was refurbished and re-opened with the purpose of enhancing customer experience through sophisticated and improved facilities. In 2020, the Bank spent a total of Rs.1.1 Mn. in refurbishments of branches in addition to expenditure on equipment.

Moreover, the Bank aims to increase its branches in the future. However, HDFC Bank has faced certain limitations in the past, which it hopes to overcome by achieving business growth and minimised operational expenditure, while increasing other income. The Bank's PPE also includes a freehold property worth Rs.9.7 Mn.

Over the years, the Bank prudently invested in and will continue to incur expenditure on assets such as office related tools and equipment, machinery, IT hardware, furniture and fittings. The Bank expended Rs.22 Mn. on office equipment and furniture fittings in addition to incurring an additional investment of approximately Rs.33 Mn. on computer and other equipment.

Annual Depreciation Rs. Mn.



Tech Infrastructure

The Bank transitioned to a modern SD-WAN (Software-Defined Wide Area Network) in 2020, making it the central architecture behind its modernisations and IT-based growth. Branch connectivity is now at its optimum since the transition, connecting all 39 branches with the head office. This now allows real-time transfer of large data volumes. The implementation also enabled the automation of the disaster recovery system, ensuring business continuity.

The annual maintenance cost of IT infrastructure, which includes both hardware and software components amounted to Rs.65 Mn. in 2020, demonstrating the increasing investments allocated to transform the Bank to a technologically modern and interconnected operation. During 2020, the Bank spent over Rs.40 Mn. as expenditure on computer hardware and software.

Automated Teller Machines

Using the Bank's ATM card customers can access over 5,075 ATMs dispersed across the country.

Intangible Assets

Although they cannot be classified as manufactured capital per se, software and online platforms enable the Bank to process financial products, taking a central role in providing an efficient service to both internal and external customers.

In an effort to modernise and digitise both front-end and back-end operations, HDFC Bank is strategically investing in software for the development and growth of the Bank. In order to stay in line with industry modernisations, the Bank will continue to invest in software, obtained from recognised vendors, while ensuring maximum data security and compliance to CBSL security guidelines.

Capital Reports

Natural Capital



Although negligible in its impact on the environment, the Bank's focus for the report was to present those activities which carry some level of impact on the natural environment. As a bank committed to empowering communities HDFC Bank believes that it has a significant responsibility towards adopting sustainable business practices and in nurturing the environment.

HDFC Bank is gradually increasing commitment to integrating considerations to decisions and operations in order to minimise the impact it has on the environment. As a key step in this direction, the Bank became a signatory to the Sustainable Banking Principles (SBP). The Sri Lanka Banks' Association (SLBA) launched the SBP in 2015 with its core purpose as sustainable economic growth with banks positively impacting development and protection of communities and the environment.

Recycling and Managing Waste

The Bank recycles its newspapers, used papers and cartridges, ensuring that these resources are both properly disposed and reused. The Bank contributed to reducing usage of paper with the adoption of the e-meeting management system through 'Board PAC'. In addition, approvals are taken via e-mails. Papers, with only one used side are reused for internal purposes.

Energy Conservation, Efficiency and Renewable Energy

As a responsible corporate citizen, HDFC Bank has taken certain proactive measures in conserving energy and in improving energy efficiency to some extent. At the Fort Head Office, measures are taken to manage needless energy consumption of equipments such as personal computers, lights and air conditioners by adopting a centralised, floor-wise electricity power management system that automatically switches off equipment after office hours. This strategy sets the foundation for increasing energy conservation and efficiency, in the future.

Air conditioners operate at an optimum level of 24 in an effort to conserve energy usage and maximise efficiency of power. In addition, all light bulbs are being converted to LED bulbs for maximum savings in energy and cost. Furthermore, the Bank has taken measures to minimise fuel usage by reducing travel distance by office vehicles.

The loan origination system, implemented in 2020, resulted in the elimination of transporting and couriering documents. Although not a direct contribution, this has reduced unnecessary transportation of documents, which contributes to less carbon emissions.

The Bank has invested in 84 solar panels, installed at the Hyde Park Corner Branch. The panels help power branch operations a 100 per cent, at present. Implemented as an experimental project, this success of the initiative will be replicated in other branches, commencing with Kalutara and Amapara offices in 2021.

Nurturing Nature

Although insignificant in number, Bank branches distributed trees among customers, contributing to nurturing Mother Nature, in a small manner.

Governance and Risk

Chairperson's Statement on Compliance

It is with great pleasure, that we present our Corporate Governance Report 2020.

Our Approach

The Annual Report of the Board of Directors on the Affairs of the Company has been expanded to enlarge disclosures on the Bank's Corporate Governance practices. A more detailed report on Corporate Governance forms part of the suite of reports produced by the Bank and is included within the Annual Report.

The stewardship exercised by the Board, necessitates upholding high standards of Corporate Governance and ensuring accountability, fairness, and transparency throughout the Bank. The Board ensures that the Bank's Corporate Governance framework remains robust and relevant in a highly regulated industry and challenging business environment. Industry regulations and internal policies, underpin the governance framework, which is regularly reviewed to adapt to internal developments and benchmarked against international best practices.

Reporting

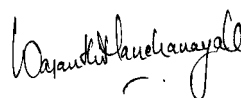
Accordingly, HDFC Bank on mandatory basis, has adopted the BANKING ACT DIRECTION NO. 12 OF 2007, (and subsequent amendment thereto) as applicable to the Licensed Specialised Banks, issued by Central Bank of Sri Lanka. Our compliance status is reported, in SECTION ONE OF THE CORPORATE GOVERNANCE REPORT.

In addition, HDFC Bank adopted the CODE OF BEST PRACTICE on Corporate Governance, issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka 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 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

At Colombo, Sri Lanka
21st May 2021

Corporate Governance

HDFC Bank considers good corporate conduct, vigilance and accountability critical for the health and sustainability of the Bank. As a Licensed Specialised Bank (LSB), the Bank is committed to maintaining compliance to governance directions mandated by the Central Bank of Sri Lanka. As a listed entity, HDFC Bank also has a duty and obligation to remain compliant to the guidelines of the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka – all of which remained complied with for the year 2020.

By adhering to the governance framework the Bank is able to make decisions that honour the expectations and interests of all regulators and stakeholders. As a financial intermediary entrusted with securing public funds and financial interests, sound governance practices is a means of upholding public confidence in HDFC Bank.

The Board and Subcommittees bolster compliance to the governance framework and regulatory directives, as they regularly review compliance to such requirements and governance practices. The governance framework and compliance requirements are also upheld and guided by values of being ethical and transparent. This adherence and respect for responsible governance practices enables the Bank to take prudent decisions on all key areas of managing the Bank's operations and business objectives.

(Regulatory compliance according to each relevant section is presented in the compliance section in pages from 89 to 118)

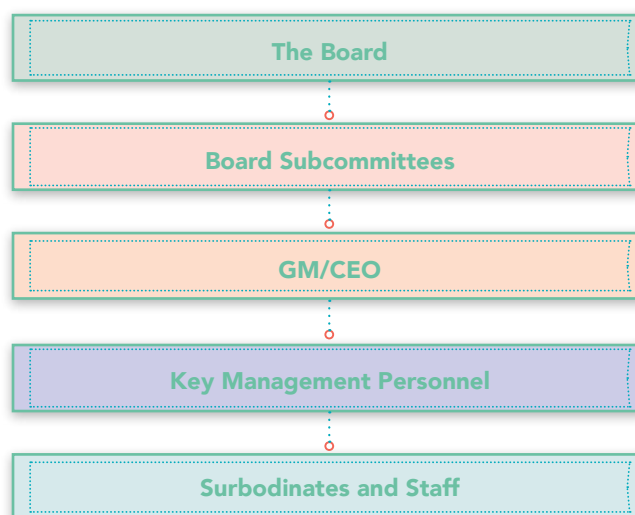
Governance Highlights

Board Charter

On the 29th of January 2020, the Bank adopted a Board Charter. The Charter provides clear delineations of the responsibilities and levels of authority pertaining to the Board, the Board Subcommittees and key management personnel. It sets out directions for balanced distribution of power, setting the backdrop for enhanced governance and accountability. The Board Charter sets in detail the scope and responsibilities of the Board, in addition to relevant provisions applicable for the Chairperson, and relevant provisions for the Board Subcommittees. It also sets in detail management related responsibilities, succession and remuneration and Board-delegated functions.

Governance Structure

Providing long-term sustainability for the Bank's operations the Board Charter clearly identifies the Bank's governance structure, as follows.

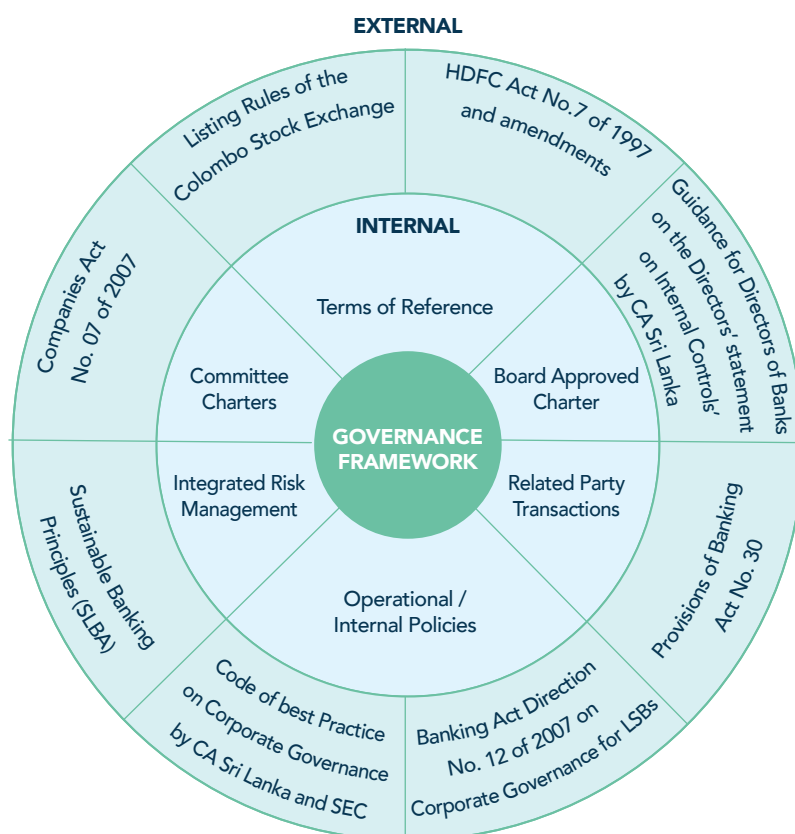


The overall oversight for the Bank's operations and undertakings rests with the Board of Directors. Board members are also part of five Subcommittees that provide supervision and direction on areas of strategic importance.

Corporate Governance

Governance Framework

The Bank, in its effort to secure stakeholder interests remain in compliance with both internal and external regulatory frameworks, standards and codes. As a Licensed Specialised Bank, the Bank is required to remain compliant to the following laws and regulations. The newly adopted Board Charter, honours external laws and regulations and does not in any way contend or contradict such regulations, statutes and directives.



Compliance to Other Legal Statutes

The Bank also complies with the following legal statutes and regulations pertaining to finance, accounting and monetary transactions.

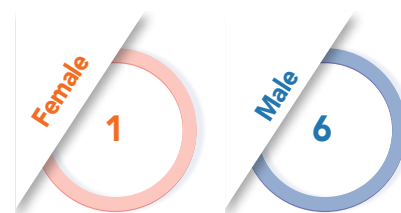
- The Housing Development Finance Corporation of Sri Lanka Act No. 7 of 1997 (amendment Act No. 15 of 2003 and Act No. 45 of 2011)
- Monetary Law Act No. 58 of 1949
- Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995
- Prevention of Money Laundering Act No. 5 of 2006
- Financial Transactions 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
- 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 and amendments to such acts

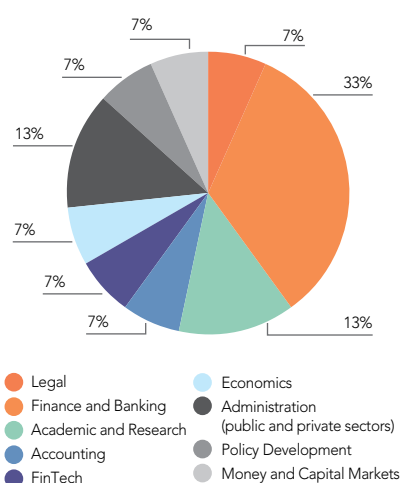
The Board Composition

The Board of HDFC Bank comprises solely of Non-Executive Directors and as at December 2020, consisted of seven Directors. The Directors of the Board are a group of highly competent professionals, with a range of knowledge, skills and experiences making them adequately competent in discharging responsibilities.

Gender Analysis



Experiencial Diversity %



Training

During the year 2020, the Board of Directors underwent training through a workshop on AMI/CFT obligations for Board of Directors of the Licensed Banks, organised by the Central Bank

(Financial Intelligence Unit-Sri Lanka).
Names of Directors who participated
are as follows:

1. Mrs. R.M.R.W. Manchanayaka
(Chairperson)
2. Senior Prof. K.D. Gunawardhana
3. Dr. S.N. Morais
4. Mr. P.A.S.A. Kumara
5. Mr. L.E. Susantha Silva
6. Mr. D.M.A.K. Dassanayake

Board Meetings

The Board meets each month with the exception of meetings scheduled if and when a matter of strategic importance arises. In total 17 Board meetings were held in 2020. 14-day prior notice is given to all Board members. Board may agree to waive off this time period for special or urgently required Board meetings. An agenda of matters to be discussed at each meeting is provided to the directors, prior to the meeting.

In 2020 a new e-meeting management system was implemented by deploying 'Board PAC'. The system now enables documents and feedback that's digitalised for convenience and archiving purposes. It is highly secure, ensured with data encryption and adaptable security policies. Board-PAC also supports quick decision-making and reduces the need for sharing physical documents, as the solution enables real-time updating of documents on mobile tablets.

Attendance at Board and Subcommittee Meetings (Attendance/Eligibility)

Names	Directorship Status at 31/12/2020	Board Meetings Participated	Nomination Committee Meeting	Human Resource/ Remuneration Committee	Integrated Risk Management Committee	Board Audit Committee	Related Party Transaction Monitoring Committee
Mrs. R.M.R.W. Manchanayake	Non-Executive Independent Director / Chairman of the Board	16/16	05/05	04/04	01/01	-	05/05
Senior Prof. K. D. Gunawardana	Non - Executive Independent Director	17/17	01/01	04/04	-	06/06	-
Dr. S.N. Morais	Non-Executive Independent Director	15/17	01/01	01/01	03/04	05/06	01/02
Mr. P.A.S.A. Kumara	Non-Executive/ Independent Director	12/12	04/04	03/03	02/02	04/04	-
Mr. L.E. Susantha Silva	Non-Executive Independent Director	09/09	02/02	01/01	02/02	02/02	01/01
Senior Prof. A. Jayamaha	Non-Executive Independent Director	09/09	01/01	03/03	02/02	02/02	01/01
Mr. D.M.A.K. Dassanayake	Non-Executive Non-Independent Director	08/09	-	-	-	-	03/03
Mr. D.M.S. Abayagunawardana (Retired)	Non-Executive Independent Director	03/03	-	-	-	-	-
Mr. Rohan De Silva (Retired)	Non-Executive Independent Director	02/03	-	-	-	-	-
Mr. N. Wijeyanathan (Retired)	Non-Executive Independent Director	05/06	-	-	02/02	-	-
Mrs. R.A. Chulananda (Retired)	Non-Executive Independent Director	08/08	02/02	01/01	-	01/02	02/02

Corporate Governance

Responsibilities of the Board

Committed to strengthening sound governance and operations of the Bank, the Board approves and oversees the Bank's strategic objectives and corporate values.

- The Board decides on the Bank's business strategy including overall risk policy and risk management procedures/mechanisms and quantifiable goals, for a time period of at least three years.
- The Board defines areas of authority and responsibility for themselves as well as for the key management.
- The Board is responsible for reviewing the adequacy and integrity of the Bank's internal control and management information systems.
- The Board has oversight and responsibility in identifying and designating key management personnel, in line with CBSL directions.
- The Board ensures that key management personnel maintain apt oversight on the Bank's affairs, in line with Board policy.
- The Board meets regularly to review policies, establish communication lines and monitor the progress towards objectives.

Nominations and Appointments

The Nomination Committee oversees the implementation of policies and procedures for the selection and appointment of new directors.

Similarly, the Nomination Committee sets out criteria and attributes required for eligibility to be considered for appointments and promotions to the post of CEO and key management positions. The Committee also considers and recommends (time to time) additional or new expertise and succession plans for retiring directors and key management personnel.

Re-election

The Nomination Committee makes relevant recommendations in re-electing existing directors taking into consideration relevant criteria, and in accordance with HDFC Act No. 07 of 1997. The process is done through a transparent manner with candidates being evaluated prudently. The Nomination Committee takes into account performance and contributions made by the directors in discharging responsibilities.

Declaration

Each director prior to accepting duties is required to sign a declaration pledging confidentiality and secrecy of the Bank and its matters, pledging that he will not divulge any information pertaining to transactions, unless certain

exceptions arise, as stipulated under section 34 of the HDFC Act.

Board Appointed Subcommittees

For the purpose of strengthening governance and in handling committee-specific subject matters, five Board Subcommittees are set in place. The Committees meet on a regular basis and report directly to the Board. These respective Committees have adopted terms of reference as per CBSL directions.

- Audit Committee
- Human Resource and Remuneration Committee
- Integrated Risk Management Committee
- Nomination Committee
- Related Party Transactions and Review Committee

The Roles of Chairperson and CEO

In adopting and adhering to best practices in Corporate Governance, the roles of Chairperson and CEO are separated to ensure the right balance in power. The functions and responsibilities of the Chairperson and the CEO align with the directives of CBSL, the HDFC Act and the Board Charter.

As per the Board Charter, the CEO of HDFC Bank is the Apex Executive in charge of daily management of Bank's operations and business. The Chief Executive Officer also functions as the General Manager of the Bank. The Chairperson provides leadership to the Board, ensuring that the Board discharges responsibilities and works effectively.

Company Secretary

The Board appointed Company Secretary provides advice and services to all directors. Appointed by the Board, the Company Secretary maintains minutes of Board meetings as stipulated under CBSL guidelines. According to CBSL directives on corporate governance, the Company Secretary has responsibility in providing secretariat services to the Board and shareholder meetings and carry out functions mandated under statutory regulations. All directors should have access to the Company Secretary's professional advice and services. She is also expected to maintain records with access to previous meeting minutes and Board papers.

The Company Secretary fulfils a vital role in assisting with aspects of Corporate Governance by providing assistance to the Chairperson, in conducting AGMs and EGMs in accordance with relevant regulatory directives and the Board Charter. She is also responsible for maintaining communications with regulators.

Compliance Review

The compliance status of the HDFC Bank for the financial year 2020 with regard to the corporate governance framework 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 Specialised 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)	The board approval of the Bank's strategic objectives and corporate values. 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 2020 budget was prepared based on the Corporate Plan and both were discussed and communicated throughout the Bank. Further Board approved Strategic Plan 2021-2025 is in place which has been approved in 2020.
b)	The board approval of the overall business strategy of the Bank. The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. 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. Further the Activity plan for the year 2021 approved by the Board on 31st March 2020 Internal Capital Adequacy Assessment Process (ICAAP) Risk Policy, Risk Appetite Framework have been approved by the board in line with the corporate plan.
c)	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. The Integrated Risk Management Committee sets governance structure for implementing, monitoring and managing the principle risks.
d)	The board has approved and implemented a policy of communication with all stakeholders, including deposits, creditors, shareholders and borrowers.	To Be Complied Board approved communication policy is not in place. However, the Bank has the website and other communication channels to communicate with different stakeholder groups of the Bank.
e)	The board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information system.	Complied with Audit Committee and the Board reviewed the periodic reports of Internal Audit, which explained the Internal Control systems and management information system necessary measures to address the findings.
f)	The board has identified and designated key management personnel, as defined in the CBSL guidelines, 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.
g)	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.

Corporate Governance

Section	Requirement of Corporate Governance	Level of Compliance
	h) 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 is vested in the 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 2020. Further Key Management personnel are called for Board meeting if any clarification need. Key responsibilities of the KMPs are specified in their respective job descriptions and authority of Key Management Personnel are defined under delegation authority limits.
	i) 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 2020 was carried out in January 2021 and a summary was submitted to the Board on 24th February 2021 for their review and to discuss areas of weaknesses and to recommend changes where necessary. Policy was adopted for recruitment and promotions of employees including KMP in 2019.
	j) 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 14 Feb 2019, which was revised on 21.10.2019.
	k) 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) 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 The board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.
	m) 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, as 51% of the ownership of the Bank is vested with State- owned enterprise.
3(1)(ii)	The board has appointed the Chairman and the Chief Executive Officer (CEO). 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 in accordance with the HDFC Act. Whilst the General Manager/Chief Executives Officer has been appointed by the Board. Their functions and responsibilities are clearly defined in the HDFC Act. The Board adopted a Board Charter on 29th January 2020 which defines the Governance framework of HDFC.
3(1)(iii)	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. 17 Meetings were held during the year 2020.

Section	Requirement of Corporate Governance	Level of Compliance
3(1)(iv)	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 after consulting with the Chairman and the Secretary.
3(1)(v)	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)	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 meeting as given in the Annual Report 2020.
3(1)(vii)	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 Section 43 of the Banking Act No.30 of 1988. She is Responsible for the secretariat services to the Board and to carry out functions specified in the statutes and other regulations. Further, Board has appointed her as the Assistant General Manager – HR with effect from 24th December 2020 addition to her duties as Secretary to the Board.
3(1)(viii)	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.
3(1)(ix)	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 maintained and kept with the company secretary with access to the past board papers and minutes.
3(1)(x)	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; (d) 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. Such as (i). Business decision taken on particular subjects (ii). Resolutions passed on special subjects (iii). Recommendation on Board sub- committee reports (iv). Policy decisions on matters and review of performance.
3(1)(xi)	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 The Board is free to obtain independent professional advice on need basis.

Corporate Governance

Section	Requirement of Corporate Governance	Level of Compliance
3(1)(xii)	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. Has he/she been counted in the quorum for the relevant agenda item at the board meeting.	Complied with
3(1)(xiii)	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 on 26.07.2013 initially. Thereafter the authority matrix was reviewed and included in the Board Charter.
3(1)(xiv)	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 assure the Bank's position.
3(1)(xv)	The board has the Bank capitalised at levels as required by the Monetary board.	Partially Complied with Capital Adequacy Ratios were met by the Bank. The bank complied with minimum capital level of Rs.5 Bn. However, section 02 of the banking Act direction No. 05 of 2017 dated October 2017, bank has to comply with Rs.7.5 Bn. minimum capital requirement by 31.12.2020. However, it was extended to the end of 2022.
3(1)(xvi)	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 The Annual Report includes the Corporate Governance Report setting out the compliance requirement with the corporate governance direction issued by the Central Bank of Sri Lanka.
3(1)(xvii)	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 24th February 2021 and the Bank has a scheme of self- evaluation of directors in place and the Board Secretary annually obtains the evaluation forms from all the Directors.
3(2) The Board's Composition		
3(2)(i)	The board comprise of not less than 7 and not more than 13 directors.	Partly complied with Board comprised of not less than 7 Directors during the year 2020. However, said requirement was not fulfilled by the Bank up to July 2020.
3(2)(ii)	(a) 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 year-end 2020.
	(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 service as per CBSL requirement.
3(2)(iii)	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.

Section	Requirement of Corporate Governance	Level of Compliance
3(2)(iv)	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 07 Directors as at 31.12.2020. The Board comprised of adequate number of Independent Non-Executive Directors to comply with the direction during the current year.
a)	Holds a direct and indirect share holdings of more than 1 per cent of the Bank;	Not arisen
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.	Not arisen
c)	Has been employed by the Bank during the two year period immediately preceding the appointment as director.	Not arisen
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)	Not arisen
e)	Represents a specific stakeholder of the Bank.	Not arisen
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.	Not arisen
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.	Not arisen There is no such director appointed.
3(2)(vi)	The bank has a process for appointing independent directors.	Complied with All the directors of the Bank are Non-Executive.
3(2)(vii)	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 the directors of the Bank are Non-Executive.
3(2)(viii)	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 Composition of the Board and their information is disclosed in the Annual Report 2020.
3(2)(ix)	The procedure for the appointment of new directors to the board.	Complied with The appointments to the board are made according to section 03 of the HDFC Act. Further the Board Charter is applicable.

Corporate Governance

Section	Requirement of Corporate Governance	Level of Compliance
3(2)(x)	All directors appointed to fill a casual vacancy is subject to election by shareholders at the first general meeting after their appointment.	Not arisen Such a situation does not arise.
3(2)(xi)	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)	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. Also Central Bank of Sri Lanka assesses Fitness and Propriety of directors.
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. (A) The transitional provisions have been complied with.	Complied with There are no directors who are over 70 years of age. Not arisen Such a situation does not arise
3(3)(ii)	A person holds office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	None of the Directors hold directorship in 20 companies as on their declaration.
3(3)(iii)	Check that a Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka.	The company secretary monitors this requirement and there were no director or CEO appointed from another bank during the year 2020.
3(4)	Management functions delegated by the Board	
3(4)(i)	The delegation arrangements have been approved by the board.	Complied with
3(4)(ii)	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)	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)	The roles of Chairman and CEO are 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)	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. 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 and Bank has not designated any Director as Senior Director.
3(5)(iii)	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 2020.
3(5)(iv)	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. The Chairman provides leadership to the Board and ensures that the Board functions effectively in discharging its responsibilities.
3(5)(v)	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)	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 Board pack. Minutes of previous month's board meeting are distributed to the Board members and tabled at the subsequent board meeting for ratification/approval.
3(5)(vii)	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)	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)	The Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties.
3(5)(x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied with The AGM is considered as the forum to address shareholder matters.
3(5)(xi)	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 executive in charge of the day to day management of the Bank's operations as per the HDFC Act.

Corporate Governance

Section	Requirement of Corporate Governance	Level of Compliance
3(6)	Board appointed Committees	
3(6)(i)	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. The Board presents in its Annual Report, a report on each Committee on its duties, roles and performance.	Complied with Bank has established the following Board Subcommittees which directly report to the Board as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(V) of these directions (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)	The Chairman of the Committee is an independent Non-Executive Director and possesses qualifications and related experience.	Complied with Board has appointed an independent, Non-Executive Director as the Chairman of the Board Audit Committee with effect from 14th March 2019 and who has required qualifications as indicated under his profiles.
b)	All members of the Committee are Non-Executive Directors.	Complied with All the directors are Non-Executive. The Committee comprises of 5 Non-Executive Independent Directors throughout the year 2020.
c)	The Committee has made recommendations on matters in connection with: (i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the Central Bank guidelines issued to auditors from time to time; (iii) The application of the relevant accounting standards; and (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.	Complied with As per section 26 (2) of Housing Development Finance Corporation Bank Act No. 7 of 1997, the Auditor General is the External Auditor of the Bank. Complied with Committee has made recommendations on matters in connection with the implementation of the Central Bank guidelines issued to auditors from time to time. Not Applicable The auditor General is the external auditor of the Bank as provided in the constitution of the country. Therefore Bank has no role to play in the engagement of the External Auditors.
d)	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)	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)	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.	Not Applicable Sub-sections (3) and (4) of the section 13 of the Finance Act No. 38 of 1971 give discretionary powers to Auditor General to determine the scope and extent of the audit.

Section	Requirement of Corporate Governance	Level of Compliance
	g) 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	Complied with The committee reviews financial information of the Bank when quarterly and annual Financial Statements presented are to the committee. As CEO and CFO participate in BAC meetings clarifications are obtained on these areas when required.
	h) 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) The Committee has reviewed the external auditor's management letter and the management's response thereto.	Complied with Committee has reviewed the management letter for the year 2019 and responses thereto.
	j) 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 programme 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 Internal Audit Plan, which contains the scope and resources requirement, was reviewed by the BAC at the meeting held on 7th February 2020 under the minute No. AC/20/01/07. Complied with The IAD Annual Report contains the internal audit programme and it was reviewed by the BAC. IAD Annual Report 2019 was reviewed and 2020 is yet to be reviewed. Complied with The Audit committee has reviewed Annual Performance Appraisal Report of the Chief internal Auditor for the year 2019 and year 2020 is pending. Complied With Internal audit functions are independent of the activities it audits and directly report to the Board Audit Committee.
	k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied with The major internal Audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.

Corporate Governance

Section	Requirement of Corporate Governance	Level of Compliance
	l) 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) 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
	n) The committee has met, at least four times and maintained minutes.	Complied with Six (06) Audit Committee meetings had been held during the year 2020 and minutes maintained.
	o) 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 2020.
	p) 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 (08/53/HR/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) 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) The goals and targets for the Directors, CEO and the key management personnel are documented.	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, goals and targets (key performance indicators) for the Key management personnel was documented.
	c) 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

Section	Requirement of Corporate Governance	Level of Compliance
	d) 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)	Nomination Committee	
	a) The Committee has implemented a procedure to select/appoint new Directors, CEO and key management personnel.	Complied with The appointments to Board to be made according to provisions of the HDFC Act. Further Board Charter is also applicable. According to the Recruitment Policy, it includes selection procedure for General Manager/CEO and as per part III of 14 (1) HDFC Act.
	b) The Committee has considered and recommended (or not recommended) the re-election of current directors.	Complied with
	c) 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) 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 Declarations of Directors and CEO have been submitted to the CBSL through the Board.
	e) 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) 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 Two Non-Executive independent directors have chaired at the meeting. CEO shall participate meeting by invitation. However CEO has participated all meetings
3(6)(v)	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 Committee consists of Three Non- Executive Directors, and Key management personnel of the Bank such as CEO, COO, CFO ,CIA, Compliance Officer, Head of Treasury, Head of Credit and Risk Officer
	b) 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) 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.	Not Complied Management level committee meeting minutes were not reviewed by the IRMC to ensure adequacy and effectiveness of the committee.

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Section	Requirement of Corporate Governance	Level of Compliance
	d) 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 risks beyond the tolerance limits is being reviewed.
	e) How many times the committee has met at least quarterly.	Complied with The committee meets on quarterly basis and BIRMC has held Four (04) meetings during the financial year 2020.
	f) 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 and which is handled by the separate Board subcommittee namely being the BHRC There were 3 disciplinary cases settled in year 2020.
	g) 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 Minute submitted to the Board immediately after the Committee Meeting.
	h) 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 function of the Bank is headed by the Compliance officer and a compliance risk assessment report is submitted to BIRMC periodically by compliance officer.
3(7)	Related party transactions	
3(7)(i)	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 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. There was no amendment in 2020.
3(7)(ii)	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

Section	Requirement of Corporate Governance	Level of Compliance
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 favorable 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.
	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 favorable 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)	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 favor 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
3(7)(v)	a) 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 security.

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Section	Requirement of Corporate Governance	Level of Compliance
	b) 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) 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) 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)	There is a process in place to identify when the Bank grants any accommodation or "more favorable 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)	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 no any favorable treatment was offered to any related party has disclosed under Note 40 of Financial Statements.
3(8) Disclosures		
3(8)(i)	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 Bank prepares and publishes Financial Statements accordingly. Complied with Quarterly Financial Statements have been published in the newspapers in abridged form, in Sinhala, Tamil and English.
3(8)(ii)	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 Disclosure on compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made on the Statement of Directors Responsibility for Financial Reporting.

Section	Requirement of Corporate Governance	Level of Compliance
	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 The Annual Report includes the below mentioned reports where the Board confirms that the financial system has been designed provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done accordance with relevant accounting principles and regulatory requirements * Report of Board of Directors * Statement of Director's Responsibility for Financial Reporting * Directors Statement on Internal Control Over Financial Reporting
	c) 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 Auditor General's Assurance Report on Internal Control disclosed in the Annual Report 2020.
	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 Details of directors, including names, qualifications age and experience of Board of Directors has disclosed under Profile of the Board of Directors. As well as Fee /remuneration paid to the Board of Directors has been disclosed under Note to the Financial Statements in the Annual Report 2020.
	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 The net accommodations granted as percentage of bank's regulatory capital are given in Note No. 40 on Financial Statements in the Annual Report 2020.
	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 Details are given in Note No. 40.1 to the Financial Statements in the Annual Report 2020.
	g) The board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Complied with External Auditors Report on compliance with Corporate Governance Directions is included in the Annual Report 2020.
	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 The Statements' of Directors Responsibility for Financial Reporting clearly sets out the details regarding compliance with prudential requirements regulations laws and internal controls.
	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

Corporate Governance

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 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. She is an Attorney-at-Law.			
A 1.5 5. Independent Judgement	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			
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			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
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 40 to 47 and pages 124 to 127.			
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
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			

Corporate Governance

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
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 136.			
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 Directors 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			
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			
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 conducts performance evaluation at the time of re-election of Directors to the Board.			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
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 entitled 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 is responsible for assisting the Board with regard to the Remuneration Policy.			
B 1.2 37. Composition of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on pages 134 to 135 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

Corporate Governance

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
B.2 Level and make-up of the Remuneration				
B 2.1				N/A
41. Level and make-up of the remuneration of both Executive and Non-Executive Directors				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.				
B.3 Disclosure of Remuneration				
B 3.1	Complied with			
51. Disclosure of Remuneration	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	Complied with			
52. Adequate notice of the AGM				
C 1.2	Complied with			
53. Separate resolution for all separate issues				
C 1.3	Complied with			
54. Use of proxy votes	The bank has a method of recording all proxy votes and proxy votes lodged by the shareholders on each resolution.			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
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.			
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.			
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 124 to 127 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 143 to 144 of the Annual Report.			
D 1.6 65. Management discussions and analysis	Complied with Please refer page 58 to 87.			
D 1.7 66. Summoning an EGM to notify serious loss of capital				N/A

Corporate Governance

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
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 page No. 128 to 129 and 140 to 141 for report on Directors' Statement on Internal Control and Risk Management Report respectively.			
D 2.1 68. Annual evaluation of the internal control system, Risk Management	Complied with Please refer page No. 128 to 129 and 140 to 141 for report on Directors' Statement on Internal Control and Risk Management Report respectively.			
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 No. 139 for Audit Committee Report.			
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 No. 139 for Audit Committee Report.			
D 3.1 73. Audit Committee Composition	Complied with Please refer page No. 139 for Audit Committee Report.			
D 3.2 74. Terms of Reference and Authority and Duties of the Audit Committee	Complied with Please refer page No. 139 for Audit Committee Report.			
D 3.3 75. Disclosures of the Audit Committee	Complied with Please refer the Board Audit Committee report on page No. 139 for membership.			
D.4 Related Party Transactions Review Committee				
D 4 Related Party	Complied with Please refer page No. 137 to 138 for Related Party Transaction Review Committee.			
D 4.1 76. RPT will be as defined in LKAS 24.	Complied with Please refer page No. 137 to 138 for Related Party Transaction Review Committee.			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D 4.2 77. Related Party Transaction Committee Composition	Complied with Please refer page No. 137 to 138 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 No. 137 to 138 for Related Party Transaction Review Committee.			
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				
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 exercising their voting rights.			
F 2.1 84. Individual Shareholder Voting	Complied with			

Corporate Governance

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 with work-in progress in adopting 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	Its covers areas such as 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 evaluated by the IT Steering Committee arranged each month.			
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				

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 40 to 47.			
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 134 to 135.			
7.10.5 (a) (ix) Separate Remuneration Committee	Complied with			
7.10.5.(a) (x) Chairman of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on pages 134 to 135.			
7.10.5 (b) (xi) Functions of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on pages 134 to 135.			

Corporate Governance

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable
7.10.5 (c) (xii) Names of the Directors in the Remuneration Committee	Complied with Please refer pages 134 to 135.			
7.10.5 (c) (xiii) Remuneration Policy	Complied with Please refer the report of the Human Resource and Remuneration Committee on pages 134 to 135.			
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. 11 of the Financial Statement on page 170.			
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			
7.10.6 (c) (xviii) Names of the Directors in the Audit Committee	Complied with Please refer page 139.			
7.10.6.(a) and 7.10.6 (c) (xix) Chairman of the Audit Committee	Complied with Please refer page 139.			
7.10.6 (a) and 7.10.6 (c) (xx) Chairman's qualifications	Complied with Please refer Directors profiles on pages 40 to 47.			
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.

Risk Management Report

Over the years, HDFC Bank strengthened its risk management framework, geared towards a culture where risk management is embedded in routine operations. Risk management is now integrated into the growth and strategic direction of the Bank ensuring that it is aligned with the Bank's strategic objectives and operational goals – making sound risk management a pillar that keeps the Bank's people cognisant of potential risks and risk mitigation mechanisms.

Assessing and managing risks across the Bank's operations, HDFC Bank continuously strengthens its risk management practices and measures to proactively mitigate any exposures to risk. With the pandemic and the imposed lockdowns, the impact of risk management on Bank's operations remained pertinent and vital. With the risks in non-performing loans being a key concern, the Risk Management Committee together with the risk department assessed and managed risks frequently, ensuring that the Bank's credit quality as well as compliance to regulatory factors remained on par with regulatory expectations and maintained at healthy, tolerable levels that safeguarded the Bank's overall stability.

Key Risk Challenges in 2020

Generally, the Bank faces risks that emanate from changes within the macro and micro environments. In 2020, the Bank had the unprecedented challenge of overcoming the shocks from COVID-19 pandemic, while keeping up with the underpinning challenges of technological advancements, advancing new banking products and increasing controls from the regulatory authorities. Moreover, the Bank's NPL ratio, increased to 20.2% from 13.6% in 2019, due to the economic downturn from lockdowns, which further aggravated the non-performing loan profiles due to uncertainties that surrounded several sectors of the economy.

The Bank is faced with overcoming the risk in non-performing loans due to the debt moratoriums and delayed debt payments. In addition, the Bank has the challenge of staving off the effects of the economic slowdown, which has resulted in subdued business growth for the Bank's SME and corporate customers. Nevertheless, the Bank's focus remained on strengthening key measures in minimising risks while providing financial services, which empower customers. During the year:

- The Bank provided moratorium facilities to over 43% of clientele, excluding EPF-backed loans.
- Accordingly, customers received a six-month moratorium in addition to a 12-month moratorium for leasing as well as tourism sector customers.

- Soft loans were provided for business entities as working capital loans, at times surpassing regulatory minimum requirements.
- Certain customers were also facilitated with convenient and affordable loan instalments with rescheduled housing loan repayments.
- Grace periods were offered for business clients until they regained proper business momentum and affordability.
- The Bank postponed auctioning properties and legal actions against defaulted loan customers, reducing duress during the economic downturn.

In strengthening risk management processes and capabilities, the Bank expedited several initiatives, both in the year under review and in recent years.

- Implementation of a Delinquency Management System (DMS) that sends regular reminders to customers, and is expected to improve collection processes significantly.
- Provided training to all relevant employees on the delinquency management system.
- Reinforced the risk management culture as a key focus on the Bank's five-year strategic plan.
- Aligning with the Bank's business and regulatory requirements, the integrated risk management framework was reviewed alongside risk policies and risk models.
- Conducted regular stress tests, identifying potential risks and vulnerabilities, to ensure the Bank's resilience in withstanding various micro or macro level shocks.
- Implemented an operational dashboard, in line with Key Performance Indicators (KPIs) and Key Risk Factor (KRFs) of the Bank to monitor branch operations efficiently and effectively.
- Revised impairment and provisioning policies in line with changes in the risk environment. This was done also in accordance with changes as per IFRS and Basel III.
- In 2019, the credit workflow was restructured ensuring healthy levels of control in credit approval. As per the restructure, loan requests above Rs.1.5 Mn. are now evaluated by the risk department. Centralised loan disbursement process helped to restrain high NPL ratios prior to the pandemic.
- The Bank now pursues a strong risk culture across loan screening and loan review mechanism. The Bank

Risk Management Report

also redefined prudential risk levels to reflect the existing risk appetite and tolerances in terms of risks surrounding NPL, credit, deposit, liquidity ratio, SLAR and capital adequacy, etc.

- The Bank adopted Risk Based Pricing (RBP) to assess risks that are behind lending, also helping to identify profiles that are of high quality and less risk.

While deflecting current and future risks to the financial position, the Bank continues to face the following challenges in proceeding with growth objectives.

- Fulfilling the minimum regulatory capital requirement of Rs.7,500 Mn.
- 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

Integrated Risk Management Framework

Integrating a risk management culture at the heart of the Bank, the Board Integrated Risk Management Committee deploys an integrated risk management framework. This enables the Bank with improved decision making and an integrated perspective of managing risks. This involves taking into account a comprehensive view of all departments and bank functions, as well as external impact on the Bank's stability and success. Through the IRMF, the Committee identifies, assesses, monitors and controls

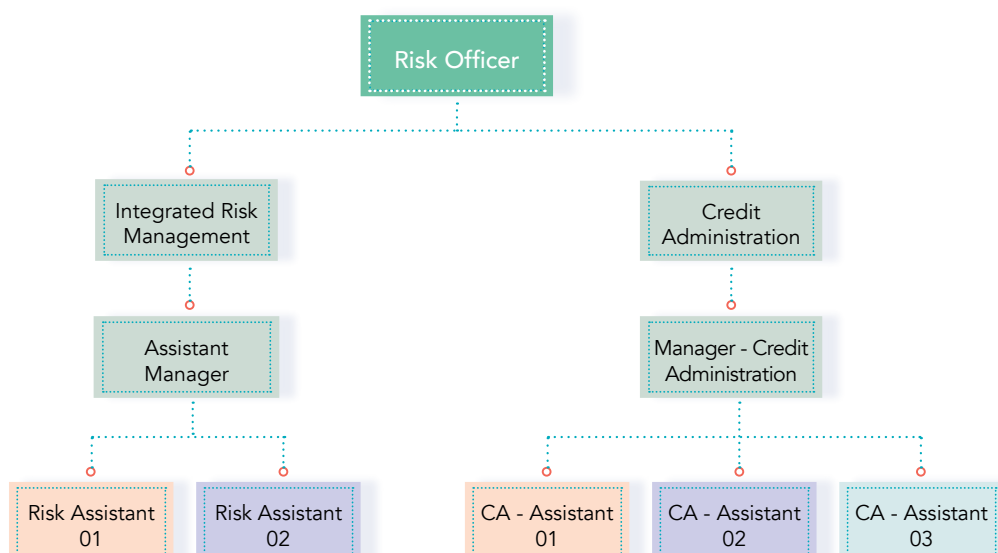
risks within the Bank's established risk appetite. The IRMF provides controls and standards in managing risks that are identified to have an impact to the Bank and provides practices to be put into effect when mitigating new risks.

Risk Management Culture

The Bank has taken necessary actions to infuse a risk management perspective into critical functions of the Bank. A proactive risk intelligence culture is now in effect, to identify potential risks that can affect Bank operations. This infusion of proactive risk management is essential to sustain our short, medium and long term growth objectives. With risk practices set in place, the Bank is averting potential risks while managing unexpected exposure, as seen during the pandemic and the resulting economic slowdown. Inculcating a culture where our employees are aware of risks associated with individual roles, they promptly escalate any issues to relevant senior authorities while handling them transparently and promptly.

Risk Governance Structure

The Bank's line of authority on governing facilitates a clear view of risk discussion and reporting. Risk management is headed by the Chief Manager (Risk Management), who plans the strategy in risk management and policy, providing oversight in maintaining a proactive and prudent risk control and management approach. The CEO and the senior executive team undertakes setting the long-term direction of the Bank's risk appetite, and applies risk controls when conducting operations. Overall oversight of risk management is reserved for the Board of Directors, who ensure that Bank's risk exposures are clearly and comprehensively evaluated, monitored and controlled by the management at all times.



A 'three-lines-of-defence' model underpins the roles and responsibilities needed for the effective management of all risks the Bank are exposed with.

Three Lines of Defence



Risk Department

The risk department is responsible for supervision and monitoring of risk management practices at operational levels. They continuously monitor the internal environment to ensure that parameters set out by the Board, BIRMC and other executive committees are adhered to at all operational levels. The department retains involvement in the development of product and business strategies and provides insights and feedback into new business lines from a risk management perspective.

The management committees ensure business and risk management at the second tier, whose responsibilities are set out in the Board Charters and Terms of Reference (TOR). The memberships in each committee assure the right balance between business and risk management.

At the highest echelon, the BIRMC, Board Audit Committee and Related Party Transactions Committee implements the functions of independent risk monitoring, validation, policy review and compliance.

Board Integrated Risk Management Committee (BIRMC)

The BIRMC oversees the risk management function and functions in accordance with the responsibilities set out in the Board-approved Charter. The Charter incorporates corporate governance requirements for Licensed Specialised Banks issued by the Central Bank of Sri Lanka (CBSL).

BIRMC is tasked with laying out risk management policies across the Bank. The committee meets during each quarter to review information on risk and risk exposures of the Bank. Reports on overall analysis of risk are overseen and matters are discussed pertaining to Bank's capital, risk appetite, risk limits, stress testing and any critical risks faced by the Bank. Moreover, such reports provide information on key areas of risks such as credit risk, market risk, liquidity risk, operational risk, information systems security risk, and compliance risk.

Risk Appetite

Identifying the risk appetites and tolerance levels enables the Bank to assess its capacity to withstand sudden shocks and changes within a rapidly diverging and volatile external environment.

Risk appetite is the level of risk the Bank is ready and willing to be exposed with, especially when realising the Bank's strategic objectives and goals. It identifies the level of risk the Bank is ready to undertake across all categories of major risks in addition to fulfilling regulatory requirements. Statutory regulations, borrowing covenants and the Bank's operational boundaries and external variants are considered when deciding the level of risk appetite.

With the Bank's clearly defined framework, the Bank has identified risk appetites and levels of tolerance under each areas of risk. Risk management is monitored within these predefined levels of tolerance. The Bank also conducts stress testing to ascertain the Bank's ability to withstand shocks from the external environment and from changes within the internal environment.

At times when the threshold of risk tolerance has been compromised or deemed to be undesirable by the Bank, measures to mitigate risks alongside internal controls are implemented to bring back exposure levels to a tolerable and acceptable range.

Risk Management Report

Stress Testing

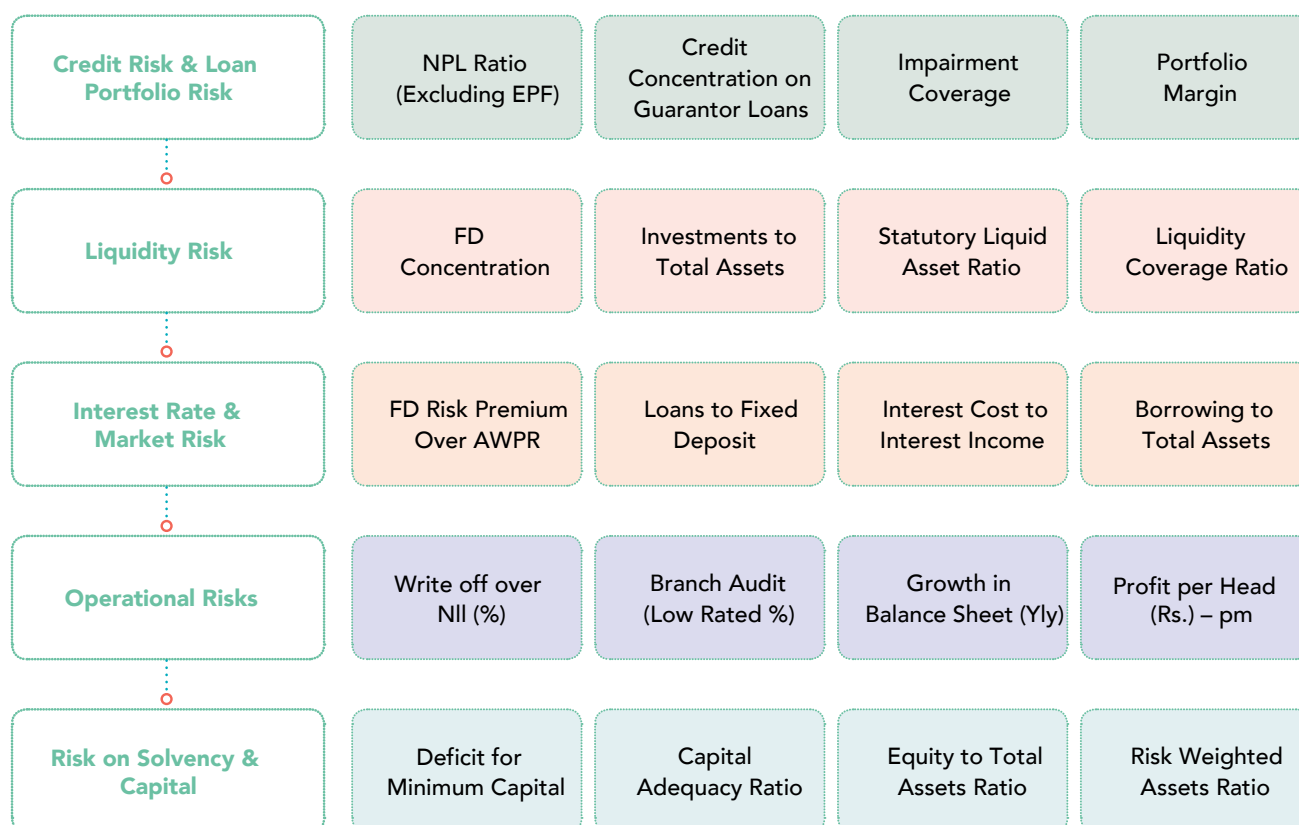
Stress testing is a fundamental and important tool in assessing the Bank's exposure and vulnerability to potentially adverse scenarios. A stress test is carried out on a quarterly basis on all major risk areas, in addition to quarterly conducted portfolio-specific stress testing for aspects that are significantly sensitive for the business. Such aspects and areas include credit, liquidity and interest bearing assets and liabilities.

Stress test results function as calibration in adjusting thresholds and in restating limits of risk appetite and tolerances. In assessing capital adequacy, regular stress tests are conducted in conjunction with the Internal Capital Adequacy Assessment Process (ICAAP). Results of stress tests are recorded with actions for mitigation of varying risk scenarios recorded in detail: a detailed report of which is reported to the Management Committees and the Board subsequently.

Risk Mapping

Risk mapping enables the Bank to mitigate risks that are relevant to the Bank's internal and external risk environments. A map demonstrating the severity and frequency of each risk factor is prepared and provides management with an overall look of risks providing them the necessary impetus to manage risks effectively. Mapping of risks also enables the Bank to obtain a holistic perspective of risks and in managing it.

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 risks, 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.



Key Risks

HDFC Bank has analysed and defined major risks that carry the potential to affect the Bank's ability to grow and develop sustainably. These risks are the pillars in devising and managing the risk management strategy. They are constantly scrutinised, while frequent improvements are integrated with the entire risk management framework based upon inspections and evaluations.

The Bank identifies credit and loan portfolio risk, liquidity risk, interest and market risk, operational risks and risk on solvency and capital as key associated risk categories. Risk areas are aligned with KPIs and key risk factors according to the Bank's operational dashboard.

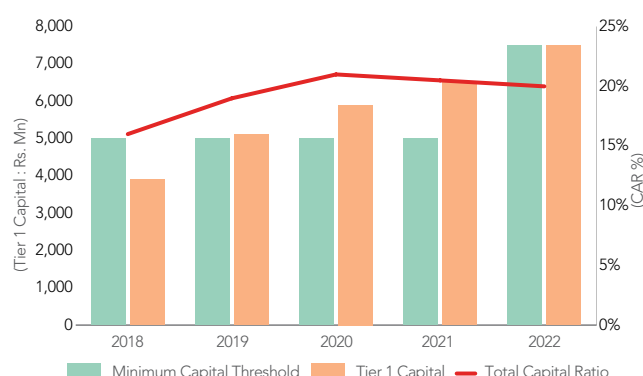
Scope and Main Content of Risk Reporting to Board and Senior Management

Risk	Scope
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 and reporting the Capital Adequacy Ratio
Credit risk	Pre Credit Risk Management Internal Credit Risk Rating for all loans above Rs.1.5 Mn. 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 and risk from external events Monitoring of IT system risks, legal risk, people risk

Risk	Scope
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 Adequacy

Having contributed to the minimum regulatory capital requirements in both 2019 and 2020 through an additional tier I (AT1) capital from a perpetual Government bond of Rs.250 Mn., and through internally generated profit respectively, HDFC Bank now faces the need for an additional Rs.1.5 Bn. in reaching the statutory capital threshold of Rs.7.5 Bn. The bank has time until end 2022 to fulfil this requirement, through internally generated profits/retained earnings.

Bank's Capital Infusion Plan Up To 2022

In achieving the gap in capital and for supporting accelerated growth, a five year strategic plan was developed, looking at growth objectives from multiple angles. This included revenue growth and profit increase, market and product diversification in order to achieve the said growth, which will lead to infusing the required capital within the next year.

In 2020, the Bank maintained a capital adequacy ratio of 20.67%, well above the statutory minimum of 12.5%. This demonstrates the Bank's commitment to maintaining a strong CAR and will be sustained in the coming year.

Falling in line with the supervisory review of process of BASEL III capital consortium, the Bank strengthened its Internal Capital Adequacy Assessment Process. The ICAAP provides a mechanism to evaluate the Bank's capital adequacy considering each underlying risk, alongside internal and external shock absorptions.

The Report of the Directors

The Board of Directors of HDFC Bank, with great pleasure, present the Annual Report to its shareholders, together with the Audited Financial Statements for the financial year 2020 and the Auditor's Report for the period under review.

01. GENERAL

HDFC is a public quoted Licensed Specialised Bank under the Banking Act No. 30 of 1988. Up to 10th December 2019, the Bank remained under the Ministry of Housing and Construction and was thereafter attached to the Ministry of Finance, Economy and Policy Development.

As already stated, the ANNUAL REPORT covers the financial year 2020 (1st January to 31st December, and is prepared in accordance with the statutory, regulatory requirements and prevailing accounting best practices.

Further, the 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 are required to ensure the best interest of the shareholders and 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 engages 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 12 of the Annual Report.

The Chairperson's Message (pages 30 to 33) and GM/CEO's review (pages 34 to 37) 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 of the financial year 2020 and operational results are given in the Income Statement from pages 152 to 153. 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 2020 forms an integral part of the Annual Report of the Board of Directors.

Financial Statements of the Bank are given on pages 152 to 191 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 157 to 166 of the Annual Report. The impact of changes in equity is given on page 156 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 145 to 151 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.

09. INCOME

The income of the Bank for the year ended 31st December 2020 was Rs.7,856 Mn. And an analysis of the income is given in Notes 01 to 02 and 05 to 07 to the Financial Statements.

10. PROFIT AND APPROPRIATION

The profit before income, Tax and VAT on Financial Services of the Bank for the year ended 31st December 2020 was Rs.1,381 Mn. and the profit after tax for the year ended 31st December 2020 was Rs.708 Mn.

For the year ended 31st December 2020	2019 Rs. Mn.	2020 Rs. Mn.
VAT, DRL & NBT on financial services	470	313
Provision for taxation	299	360
Profit on ordinary activities after tax	476	708
Retained profit /(accumulated losses) b/f	3,275	3,680
Profit available for appropriation	476	708
Appropriation First & Final Dividend proposed	-	16
Transfer to Reserve Funds	71	106
Retained Profit carried forward	3,680	4,266

11. RESERVES

The total Reserves as at 31st December 2020, is Rs.4,820 Mn. The details are given in the statement of Financial Position, on notes 35 to 37 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 2020 has been provided at 28% on the taxable income arising from the operations of the Bank and has been disclosed in Note 13 to the Financial Statements on page 171 of this Annual Report.

15. DIVIDEND

The Directors recommended a dividend payment (final) of Cents Twenty Five (Rupees 0.25) per share for the year 2020, (subject to obtaining a solvency certificate from the Auditor General), and obtaining the approval of the shareholders for payment of dividend at the Annual General Meeting. The cost of dividend is Rs.16.178 Mn. (approximately).

16. PROPERTY, PLANT AND EQUIPMENT, FREEHOLD PROPERTY

Capital expenditure on Property, Plant and Equipment amounts to Rs.55 Mn., the details of which are given in Note 20 of the Financial Statements on pages 176 to 178.

17. MARKET VALUE OF FREEHOLD PROPERTIES

Details of the market value of freehold properties are given on Note 20.2 of the Financial Statements on page 178.

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 2020 was Rs.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 198 to 200 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 the relevant Chapter on Board of Directors on pages 38 to 47 for full list of Directors of the present Board 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.	Mrs. R.M.R.W. Manchanayake	02/01/2020 (Appointed as the Chairperson of the Board)	-
02.	Mr. P. A. S. Athula Kumara	11/03/2020	-
03.	Mr. L.E. Susantha Silva	10/08/2020	-
04.	Senior Prof. A. Jayamaha	10/08/2020	-
05.	Mr. D.M.A.K. Dassanayake	10/08/2020	-

The Report of the Directors

No.	Name	Appointments during the review period	Resignations during the review period
06.	Mr. D.M.S. Abayagunawardana	11/02/2020	14/08/2020
07.	Mrs. N. R. Anees	-	06/01/2020
08.	Mr. Rohan De Silva	-	01/03/2020
09.	Mr. N. Wijeyanathan	-	29/06/2020
10.	Mrs. R.A. Chulananda	-	13/08/2020

23. BOARD SUBCOMMITTEES

As stipulated under the Corporate Governance Directives of the Central Bank of Sri Lanka, Colombo Stock Exchange, etc. relevant Subcommittees were appointed and the membership, duties, responsibilities and performance of the above Subcommittees are given on pages 134 to 141 of the Annual Report.

24. DIRECTORS MEETINGS

Please refer the section on Board and Board Sub Committee attendance at meetings, on page 91.

25. DIRECTORS' 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, given on pages 143 to 144 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 190 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:

	31/12/2020	01/01/2020
Mrs. R.M.R.W. Manchanayake	Nil	Nil
Senior Prof. K. D. Gunawardana	1,000	1,000
Dr. S. N. Morais	1,000	1,000
Mr. P. A. S. Athula Kumara	Nil	Nil
Mr. L.E. Susantha Silva	1,000	Nil
Senior Prof. A. Jayamaha	1,000	Nil
Mr. D.M.A.K. Dassanayake	Nil	Nil
Total	4,000	2,000

28. DIRECTORS' INTERESTS IN DEBENTURES

Individual debenture holding of Directors were as follows:

As at December 31st, 2020	2020	
	No. of Debentures	Value (Rs.)
Mrs. R.M.R.W. Manchanayake	Nil	Nil
Senior Prof. K. D. Gunawardana	Nil	Nil
Dr. S. N. Morais	Nil	Nil
Mr. P. A. S. Athula Kumara	Nil	Nil
Mr. L.E. Susantha Silva	Nil	Nil
Senior Prof. A. Jayamaha	Nil	Nil
Mr. D.M.A.K. Dassanayake	Nil	Nil
Total		

29. RELATED PARTY TRANSACTIONS

Board wishes 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 190 of the Annual Report.

30. DIRECTORS' REMUNERATION

Directors' remuneration, for the financial year ended 31st December 2020 is given on Note 11 to the Financial Statement on page 170.

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 119 to 123.

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 139 and Independent Auditors Report on pages 130 to 131 on Internal Controls.

33. CORPORATE GOVERNANCE

Please refer Corporate Governance report given on pages 89 to 118 as required by Corporate Governance Directions for Licensed Specialised 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 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.2.2 Mn. for the year ended 31st of December, 2020 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.

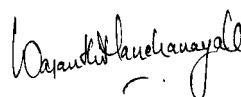
37. AUDIT COMMITTEE

The composition of the Audit Committee and their report is given on page 139 of this Annual Report.

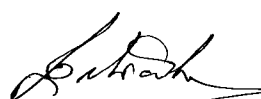
38. NOTICE OF MEETING

The 36th 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 2020, 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
21st May 2021

Directors' Statement on Internal Control over Financial Reporting

Responsibility

In line with the Banking Act Direction No. 11 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 PLC ('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 Control 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

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- 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 all 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 updates on audit activities and the scope and adequacy of coverage of the approved audit plan and any improvements thereto, and has detailed discussions on any unsatisfactory audits, reviewing the action plans to address these areas and the implementation status.
- 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 139.
- 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.

- The Board took necessary steps to implement the requirements of the Sri Lanka Accounting Standard – SLFRS 9 on ‘Financial Instruments’. The required models have been implemented and processes and controls have been designed. Also adequate training and awareness sessions have been conducted to all stakeholders including the Board and Senior Management. The Board will continuously strengthen the processes and controls around management information systems and reports required for validation and compliance in line with SLFRS 9; and Financial Statement disclosures related to risk management.
- In 2020, the Bank further strengthened its internal control processes to ensure that the impact of the COVID-19 debt moratorium on interest income and impairment provisions were accurately captured in the financial reporting. The Management also ensured that all critical reconciliations were performed without interruption during the lockdown periods.

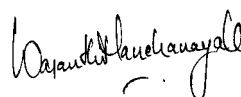
Confirmation

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 31st December 2020 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 130 to 131 of this Annual Report.

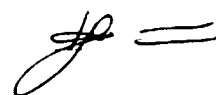
By order of the Board,



Mrs. R. M. R. W. Manchanayake

Chairperson

21st May 2021



Senior Prof. K.D Gunawardana

Chairman Audit Committee

21st May 2021



Mr. Palitha Gamage

Chief Executive Officer

21st May 2021

Colombo

Assurance Report of the Auditor General on Internal Controls



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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எனது இல.
My No.

BAF/ 01/C/HDFC/IC/20/27

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உமது இல.
Your No.



දිනය
திகதி
Date

19 May 2021

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 2020.

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.

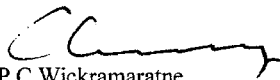
The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

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.

The procedures selected depend on my judgement, having regard to my understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion,

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



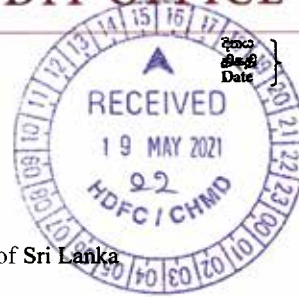
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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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எனது இல.
My No.

BAF/ 01/C/HDFC/CG/20/28

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உமது இல.
Your No.



දිනය
திகதி
Date

19 May 2021

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 2020.

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.



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 Subcommittee Reports

Board Human Resources and Remuneration Committee

Composition and Meetings

The Committee appointed by the Board of Directors. The members of the Committee have wide experience and knowledge of HR, Marketing, Finance etc.

The Committee met four (04) times during the period under review.

The following Directors serve/served on the HR & Remuneration Committee;

Committee Members and attendance details of Meetings held during 2020 are as follows:

Director	Duration (in the committee)	Eligible to attend	Attended
Mrs. R.M.R.W. Manchanayake Chairperson of the Committee (Non-Executive, Independent Director)	Appointed on 29th January 2020	4	4
Senior Prof. K.D. Gunawardana (Non-Executive Independent Director)	Appointed on 29th July 2019	4	4
Mr. P.A.S. Athula Kumara (Non-Executive Independent Director)	Appointed on 31st August 2020	3	3
Senior Prof. A. Jayamaha (Non-Executive Independent Director)	Appointed on 31st August 2020	3	3
Mrs. R.A. Chulananda (Non-Executive Independent Director)	Appointed on 26th September 2019 and Retired on 13th August 2020	1	1
Mr. L.E. Susantha Silva (Non-Executive Independent Director)	By invitation	1	1
Dr. S.N. Morais (Non-Executive Independent Director)	By invitation	1	1

Brief profiles of the Directors are given on pages 40 to 47.

Regular Attendees by Invitation

The General Manager CEO who is the responsible officer for the overall management of the Bank, the CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.

Secretary to the Committee

The Board Secretary performed as the Secretary to the Committee.

The Human Resources and Remuneration Committee, functions within agreed terms of reference and is committed to the principles of accountability, transparency and ensuring that remuneration structures are equitable and aligned with the industry, performance of the Bank and the long-term interests of the Bank and its shareholders.

Policy

The BHRRC is mainly responsible for articulating human resource and remuneration policies and for formulating strategies for effective human resource management of the Bank.

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 was successful in recommending several important policies related to the staff.

Key Initiatives Implemented in 2020

- The Committee made recommendations to the Board for Collective agreement with CBEU for Non Salary Benefits.
- The Committee recommended and implemented the Training plan for the Staff.
- The Committee made recommendations to implement the promotion Policy.

Employment Report

The Bank implemented new performance evaluation system for staff which is based on KPIs defined at the start of the year, the new system is expected to motivate all employees, to work towards performance oriented targets.

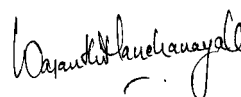
The table below reflects the employment report of the Bank as at 31st December 2020.

Category	Total as at 31st December
Corporate Management	11
Chief/Senior Managers	26
Regional Managers	5
Executive Staff	279
Non-Executive Staff (Secretaries, Banking Assistants, General purpose workers, Office Assistants, Drivers, Business Promotion Assistants, Junior Business Promotion Assistants, Business Promotion Trainees, Palmtop Assistants)	312
Total	633

(Women make up 37% and men make up 63% of our workforce.)

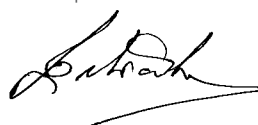
Conclusion

The Bank will continue to focus on introducing and strengthening HR Policies.



Mrs. R. M. R. W. Manchanayake

Chairperson



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

Company Secretary

At Colombo

21st May 2021

Board Subcommittee Reports

Board Nomination Committee

Composition and Meetings

The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors.

The Committee met five (05) times during the period under review.

The following Directors serve/served on the Nomination Committee;

Committee Members and attendance details of Meetings held during 2020 are as follows:

Director	Duration (in the committee)	Eligible to attend	Attended
Mrs. R.M.R.W. Manchanayake Chairperson of the Committee (Non- Executive, Independent Director)	Appointed on 29th January 2020	5	5
Mr. P.A.S. Athula Kumara (Non-Executive Independent Director)	Appointed on 31st August 2020	4	4
Mrs. R.A. Chulananda (Non-Executive Independent Director)	Appointed on 26th September 2019 and Retired on 13th August 2020	2	2
Mr. L.E. Susantha Silva (Non-Executive Independent Director)	By Invitation	2	2
Senior Prof. A. Jayamaha (Non- Executive Independent Director)	By Invitation	1	1
Senior Prof. K.D. Gunawardana (Non-Executive Independent Director)	By Invitation	1	1

Brief profiles of the Directors are given on pages 40 to 47.

Secretary to the Committee

The Board Secretary performed duties as the Secretary to the Committee.

Committee Responsibilities

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

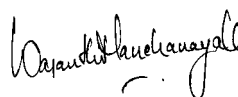
01. For implementing a procedure to select / appoint new Directors, CEO and Key Management Personnel.

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 as set 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.

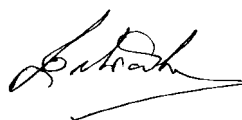
The Committee during the period under review took necessary initiatives according to the mandate of the Nomination Committee, as given above.

Key Activities in the 2020 financial year

- The Committee recommended following New Director appointments, during the year 2020,
- Mr. D. M. Sarath Abayagunawardana (Labour representative) Non-Executive Independent Director, Mr. P. A. S. Athula Kumara (Treasury representative) Non-Executive Independent Director, Mr. L. E. Susantha Silva (Non-Executive Independent), Senior Prof. A. Jayamaha (Non-Executive Independent) and Mr. D. M. A. K. Dassanayake (Non-Executive Non-Independent)
- The Committee made necessary recommendations to the Board, pertaining to the Annual Fit and Proper Affidavits of the Director Board and General Manager /CEO.
- The Committee made necessary recommendations to the Board, pertaining to the Promotion Policy implementation of Key Management Personnel (KMPs).



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



Mrs. K. T. D. D. De Silva
Company Secretary

At Colombo
21st May 2021

Board Related Party Transactions Review Committee

Composition and Meetings

The Committee comprises a combination majority of Non-Executive Independent Directors. One Independent Non-Executive Director has been appointed as Chairman of the Committee. Criterion for defining 'Independence' is the same criteria as set out in Rule 7.10.4 of the Listing Rules. (CSE Listing Rule – 9.2.2)

The following Directors serve/served on the Bank's Related Party Transactions Review Committee (RPTMC). Furthermore, the Committee met five (05) times during the period under review.

Committee Members and details of attendance at Meetings held during 2020 are as follows:

Director	Duration (in the committee)	Eligible to attend	Attended
Mrs. R.M.R.W. Manchanayake Chairperson of the Committee (Non-Executive Independent Director)	Appointed on 29th January 2020	5	5
Mr. D.M.A.K. Dassanayake (Non-Executive Non-Independent Director)	Appointed on 31st August 2020	3	3
Dr. S.N. Morais (Non-Executive Independent Director)	From 26th September 2019 to 30th August 2020 (Reconstitute of Committee)	2	1
Mr. L. E. Susantha Silva (Non-Executive Independent Director)	Appointed on 16th December 2020	1	1
Senior Prof. A. Jayamaha (Non-Executive Independent Director)	Appointed on 16th December 2020	1	1
Mrs. R.A. Chulananda (Non-Executive Independent Director)	Appointed on 26th September 2019 and Retired on 13th August 2020	2	2

Brief profiles of the Directors are given on pages 40 to 47.

Secretary to the Committee

The Board Secretary functions as the Secretary to the Committee.

The Related Party Transactions Review 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.

Policy and TOR of the Bank for Related Party Transactions

The Related Party Transactions 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 the Bank will not offer any favorable treatment to related parties. Further, it stipulated the procedure which has to be followed by the Bank in dealing with related party transactions, without any favorable treatment to related party, the Committee has to review the existing policy and TOR on a need basis and relevant revisions will be done accordingly.

Scope and Commitment

- The Committee is responsible for administering any conflicts of interest that may arise from related party transactions as stipulated by the statutory provisions and directions of regulators.
- To ensure that the Bank's engagements are conducted in a manner of best interest for the Bank, and to prevent Directors, Chief Executive Officers, Key Management or substantial Shareholders from 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 has adopted a Related Party Policy and its TOR for defining the RPT transactions of HDFC Bank. When dealing with related party transactions, the committee ensures there is no favorable treatment to related parties, and avoiding any conflict of interest.

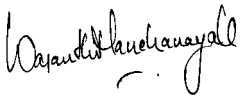
Board Subcommittee Reports

Board Related Party Transactions Review Committee

- 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 the 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 Personnel (KMP), Directors and their Close Family Members (CFM) in to the Bank's data collection system and the accuracy of such information.

Related Party Transactions in 2020

- Please refer to note 40 of the Financial Statement for Related Party Transactions during the period under review.
- The Bank did not enter into any related party transactions (any non-recurrent related party transaction or recurrent related party transaction as stipulated in section 9.3.2. of the listing rules), which must be disclosed in the Annual Report in the prescribed formats.



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



Mrs. K. T. D. D. De Silva
Company Secretary

At Colombo
21st May 2021

Board Audit Committee Report

The Audit Committee presents this report for the financial year ended 31st December 2020 to comply with the "Listing Rules" of Colombo Stock Exchange and the Corporate Governance Directions of the Central Bank of Sri Lanka and also to comply with the "Code of Best Practices on Corporate Governance" issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

The Committee comprises five (05) Non-Executive Independent Directors as at the end of the year.

- Senior Prof. K. D. Gunawardana
- Senior Prof. A. Jayamaha
- Dr. S. N. Morais
- Mr. P. A. S. Athula Kumara
- Mr. L. E. Susantha Silva

Audit Committee Meetings

Six (06) meetings were held during the financial year ended 31st December 2020 and attendance of Committee members at meetings is given in the Corporate Governance section of the Annual Report. The Chief Internal Auditor and Chief Finance Officer attended meetings on a regular basis. The Chief Internal Auditor functioned as the Secretary to the Committee. The General Manager / Chief Executive Officer and Other officials were invited to attend meetings on a need basis.

A representative of the National Audit Office (the External Auditor of the Bank) attends Board Audit Committee (BAC) meetings on invitation of the BAC.

Summary of Activities Performed During the Year

The Committee engaged with following key activities during the year under review.

- **Financial Reporting**
The Committee ensured the integrity of the Financial Statements, including the Annual and Interim Statements and any other formal announcements relating to financial performance by monitoring significant financial reporting issues, changes in accounting policies and practices and any other concerns relevant to Financial Reporting.
- **Internal Controls, Risk Management Systems and Compliance Requirements.**
The Bank's internal controls and risk management systems were kept under review by the Committee ensuring the procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards and to identify and manage all significant risks

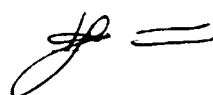
faced by the Bank. The Committee also oversaw compliance with the mandatory requirements and the systems and procedures to ensure fulfillment of such requirements.

- **Internal Audit Function**
The Committee reviewed the adequacy of the scope, functions and resources of the Internal Audit Division in the context of the Bank's overall risk management. The committee ensured that the internal audit function is independent of the activities it audits. The Committee reviewed, assessed and approved the internal audit plan. Appraisals of the Head of Internal Audit and senior staff were reviewed to comply with the statutory requirements.
- **External Audit and Other Statutory Audits**
The Committee reviewed findings of external auditors and statutory examinations conducted by the Central Bank of Sri Lanka and liaised with corporate management for taking proactive actions to obviate violations, frauds and errors.

The BAC also followed up on corrective measures taken by the management during the year 2020 on matters raised by Central Bank of Sri Lanka in Statutory Examination Report- 2019 and by the National Audit Office in Management Letter-2019.

Internal Financial Controls, Accounting Practices and Bank Financial Statements

Based on the work of the Bank's assurance providers, nothing has come to the attention of the Committee that indicates that the Bank's system of internal financial controls and accounting practices provide a basis for unreliable annual Financial Statements. The Committee is satisfied that the Bank's Annual Financial Statements are in compliance, in all material respects, with the requirements of the Companies Act and Sri Lanka Accounting Standards and recommended the Financial Statements for approval of the Board.



Senior Prof. K. D. Gunawardana

Chairman

Board Audit Committee.

5th April 2021

Board Subcommittee Reports

Board Integrated Risk Management Committee Report

Composition and Meetings

During the period under review, Mr. Susantha Silva (present Chairman of BIRMC) and Mr. N. Wijeyanathan (who retired from the Board on 29th June 2020) chaired the BIRMC. Both of them are Independent Non-Executive Directors. In addition, the rest of the members who served during the period under review, were Independent Non-Executive Directors.

The Committee met four (04) times during the period under review.

Committee Members and details of attendance at Meetings held during 2020 are as follows:

Director	Duration (in the committee)	Eligible to attend	Attended
Mr. L.E. Susantha Silva, Chairman of the Committee (Non-Executive Independent Director)	Appointed on 10th August 2020	02	02
Mr. P.A.S. Athula Kumara (Non-Executive Independent Director)	Appointed on 11th March 2020	02	02
Dr. S.N. Morais (Non- Executive Independent Director)	Appointed on 28th June 2019	04	03
Senior Prof. A. Jayamaha (Non-Executive Independent Director)	Appointed on 10th August 2020	02	02
Mrs. R.M.R.W. Manchanayake (Non-Executive Independent Director)	By Invitation	01	01
Mr. N. Wijeyanathan (Non- Executive Independent Director) - served as the Chairman of the Committee until his retirement.	Appointed on 30th June 2017 and Retired on 29th June 2020.	02	02

Brief profiles of the Directors are given on pages 40 to 47.

Secretary to the Committee

The Board Secretary performed duties as the Secretary to the Committee.

The Primary Responsibilities of the Board Integrated Risk Management Committee

Following are the main responsibilities of the Committee:

1. The Committee shall work very closely with the Key Management Personnel (KMPs) and necessary decisions to be taken on behalf of the Board within the authorised framework of the Committee and in line with the relevant responsibilities assigned to the Committee.
2. The Committee shall assess all risks (such as credit, market, liquidity, operational and strategic risks) of the Bank on a monthly basis through appropriate risk indicators and management information.
3. 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.
4. The Committee shall take prompt corrective action to mitigate the effects of specific risks, in the event that such risks are beyond prudent levels decided by the Committee, based on the Bank's policies, regulatory and supervisory requirements, directions, and circulars issued to Licensed Specialised Banks.
5. The Committee shall meet at least quarterly to assess all aspects of risks for managing and mitigating, including updated business continuity plans.
6. The Committee shall obtain timely reports, through Board packs (as established as a part of e- Meeting system).
7. The Committee shall take appropriate actions making 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 of the Central Bank.
8. The Committee shall advise the Board having submitted a risk assessment report within a week of each meeting giving recommendation to the Board seeking the Board's views, concurrence and/ or specific directions.
9. 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.

10. The BIRMC assists the Board in accomplishing its oversight and responsibilities relating to compliance matters. Accordingly, the Committee reviews the implementation of compliance programmes, policies and procedures which are required to respond to the various compliance and regulatory risks of the Bank.
11. Review and refer back for action to any Subcommittee of the Board on matters that are either specifically referred to the attention of the Committee or that come to the attention of the Committee from Board filings, that impact systemic risks to the Bank, with a clear objective of eliminating repeat findings or managing emerging risks.
12. Give direction to management and Board Subcommittees with regards to the risk exposure of the Bank's related risk mitigating activities.

Activities in 2020

Integrated Risk Management

1. Took necessary initiatives for managing the Bank, amidst the COVID-19 pandemic, by striking a balance between the Bank and customers' interest.
2. Comprehensive refinements were made to the existing Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.
3. Established a Board approved policy to govern, set and review the risk appetite for the Bank and formulated a framework to align the risk monitoring limits with industry benchmarks.
4. Improved overall stress-testing framework by expanding stress testing time horizons, in considering its impact on available capital and impact on additional required capital.
5. Improved risk identification, assessment and measurement covering credit, operational, strategic financial and liquidity risks including risks related to IT operations.
6. Strengthened the risk management function by way of streamlining existing risk framework and introducing new set of procedural changes.
7. Strengthened credit risk through risk rating mechanism, recalibrating internal risk rating system and enhanced the scope and coverage to intensify the LRM assessment.
8. Improved credit risk mitigating functions, with the expectation of streamlining credit approvals and significantly reduce turnaround times and usage of paper.
9. Improved risk monitoring via dashboards by modifying key risk indicators and were periodically reported to the Board through BIRMC.

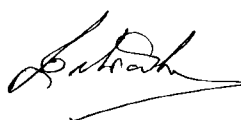
Summary of BIRMC

The BIRMC established a risk management framework which supports relevant risk evaluations, monitoring and management of risk in order to create a strong risk culture of the Bank. Decisions are made in compliance with the Bank's internal risk policy guidelines and regulatory supervisory requirements.

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.



Mr. L. E. Susantha Silva
Chairman



Mrs. K. T. D. D. De Silva
Company Secretary

At Colombo
21st May 2021



FINANCIAL REPORTS

Directors' Responsibility for Financial Reporting

The Directors' responsibility 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. 07 of 2007 is set forth in the following statement.

Further, 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 2020, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year 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 2020; and
2. The profit or loss of the Bank for the financial year 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. Judgements and estimates have been made which are reasonable and prudent.
3. All applicable accounting standards, as relevant, have been complied with.

The Directors are also required to ensure that the Bank has 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 01st January, 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 Specialised 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 Specialised 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 are under regular review of the Board of Directors.

This comprises internal reviews, internal audit and the entire 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 2020 are given on pages 128 to 129 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 130 to 131 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 139. The Board of Directors also approves the interim Financial Statements prior to their release following a review and recommendation by the Board Audit Committee.

Directors' Responsibility for Financial Reporting

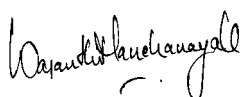
The Board of Directors accepts the relevant responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. Directors are required to prepare the Financial Statements and provide the Bank's external auditor, the Auditor General of Sri Lanka, with every opportunity 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

At Colombo
21st May 2021

Auditor's Report



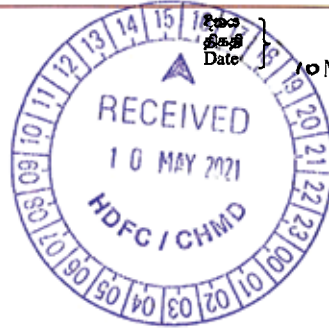
ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No. }

BAF/ 01/C/HDFC/1/20/25

ඔබේ අංකය
உமது இல.
Your No. }



දිනය
திகதி
Date }

10 May 2021

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 2020 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 2020 comprising the statement of financial position as at 31 December 2020 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 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



Auditor's Report

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 Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, are of most significance in my audit of the Financial Statements of the Bank of the current period. These matters were addressed in the context of my audit of the Financial Statements of the Bank as a whole, and in forming my audit opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter	How audit addressed the key audit matter
Impairment allowance for Loans and Advances carried at amortised cost Loans and advances amounting to LKR 41,192 Million (Note 18), net of impairment allowance of LKR 1,445 Million (Note 18) and represents 67.5% of total assets of the Bank as at 31 December 2020. As described in Note 3.B impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 <i>Financial Instruments</i> (SLFRS 9). This was a key audit matter due to: materiality of the reported provision for	I assessed the alignment of the Bank's impairment computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of my report. My audit procedures included amongst others the following: - I evaluated the design, implementation and operating effectiveness of controls where relevant over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. - I checked the completeness and accuracy of the underlying data used in the computations

Key audit matter	How audit addressed the key audit matter
credit impairment which involved complex calculations; and - the degree of assumptions, judgements and estimation uncertainty associated with the calculations. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following: - the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Bank); - the determination on whether or not customer contracts have been substantially modified due to such COVID-19 related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances; and - forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.	by agreeing significant details to source documents and accounting records. - I test—checked the underlying calculations. - In addition to the above, the following focused procedures were performed: For a sample of loans and advances individually assessed for impairment: - Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and - Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on industries, strategic responsive actions taken, collateral values, and the value and timing of future cash flows. For loans and advances collectively assessed for impairment: - Assessing the reasonableness of assumptions and estimates used by management including the reasonableness of forward-looking information and scenarios; - As relevant, assessing the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic; and For loans and advances affected by government stimulus and debt moratorium

Auditor's Report

Key audit matter	How audit addressed the key audit matter
	relief measures granted: – Assessing the appropriateness of judgements, reasonableness of calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and – Evaluating the reasonableness of the interest income recognized on such affected loans and advances. • I assessed the adequacy of the related financial statement disclosures as set out in Notes 3.B ,3.C.vi, 8 and 18.

1.4 Other information included in the Bank's 2020 Annual Report

The other information comprises the information included in the Bank's 2020 Annual Report, but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Company's 2020 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will

be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

1.5 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.

1.6 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.

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:

Auditor's Report

- 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

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

2.1.1 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.

2.1.2 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.

2.1.3 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.

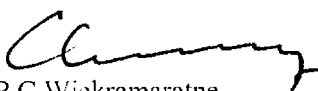
2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

2.2.1 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 course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;

2.2.2 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;

2.2.3 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;

2.2.4 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 2020 (Figures in Rs.)

Description	Notes	Bank	
		2020	2019
Income	1	7,856,433,563	8,090,464,850
Interest Income	2	7,456,679,454	7,683,161,881
Interest Expenses	3	(4,475,280,757)	(4,783,234,818)
Net Interest Income	4	2,981,398,697	2,899,927,063
Fee and Commission Income	5	303,220,609	358,302,968
Fee and Commission Expenses		-	-
Net Fee and Commission Income		303,220,609	358,302,968
Net gain/(loss) from Financial Instruments designated at Fair value through Profit or Loss	6	(475,000)	500,000
Other operating income(net)	7	97,008,500	48,500,000
Total Operating Income		3,381,152,806	3,307,230,031
Less: Impairment Charges / (Reversal)	8	326,526,071	322,893,049
Net Operating Income		3,054,626,735	2,984,336,982
Less : Expenses			
Staff Costs	9	1,174,051,364	1,164,468,698
Depreciation & Amortisation Expenses	10	156,638,262	163,763,041
Other Expenses	11	342,815,612	411,624,661
Total Expenses		1,673,505,239	1,739,856,401
Operating Profit/(loss) before VAT NBT & DRL		1,381,121,497	1,244,480,582
Less : VAT, NBT & DRL On Financial Services	12	312,685,504	469,972,694
Operating Profit/(loss) after VAT NBT & DRL		1,068,435,993	774,507,887
Share of Profits of associates and joint ventures		-	-
Profit/(Loss) before tax		1,068,435,993	774,507,887
Less: Tax Expenses	13	360,299,190	298,795,445
Profit/(Loss) for the year		708,136,803	475,712,442
Earnings Per Share on Profits			
Basic Earning per Ordinary Share	14	10.94	7.35
Diluted Earnings per Ordinary Share	14	10.94	7.35

Statement of Comprehensive Income

For the Year Ended 31st December 2020 (Figures in Rs.)

Description	Notes	Bank	
		2020	2019
Profit for the Year		708,136,803	475,712,442
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	30.1	(62,813,625)	(20,118,822)
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	24	17,581,815	5,633,270
Total		(45,231,810)	(14,485,552)
Other Comprehensive Income for the Year, net of tax		(45,231,810)	(14,485,552)
Total Comprehensive Income for the Year		662,904,993	461,226,890
Attributable to :			
Shareholders		662,904,993	461,226,890
Non-Controlling Interest		-	-
Total		662,904,993	461,226,890

Statement of Financial Position

As at 31st December 2020 (Figures in Rs.)

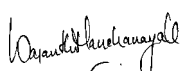
Description	Notes	Bank	
		2020	2019
Assets			
Cash and cash equivalents	15	305,889,183	421,218,289
Placements with banks	16	9,859,832,746	7,539,925,299
Financial assets recognised through profit or loss			
- measured at fair value	17	-	19,250,000
Financial assets at amortised cost			
- loans and advances	18	41,191,989,221	41,215,592,671
- debt and other instruments	19	7,546,155,115	4,880,392,998
Property, Plant and Equipment	20	223,329,120	227,519,410
Intangible Assets	21	127,569,519	152,780,789
Lease ROUA	22	369,641,853	351,112,109
Investment properties	23	1,016,500,000	920,000,000
Deferred tax assets	24	205,078,464	112,649,070
Other assets	25	183,800,368	114,205,713
Total assets		61,029,785,590	55,954,646,348
Liabilities			
Due to banks	26	2,408,780,533	953,384,855
Financial liabilities at amortised cost			
- due to depositors	27	47,947,005,442	42,504,294,457
- due to other borrowers	27	1,429,155,847	1,603,783,508
Debt securities issued	28	1,422,976,094	4,042,358,842
Lease Liability	29	349,436,509	310,149,189
Retirement benefit obligations	30	777,800,209	635,835,310
Current tax liabilities	31	441,773,065	333,629,689
Other liabilities	32	189,595,136	185,394,569
Total Liabilities		54,966,522,835	50,568,830,420
Debt Capital			
Perpetual Bond	33	281,250,000	266,708,172
Equity			
Stated capital/Assigned capital	34	962,092,936	962,092,936
Statutory reserve fund	35	245,008,482	209,601,642
Retained earnings	36	4,281,474,432	3,679,558,147
Other reserves	37	293,436,903	267,855,033
Total shareholders' equity		5,782,012,753	5,119,107,758
Non-controlling interests		-	-
Total equity		5,782,012,753	5,119,107,758
Total equity and liabilities		61,029,785,590	55,954,646,348
Net Assets Value Per Share Rs.		89.35	79.11
Contingent liabilities and commitments	38	380,011,076	432,241,260
Memorandum Information			
Number of Employees		633	558
Number of Branches		39	39

The significant accounting policies and notes on pages 157 to 202 form an integral part of these Financial Statements. These Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS).



Mr. H. A. Anura
Chief Financial Officer

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
Chairman
Date: 08/04/2021
Colombo



Mr. Palitha Gamage
CEO/General Manager



Mr. L. E. S. Silva
Director

Statement of Cash Flows

For the Year Ended 31st December 2020 (Figures in Rs.)

Description	Notes	Bank	
		2020	2019
Cash Flows From Operating Activities			
Interest Receipts	02,16,18,19	6,853,438,756	7,104,296,774
Interest payments	03,26,27,28	(4,611,304,430)	(4,202,627,702)
Net Commission Receipts	05	220,895,586	222,437,514
Trading Income		-	-
Payments to Employees	09,30	(1,031,508,502)	(1,061,302,484)
VAT, DRL & NBT on Financial Services	12,31	(312,108,857)	(496,325,295)
Receipt from other operating activities	05	86,345,914	189,119,434
Payments on other operating activities	11,32	(421,834,965)	(486,837,714)
Operating profit before changes in operating assets		783,923,502	1,268,760,527
(Increase)/Decrease In Operating Assets :			
Balances with Central Bank of Sri Lanka		-	-
Financial Assets at Amortised cost - Loans and Advances	18	512,157,498	(3,014,868,675)
Other Assets	25	(75,296,503)	(205,930,984)
		436,860,995	(3,220,799,659)
Increase / (Decrease) In Operating Liabilities			
Financial Liabilities at Amortised cost - due to Depositors	27	5,601,520,370	4,931,556,554
Financial Liabilities at Amortised cost - due to Debt Security Holders	28	(2,590,621,542)	-
Financial Liabilities at Amortised cost - due to Other Borrowers	26	1,283,050,246	249,901,382
Other Liabilities	32	(3,512,767)	(34,997,315)
		4,290,436,307	5,146,460,622
Net cash from operating activities before income tax		5,511,220,803	3,194,421,490
Income Tax Paid	13,31	(334,650,981)	(38,272,244)
Net cash from operating activities		5,176,569,822	3,156,149,246
Cash Flows From Investing Activities			
Purchase of Property, Plant and Equipment /Intangible Assets	20,21	(54,992,378)	(68,100,964)
Proceeds from Sale Property, Plant and Equipment/Intangible Assets	20,21	368,500	701,513
Net Cashflows from Investments	16,17,19	(5,237,595,050)	(3,128,239,211)
Dividends received from investments	05	320,000	240,800
Others		-	-
Net cash from Investing activities		(5,291,898,928)	(3,195,397,862)
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	33	-	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		(115,329,106)	210,751,384
Cash & cash equivalents at beginning of the period		421,218,289	210,466,904
Cash & cash equivalents at the end of the period		305,889,183	421,218,289
Reconciliation Of Cash and Cash Equivalents			
Cash In Hand		155,040,702	150,212,979
Cash at Bank		150,848,481	271,005,310
		305,889,183	421,218,289

Statement of Changes in Equity

For the year ended 31st December (Figures in Rs.)

Bank

Description	Notes	Number of voting shares	Stated Capital	Statutory Reserve Fund	OCI Reserve	Retained earnings	Other Reserves	Total	Non-controlling interest	Total equity
Balance as at 01-01-2019		64,710,520	962,093	185,816	(45,597)	3,275,203	298,034	4,675,548		4,675,548
Prior Year Adjustments	34-37	-	-	-	(17,667)	-	-	(17,667)	-	(17,667)
Total comprehensive income for the year		-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	36	-	-	-	-	475,712	-	475,712		475,712
Other comprehensive income (net of tax)	30	-	-	-	(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		-	-	-	-	-	-	-	-	-
Investment Fund Transfer		-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	34-37	-	-	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	5,119,108		5,119,108

Description	Notes	Number of voting shares	Stated Capital	Statutory Reserve Fund	OCI Reserve	Retained earnings	Other Reserves	Total	Non-controlling interest	Total equity
Balance as at 01-01-2020	34-37	64,710,520	962,093	209,602	(77,750)	3,679,558	345,605	5,119,108	-	5,119,108
Prior Year Adjustments		-	-	-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	36	-	-	-	-	708,137	-	708,137	-	708,137
Other comprehensive income (net of tax)	30	-	-	-	(45,232)	-	-	(45,232)	-	(45,232)
Total comprehensive income for the year		-			(45,232)	708,137		662,905		662,905
Transactions with equity holders, recognised directly in equity		-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital		-	-	-	-	-	-	-	-	-
Bonus issue		-	-	-	-	-	-	-	-	-
Right issue		-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	34-37	-	-	35,407	-	(106,221)	70,814	-	-	-
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		-	-	35,407	(45,232)	(106,221)	70,814			
Balance as at 31-12-2020		64,710,520	962,093	245,008	(122,982)	4,281,474	416,418	5,782,013	-	5,782,013

Accounting Policies

1. CORPORATE INFORMATION

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 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.A). 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 Lankan 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 also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.B). Functional and Preparation Currency

The financial statement of the Bank are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank operates. 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.C). 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.D). 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.E). 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.F). 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.G). Comparative Information

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

3.A). 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

Accounting Policies

Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

3.B). Valuation of Assets

3.B.i) 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.

Provision for Impairment Losses

Expected Credit Losses on Financial Assets (ECL)

The Company measures loss allowances using both lifetime ECL and 12-month ECL. When estimating ECL Company determines 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.

Provision for Possible Impairment Losses

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, and which are as follows.

1. Collective Impairment Method
2. Individual Impairment Method

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 and adjusted Loss Given Default (LGD) Ratio considering industry variables.

Individual Impairment Provisions

Acquired Properties for Sale

Properties mortgaged to HDFC Bank are auctioned if 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 and advances. The valuations of such properties with Cash flow predicted with reasonable assurance are made on individual basis.

Loans over Rs.10 Mn. and Guarantor Loans over 36 months in arrears

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

3.B.ii). Property, Plant and 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.

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.

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.

Depreciation Policy

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

Class of Assets	% per Annum
Buildings	6 2/3
Office Equipment	12.50
Furniture and Fittings	10.00
Motor Vehicles and Bicycles	20.00
Plant and Machinery	25.00
Tools and 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 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.

3.B.iii). 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.B.iv). 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.C) Financial Assets**3.C.i) 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.

3.C.ii) 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)
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

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.

Accounting Policies

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.

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.

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.

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.

Description	2020			2019		
	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000	Level 1 Rs. 000	Level 2 Rs. 000	Level 3 Rs. 000
Financial assets recognised through profit or loss	-	-	-	19,250	-	-

Financial Instruments not Measured at Fair Value

The Following table shows a comparison of the carrying amounts, as reported on the statement of the financial position, and fair values of all financial assets and liabilities carried at amortise cost.

Description	31st December 2020		31st December 2019	
	Carrying Value Rs. 000	Fair Value Rs. 000	Carrying Value Rs. 000	Fair Value Rs. 000
Financial Assets				
Cash and cash equivalents	305,889	305,889	421,218	421,218
Placements with banks	9,859,832	9,859,832	7,539,925	7,539,925
Financial assets recognised through profit or loss	-	-	19,250	19,250
Financial assets at amortised cost - Loans and Advances	41,157,836	41,157,836	41,215,592	41,215,592
Financial assets at amortised cost - Debt Instruments	7,546,155	7,546,155	4,880,392	4,880,392
Financial Liabilities				
Due to banks	2,408,780	2,408,780	953,384	953,384
- due to depositors	47,947,005	47,947,005	42,504,294	42,504,294
- due to other borrowers	1,710,405	1,710,405	1,870,491	1,870,491
Debt securities issued	1,422,976	1,422,976	4,042,358	4,042,358

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
- 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.C.iii) 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.

✦ Policy applicable

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.

- ✦ 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.

Measurement of Reclassification on Financial Assets

- ✦ 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.

Accounting Policies

- 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.
- ✦ 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.
- ✦ 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.C.iv) 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.C.v) 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.C.vi) Identification and Measurement of Impairment

Policy applicable

◆ 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.

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.

◆ 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.

◆ Modification of Financial Assets.

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

✦ Write-off of Financial Assets

The Bank writes off a loan or an investment debt security, and any related allowances for impairment losses, when the 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.D) Financial Liabilities

3.D.i) 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
- ✦ Classification and Subsequent Measurement of Financial Liabilities

The subsequent measurement of financial liabilities depends on their classification.

- 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.

- 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.D.ii) Derecognition of Financial Liabilities

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

3.D.iii) 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.D.iv) 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.D.v) 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.E) Retirement Benefits

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.

Retirement Benefits – Defined Contribution Plans

◆ 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.

◆ 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.F) 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.G) Revenue Recognition

◆ Interest Income on Loans and Advances

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

◆ Overdue Interest Income

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

3.H) Expenses

◆ 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 charged to the income statement.

◆ Other Expenses

All expenditures incurred in operations and in maintaining the Properties, Plant 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.I) 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.

◆ 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".

◆ 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 when they are recognised in Financial Statements is included in the provision for deferred tax at current rate of taxation.

◆ 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 the Financial Statements.

3.J) 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

Accounting Policies

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.K) 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.L) 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.M) 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.N) 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.O) 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.P) Interest in Other Entities

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

3.Q) SLFRS 16 Leases

The right to use assets are reflected as the assets, which the Bank has acquired on operational lease and the discounting rate used is financial cost of fund of the Bank in 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.

Notes to the Financial Statements

(Figures in Rs.)

1. TOTAL INCOME

Year	2020	2019
Interest Income (Note 2)	7,456,679,454	7,683,161,881
Non Interest Income (Note 5-7)	399,754,109	407,302,968
Total	7,856,433,563	8,090,464,850

2. INTEREST INCOME

Year	2020	2019
Cash and cash equivalents	-	-
Balances with central banks	-	-
Placements with banks	741,092,793	686,970,623
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	6,206,932,278	6,361,030,227
- debt and other instruments - Government Securities *	264,834,716	337,986,721
- Others	243,819,666	297,174,311
Financial assets measured at fair value through other comprehensive income	-	-
Others	-	-
Total interest income	7,456,679,454	7,683,161,881

3. INTEREST EXPENSES

Year	2020	2019
Due to banks	74,669,135	69,448,561
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	3,823,973,435	4,082,383,907
- due to debt securities holders	413,838,922	461,108,507
- due to other borrowers	162,799,265	170,293,844
Others	-	-
Total interest expenses	4,475,280,757	4,783,234,818
Net interest income (Note 02 - 03)	2,981,398,697	2,899,927,063

Notes to the Financial Statements

(Figures in Rs.)

* NET INTEREST INCOME FROM SRI LANKA GOVERNMENT SECURITIES

Year	2020	2019
Interest income	264,834,716	337,986,721
Less: Interest expenses	-	-
Net interest income from Sri Lanka	264,834,716	337,986,721

5. NET FEE AND COMMISSION INCOME

Year	2020	2019
Fee and commission income	303,220,609	358,302,968
Fee and commission expenses	-	-
Net fee and commission income	303,220,609	358,302,968

Comprising

Loans	251,350,055	279,645,693
Cards	-	-
Trade and remittances	-	-
Investment banking	-	-
Deposits	-	-
Guarantees	-	-
Others	51,870,554	78,657,275
Net fee and commission income	303,220,609	358,302,968

6. NET FAIR VALUE GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Year	2020	2019
Gains on financial assets at fair value through profit or loss	(475,000)	-
Losses on financial assets at fair value through profit or loss	-	500,000
Gains on financial liabilities at fair value through profit or loss	-	-
Losses on financial liabilities at fair value through profit or loss	-	-
Total	(475,000)	500,000

7. NET OTHER OPERATING INCOME

Year	2020	2019
Gain/(Loss) on investment properties	96,500,000	48,500,000
Gain/(Loss) on sale of Property, Plant and Equipment	508,500	-
Gain/(Loss) on revaluation of foreign exchange	-	-
Recovery of loans written-off	-	-
Less: Loans written off	-	-
Others	-	-
Total	97,008,500	48,500,000

8. IMPAIRMENT CHARGES

Year	2020	2019
Financial assets at amortised cost - loans and advances		
Stage 1	(65,341,583)	(11,629,386)
Stage 2	(82,925,249)	(2,866,741)
Stage 3	468,765,848	284,321,741
Financial assets at amortised cost – debt instruments		
Stage 1	(649,953)	(1,559,812)
Stage 2	-	-
Stage 3	6,677,007	54,627,247
Others	-	-
Total	326,526,071	322,893,049

9. PERSONNEL EXPENSES

Year	2020	2019
Salary and bonus (including 9.1)	768,142,904	753,724,311
Contributions to defined contribution plans	98,234,453	95,116,878
Provision for defined benefit obligations (Note 30.1)	114,199,715	105,663,945
Share based expenses	-	-
Others	193,474,292	209,963,564
Total	1,174,051,364	1,164,468,698

9.1 Remuneration to key management

Remuneration to key management	66,661,163	76,446,594
Total	66,661,163	76,446,594

10. DEPRECIATION & AMORTISATION

Year	2020	2019
Depreciation of PPE	59,234,064	60,361,306
Amortisation of Right to use Assets	72,612,928	75,178,766
Amortisation on Intangible Assets	24,791,270	28,222,968
Total	156,638,262	163,763,041

Notes to the Financial Statements

(Figures in Rs.)

11. OTHER EXPENSES

Year	2020	2019
Directors' emoluments	1,626,000	1,642,000
Auditors' remunerations	2,209,283	3,767,526
Non-audit fees to auditors	-	-
Professional and legal expenses	14,909,268	18,479,963
Operating lease expenses	-	-
Office administration and establishment expenses	75,738,535	76,279,538
Transport and allied expenses	28,632,730	29,865,651
Printing and postage	26,710,820	42,064,904
Insurance and security	41,253,214	45,041,119
Business development and advertising	29,174,627	45,641,154
Computer license	47,424,949	41,005,665
Others	75,136,186	107,837,141
Total	342,815,612	411,624,661

12. VAT, NBT & DRL ON FINANCIAL SERVICES

Year	2020	2019
VAT - FS For the Year	312,685,504	273,591,054
Prior Year (Over)/Under Provision	-	1,487,934
Total VAT FS	312,685,504	275,078,988
NBT - FS for the Year	-	33,647,388
Prior Year (Over)/Under Provision	-	198,391
Total NBT FS	-	33,845,779
DRL - FS For the Year	-	161,047,280
Prior Year (Over)/Under Provision	-	648
Total DRL	-	161,047,928
Total	312,685,504	469,972,694

13. TAX EXPENSES

Year	2020	2019
Current tax expense		
Current year	435,146,769	309,423,162
Prior years' provision	-	26,526,633
Deferred tax expense		
Effect of change in tax rates	-	-
Temporary differences	(74,847,579)	(37,154,350)
Prior years' provision	-	-
Total	360,299,190	298,795,445

a. Reconciliation of tax expenses

Year	2020	2019
Profit/(loss) before tax	1,068,435,993	774,507,887
Disallowable expenses for tax Purpose	1,018,126,392	1,138,014,426
Allowable expenses for tax Purpose	(532,466,782)	(807,439,590)
Income tax for the period (Accounting profit at applicable tax rate)	299,162,078	216,862,208
Adjustment in respect of current income tax of prior periods	-	26,526,633
Differed Tax	(74,847,579)	(37,154,350)
Add: Tax effect of expenses that are not deductible for tax purposes	285,075,390	318,644,039
(Less): Tax effect of expenses that are deductible for tax purposes	(149,090,699)	(226,083,085)
Tax expense for the period	360,299,190	298,795,445
	-	-
Effective Tax Rate (on Current Year Tax)	41%	40%
Effective Tax Rate with Differed Tax	34%	35%

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

Year	2020	2019
Deferred tax assets	87,869,532	42,884,725
Deferred tax liabilities	13,021,953	5,730,375
Other temporary differences	-	-
Deferred tax (credit)/charge to Income Statement	(74,847,579)	(37,154,350)

Notes to the Financial Statements

(Figures in Rs.)

14. EARNINGS PER SHARE

Year	2020	2019
Net profit attributable to ordinary equity holders	708,136,803	475,712,442
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	64,710,520	64,710,520
Basic earnings per share	10.94	7.35
Effect of dilution	-	-
Convertible bonds	-	-
Convertible preference shares	-	-
Others	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	-	-
Basic earnings per ordinary share	10.94	7.35
Diluted earnings per ordinary share	10.94	7.35

15. CASH AND CASH EQUIVALENTS

Year	2020	2019
Cash in hand	155,040,702	150,212,979
Balances with banks	150,848,481	271,005,310
Money at call and short notice	-	-
Total	305,889,183	421,218,289

16. PLACEMENTS WITH BANKS

Year	2020	2019
Placements with Commercial Banks	8,779,757,301	7,028,630,110
Placements with Specialised Banks	1,080,664,100	511,998,317
Total	9,860,421,401	7,540,628,427
Less: Impairment	(588,655)	(703,128)
Net of Impairment	9,859,832,746	7,539,925,299

17. FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS

Year	2020	2019
Measured at fair value		
Sri Lanka Government Securities (separately by instrument-wise)		
Equity securities	-	19,250,000
Corporate debt securities	-	-
Others	-	-
Sub total	-	19,250,000
Designated at fair value		
Sri Lanka Government Securities (separately by instrument-wise)		
Equity securities	-	-
Corporate debt securities	-	-
Others	-	-
Sub total	-	-
Total	-	19,250,000

a. Analysis

Year	2020	2019
By collateralisation		
Pledged as collateral	-	-
Unencumbered	-	-
Gross total	-	-
By currency		
Sri Lankan Rupee	-	19,250,000
United States Dollar	-	-
Gross total	-	19,250,000

Notes to the Financial Statements

(Figures in Rs.)

18. FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES

Year	2020	2019
Gross loans and advances		
Stage 1	23,367,269,719	26,142,376,268
Stage 2	5,018,679,789	5,544,116,401
Stage 3	14,250,983,175	10,673,352,334
Total	42,636,932,682	42,359,845,002
(Less): Accumulated impairment under:		
Stage 1	(108,035,006)	(173,376,589)
Stage 2	(53,538,744)	(136,463,993)
Stage 3	(1,283,369,711)	(834,411,750)
Total	(1,444,943,461)	(1,144,252,332)
Net loans and advances	41,191,989,221	41,215,592,671

a. Analysis

Year	2020	2019
By product		
Overdrafts		
Trade finance		
Lease rental receivable	1,270,038,566	1,312,546,261
Credit cards		
Pawning	427,413,509	293,087,824
Staff loans	1,623,475,565	1,576,761,135
Term loans		
Short-term		
Long-term	39,316,005,041	39,177,449,782
Others		
Sri Lanka Government Securities (separately by instrument-wise)		
Others		
Gross total	42,636,932,682	42,359,845,002
By currency		
Sri Lankan Rupee	42,636,932,682	42,359,845,002
Gross total		
By industry		
Agriculture and fishing	2,477,944,918	330,842,387
Manufacturing	11,164,004	-
Tourism	3,500,413	-
Transport	-	-
Construction	32,148,076,921	32,938,854,903
Traders	-	-
New economy	7,598,270,624	8,672,996,893
Others	397,975,801	417,150,819
Gross total	42,636,932,682	42,359,845,002

b. Movements in impairment during the year

Year	2020	2019
Stage 1		
Opening balance as at 01/01	173,376,589	188,682,965
Charge/(Write back) to income statement	(65,341,583)	(15,306,376)
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12	108,035,006	173,376,589
Stage 2		
Opening balance as at 01/01	136,463,993	139,330,733
Charge/(Write back) to income statement	(82,925,249)	(2,866,741)
Write-off during the year	-	-
Other movements	-	-
Closing balance at 31/12	53,538,744	136,463,993
Stage 3		
Opening balance as at 01/01	845,643,942	550,090,009
Charge/(Write back) to income statement	468,765,848	284,321,741
Write-off during the year	(19,807,886)	-
Other movements	-	-
Closing balance at 31/12	1,283,369,711	834,411,750
Total	1,444,943,461	1,144,252,332

19. FINANCIAL ASSETS AT AMORTISED COST – DEBT AND OTHER INSTRUMENTS

Sri Lanka Government Securities

Treasury Bills

Issuer	Reference No.	2020	2019
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	LKA18221D236	985,837,151	-
The Government of Sri Lanka	LKA18221D236	985,837,151	-
The Government of Sri Lanka	LKA18221D236	985,837,151	-
The Government of Sri Lanka	LKA18221E283	1,962,518,931	-
Sub Total		4,920,030,384	2,963,655,167
Corporate debt instruments		525,513,661	857,492,327
Trust certificates		551,580,809	-
Others (Commercial Papers and Non Bank Deposits)		1,549,030,261	1,059,245,504
Grand Total		7,546,155,115	4,880,392,998
a. Analysis			
By currency			
Sri Lankan Rupee		7,546,155,115	4,880,392,998
Gross total		7,546,155,115	4,880,392,998

Notes to the Financial Statements

(Figures in Rs.)

b. Fair Value of Investments

Total Investments	7,610,914,977	4,939,011,332
Less: Impairment Provision	(64,759,862)	(58,618,334)
Carrying Value	7,546,155,115	4,880,392,998

20. PROPERTY, PLANT AND EQUIPMENT

a. Property, Plant and Equipment - Bank

Description	Free hold Land and Buildings	Leasehold Properties	Computer Hardware	Office Equipment, Furniture and Fittings	Others	Total
2020 (Current year)						
Cost/fair value						
Opening balance at 01/01/2020	17,575,000	11,650,000	146,478,534	351,920,150	128,283,215	655,906,899
Additions	-	-	33,292,206	21,832,072	11,047	55,135,325
Disposals	-	-	-	-	2,079,620	2,079,620
Exchange rate variance	-	-	-	-	-	-
Adjustments	-	-	-	142,950	-	142,950
Closing balance at 31/12/2020	17,575,000	11,650,000	179,770,741	373,609,271	126,214,642	708,819,654
(Less): Accumulated depreciation/ Amortisation						
Opening balance at 01/01/2020	4,668,300	9,320,000	95,940,218	219,723,548	98,735,421	428,387,487
Charge for the year	518,700	2,330,000	15,819,578	32,552,208	8,013,577	59,234,064
Additions	-	-	-	-	-	-
Disposals	-	-	-	51,397	2,079,620	2,131,017
Exchange rate variance	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
Closing balance at 31/12/2020	5,187,000	11,650,000	111,759,796	252,224,359	104,669,378	485,490,534
Net book value at 31/12/2020	12,388,000	-	68,010,944	121,384,912	21,545,264	223,329,120

2019 (Previous year)

Cost/fair value

Opening balance at 01/01/2019	17,575,000	11,650,000	126,878,906	332,033,177	122,032,362	610,169,446
Additions	-	-	20,795,609	25,451,575	10,426,780	56,673,964
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	351,920,150	128,283,215	655,906,899

(Less): Accumulated depreciation

Opening balance at 01/01/2019	4,149,600	21,997,392	83,418,700	189,532,703	88,586,084	387,684,479
Charge for the year	518,700	2,330,000	13,424,529	33,938,739	10,149,338	60,361,306
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	219,723,548	98,735,422	428,387,489
Net book value at 31/12/2019	12,906,700	2,330,000	50,538,316	132,196,602	29,547,793	227,519,410

20.1 Depreciating Status of PPE and Amortisation status of Intangible Assets

In 2020	Fully Depreciated/ Amortised	Depreciating/ Amortising	Total
Free hold PPE			
Land and Buildings	-	7,780,500	7,780,500
Computer Hardware	68,593,442	111,177,299	179,770,741
Computer Software	80,044,681	216,156,548	296,201,228
Office Equipment, Furniture and Fittings	71,295,483	302,313,788	373,609,271
Plant and Machinery	11,888,888	29,297,673	41,186,561
Tools	49,425	68,506	117,931
Motor Vehicle	56,487,720	16,741,762	73,229,482
Free hold PPE Total	288,359,638	683,536,075	971,895,713
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	288,359,638	695,186,075	983,545,713

In 2019	Fully Depreciated	Depreciating	Total
Freehold 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
Freehold PPE Total	289,126,191	638,575,745	927,701,936
Leasedhold PPE			
Land and Buildings	-	-	-
Motor Vehicle	-	11,650,000	11,650,000
Leasedhold PPE Total	-	11,650,000	11,650,000
Total PPE	289,126,191	650,225,745	939,351,936

Notes to the Financial Statements

(Figures in Rs.)

20.2 Information on freehold land and building of the Bank

Location	Extent	Building -Square feet	Net Book Value	Market Value
Kalutara Branch - No-13, Gnanodaya Mw, Kalutara South, Kalutara.	P7.535	3,420	17,575,000	45,000,000

Date of Valuation 21st December 2020
 Name of the Valuer W.D.Siripala,FIV(SL)
 Qualification of the Valuer Incorporated Independent Valuer

20.3.

- Temporarily Idle Property, Plant and Equipment
There was no idle Property, Plant and Equipment as at 31st December 2020 (2019: NIL).
- Property, Plant and Equipment Retired from Active Use
There was no Retired from Active Use Property, Plant and Equipment as at 31st December 2020 (2019: NIL).
- Title Restriction on Property, Plant and Equipment
There were no restrictions on the title of Property, Plant and Equipment as at 31st December 2020 (2019: NIL).
- Property, Plant and Equipment Pledged as Security against Liabilities
There were no items of Property, Plant and Equipment pledged as securities against liabilities (2019: NIL).
- Compensation from Third Parties for Items of Property, Plant and Equipment
There were no compensations received during the year from third parties for items of Property, Plant and Equipment that were impaired, lost or given up (2019: NIL).

21. INTANGIBLE ASSETS

Year 2020	Computer Software Local	Computer Software Foreign	Core-Banking Software	Total
Cost/fair value				
Opening balance at 01/01/2020	27,524,506	78,053,844	199,341,858	304,920,208
Additions	-	-	-	-
Disposals	8,158,980	-	-	8,158,980
Exchange rate variance	-	-	-	-
Adjustments	560,000	-	-	560,000
Closing balance at 31/12/2020	18,805,526	78,053,844	199,341,858	296,201,228
(Less): Accumulated Amortisation	-	-	-	-
Opening balance at 01/01/2020	21,176,269	71,160,593	59,802,557	152,139,419
Charge for the year	2,139,339	2,717,745	19,934,186	24,791,270
Additions	-	-	-	-
Disposals	8,158,980	-	-	8,158,980
Exchange rate variance	-	-	-	-
Adjustments	140,000	-	-	140,000
Closing balance at 31/12/2020	15,016,628	73,878,338	79,736,743	168,631,709
(Less): Impairment	-	-	-	-
Net book value at 31/12/2020	3,788,898	4,175,507	119,605,115	127,569,519

2019

Cost/fair value

Opening balance at 01/01/2019	19,501,911	70,473,513	199,341,858	289,317,281
Additions	8,022,595	7,580,332	-	15,602,927
Disposals	-	-	-	-
Exchange rate variance	-	-	-	-
Adjustments	-	-	-	-
Closing balance at 31/12/2019	27,524,506	78,053,844	199,341,858	304,920,208
(Less): Accumulated Amortisation				-
Opening balance at 01/01/2019	18,659,167	65,388,912	39,868,372	123,916,451
Charge for the year	2,517,101	5,771,681	19,934,186	28,222,968
Additions	-	-	-	-
Disposals	-	-	-	-
Exchange rate variance	-	-	-	-
Adjustments	-	-	-	-
Closing balance at 31/12/2019	21,176,269	71,160,593	59,802,557	152,139,419
(Less): Impairment	-	-	-	-
Net book value at 31/12/2019	6,348,237	6,893,251	139,539,301	152,780,789

22. LEASE ROUA

	2020	2019
ROUA net of Depreciation	369,641,853	351,112,109
Break up		
Opening Balance (Cost)	351,112,109	339,717,087
Add: During the Year Addition	91,142,671	86,573,788
Less: Amortisation for the Year	72,612,928	75,178,766
Closing Balance	369,641,853	351,112,109

Notes to the Financial Statements

(Figures in Rs.)

23. INVESTMENT PROPERTIES

a. Investment Properties at fair value

Year	2020	2019
Cost/fair value		
Opening balance at 1st January	920,000,000	871,500,000
Additions	96,500,000	48,500,000
Disposals	-	-
Exchange rate variance	-	-
Adjustments	-	-
Closing balance at 31st December	1,016,500,000	920,000,000
(Less): Accumulated depreciation		
Opening balance at 1st January	-	-
Charge for the year	-	-
Additions	-	-
Disposals	-	-
Exchange rate variance	-	-
Adjustments	-	-
Closing balance at 31st December	-	-
(Less): Impairment	-	-
Net book value at 31st December	1,016,500,000	920,000,000
Market value at 31st December	1,016,500,000	920,000,000

23.1 Investment Properties Valuation details

Location	Extent (Perches)	Deed No.	Bank 2020	2019
No. 441 Sangarajah Mw, Kotahena, Aluthkade East	59.20	1127	242,000,000	242,000,000
No. 192 Srimath Bandaranayake Mawatha, Kotahena Colombo 13.	123.20	1124	677,000,000	591,000,000
No. 192 (Part) Sri Sangarajah Mawatha, Kotahena Colombo 13.	15.00	1126	82,500,000	72,000,000
Avissawella - Housing Project*	106.00		15,000,000	15,000,000
Total			1,016,500,000	920,000,000

Revaluation of Lands

No. 441 Sri Sangaraja Mawatha, Kotahena, Aluthkade East Deed No. 1127

No.192 Srimath Bandaranayake Mawatha, Kotahena, Colombo 13.

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

* The revaluation movement during the year 2020 of Avissawella project, was not considered until clearance comes from NHDA.

Name of the Valuer
Qualification of the Valuer
Valuation Date

W. D. Siripala, FIV (SL)
Incorporated Independent Valuer
20th December 2020

Revaluation of Avissawella -Housing Project

Name of the Valuer	W. D. Siripala, FIV (SL)
Qualification of the Valuer	Incorporated Independent Valuer
Valuation Date	20th December 2020

Basis of Valuation

This valuation of property is undertaken by using sale comparison approach. This approach generally provides the best value estimate for vacant land or land where the highest and best used would be to raze the existing improvements. This approach evaluates other land sale and compares them to the property being valued. One of the first considerations is to compare market conditions between each of the comparable sales and the subject which may include any change in unit price since the date of the comparable properties.

The second consideration is to compare the location which all else being equal, superior property location tend to result in higher unit price.

The third consideration is to compare the size, all else being equal, smaller size generally commands a higher unit price in the market place than larger sites. But within Colombo city limits and other congested areas for commercial uses unit price is higher for larger sites.

The fourth consideration is to compare the permitted uses of the sites, including its zoning and other legal limitations, which may have positive or negative impact on unit value relative to other properties.

The fifth consideration is to compare layout, with all else being equal, properties that have uniform dimensions are more conducive to efficient development and tend to sell for a higher unit price than properties having a less regular shape.

The sixth consideration is to compare the utilities, with all else being equal properties that have utilities in place, tend to sell for more on a unit basis than those that do not. Similarly, properties that have access to municipal utilities can be worth more on a unit basis than those having a private well and septic system.

The seventh consideration is to compare the condition of sales. Unless specifically noted, the sale price of comparable are not known to reflect any special financing unusual buyer or seller motivations, special concessions or the inclusions of significant personal property. The valuer has analysed any conditions of sale known to have affected the sale price.

The Subject Property

The property to be valued has very old building which currently abundant due to Legal restriction. Hence all the buildings are decayed or dilapidated. The land is located little bit interior to the Sangaraja Mawatha. The area is highly congested with comparable properties as a popular, well-located urban office, park etc. The buildings are not considered in the valuation.

Land, Extent 0A-3R-18.20P land in an almost regular shape.

Market Trends

The supply of new office space is gradually increasing in respond to demand, and there are no signs of overbuilding or under building. The value of land suitable for commercial development was increased in the year passed and the rate of increase was appeared to be approximately equal to the inflation rate. Commercial rental rates and property values were also increased. But the rate of increase appeared to be slightly less than the inflation rate.

In view of all forgoing factors especially considering the average demand and prevailing current land values in the area concerned, the subject valuation would proceed as under as fair and reasonable for purchase the land.

The range of adjusted prices of the comparable properties identified is between Rs.5,000,000/- to Rs.10,000,000/- per perch with an average price point of Rs.7,500,000/= per perch. Based on this analysis it is my opinion that a value of Rs.5,500,000/= per perch is considered to reasonably represent the Current Market Value of the Subject Properties real estate products positioned in the marketplace as a bare land with a relatively main road front location.

Notes to the Financial Statements

(Figures in Rs.)

Comment on Covid-19

The outbreak of Covid-19 presently prevailing in the country and around the world was declared by the WHO as a Global Pandemic on the 11th of March 2020, and is said to have an impact on both the local and global markets.

As at the reporting date of this report the pandemic conditions continues in our country and it is considered too premature to reasonably assess and estimate of any impact of the virus. However, I do not consider that there is any adverse effect on the value of property in view of the prevailing epidemic as at now.

Pending Court cases

SC/FR Application No. 383/17 – Supreme Court

This is the only one case filed against the Bank other than normal recovery cases filed for loans. There are no other cases on Investment properties.

Three branch managers (Nuwara Eliya, Matara & Kurunegala) have filed a fundamental rights application in the Supreme Court of Sri Lanka, seeking promotions to the Posts of Area Manager.

Out of the 03 officers, two have been promoted. Petitioners have withdrawn the case and it has been concluded.

24. NET DEFERRED TAX ASSETS/(LIABILITIES)

Year	2020	2019
Opening balance 01/01/	112,649,070	87,528,467
Restatements	-	-
Prior Year Adjustments	-	(17,667,016)
- profit and loss	74,847,579	37,154,349
- other comprehensive income/Retained Earnings	17,581,815	5,633,270
Closing balance 31/12/	205,078,464	112,649,070
Differed Tax Assets	288,779,489	183,328,142
Differed Tax Liabilities	83,701,025	70,679,072
Net Differed Tax Assets/(Liabilities)	205,078,464	112,649,070
	-	-

25. OTHER ASSETS

Year	2020	2019
Receivables	134,800,311	76,107,581
Deposits and prepayments	354,000	751,850
Sundry debtors	27,156,437	17,594,382
Others	21,489,620	19,751,900
Total	183,800,368	114,205,713

26. DUE TO BANKS

Year	2020	2019
Borrowings	2,408,780,533	953,384,855
Securities sold under repurchase (repo) Agreements	-	-
Others	-	-
Total	2,408,780,533	953,384,855

27. FINANCIAL LIABILITIES AT AMORTISED COST

Year	2020	2019
Due to depositors	47,947,005,442	42,504,294,457
Debt securities issued by the Bank	-	-
Securities sold under repurchase (repo) Agreements	-	-
Others	1,429,155,847	1,603,783,508
Total	49,376,161,289	44,108,077,966
a. Analysis of amount due to depositors		
By product		
Demand deposits (current accounts)		
Savings deposits	7,445,107,940	6,572,129,660
Fixed deposits	40,501,897,502	35,932,164,798
Other deposits	-	-
Total	47,947,005,442	42,504,294,457
By currency		
Sri Lanka Rupee	47,947,005,442	42,504,294,457
United States Dollar	-	-
Great Britain Pound	-	-
Others	-	-
Total	47,947,005,442	42,504,294,457

28. DEBT SECURITIES ISSUED

Year	2020	2019
Issued by the Bank	1,422,976,094	4,042,358,842
Issued by other subsidiaries	-	-
Total	1,422,976,094	4,042,358,842
Due within 1 year		
	-	2,621,133,483
Due after 1 year	1,422,976,094	1,421,225,359
Total	1,422,976,094	4,042,358,842

a. Details of Debt Securities Issued

Type	Face Value In Rupees	Interest Rate and Repayment Terms	Issue Date	Maturity Date	Bank	
					2020	2019
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
Listed , secured, Redeemable & Rated 5 Year Debenture (Floating Qtr)	578,240,000	AWPLR+1.5	20th November 2015	20th Nov. 2020	-	585,346,218
Listed , secured, Redeemable & Rated 10 Year Debenture (Fixed Annual)	1,408,770,000	12%	20th November 2015	20th Nov. 2025	1,422,976,094	1,421,225,359
Sub total					1,422,976,094	4,042,358,842

Notes to the Financial Statements

(Figures in Rs.)

Interest Rate of comparable Government Securities

Debenture Type	Interest rate %		Gov. security Interest rate %	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Debenture - 5Years- 2015 (Floating Qtr 2020)	Matured	AWPLR +1.5%	6.59	9.87
Debenture - 5Years- 2015 (Fixed Semi 2020)	Matured	10.50	6.59	9.87
Debenture - 10Years- 2015 (Fixed Annu. 2025)	12.00	12.00	9.99	10.23

Interest Cover

Debenture Type	Interest Cover Ratio(Times)	
	31.12.2020	31.12.2019
Debenture - 5Years- 2015 (Floating Qtr 2020)	42.27	28.61
Debenture - 5Years- 2015 (Fixed Semi 2020)	12.04	10.19
Debenture - 10Years- 2015 (Fixed Annu. 2025)	13.34	12.94

Debt/Equity

Debenture Type	Debt/Equity Ratio	
	31.12.2020	31.12.2019
Debenture - 5Years- 2015 (Floating Qtr 2020)	0%	11.43%
Debenture - 5Years- 2015 (Fixed Semi 2020)	0%	39.77%
Debenture - 10Years- 2015 (Fixed Annu. 2025)	24.61%	27.76%

Market Price of Debentures during the Year

Type of Debentures	2020			2019		
	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	100	100	100
N/T=Not Traded						

29. LEASE LIABILITY

	2020	2019
Initial Recognition (Opening Balance)	310,149,189	282,551,299
Lease Liability on New Agreement	82,216,599	72,972,946
Add: Amortise Interest	33,880,454	33,382,431
Less: Payments	(76,809,733)	(78,757,487)
Closing Balance	349,436,509	310,149,189

30. RETIREMENT BENEFIT OBLIGATIONS

	2020	2019
Normal Gratuity Provision	446,575,293	369,533,735
Special Gratuity Provision	331,224,917	266,301,575
Total	777,800,209	635,835,310

30.1 Contributions to defined benefit plans

Actuarial Valuation of Gratuity Liabilities as at 31st December 2020 Accounting Disclosures :	Normal Gratuity Rs.	Special Gratuity Rs.	TOTAL Rs.
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Change in the Present Value of The Defined Benefit Obligation (PV-DBO)

Provision for PV-DBO as at 01st January 2020	369,533,735	266,301,574	635,835,309
Interest Cost for the period	40,648,711	29,293,173	69,941,884
Current Service Cost for the period	26,302,419	17,955,413	44,257,831
Gratuity paid for those who left during the period	(18,509,842)	(16,538,599)	(35,048,440)
Actuarial (Gain)/Loss on PV-DBO	28,600,270	34,213,355	62,813,625
Provision for PV-DBO as at 31st December 2020	446,575,293	331,224,917	777,800,209

Amounts Recognised in the Balance Sheet and Income Statement**Liability recognised in the balance sheet**

Provision for Gratuity as at 31st December 2020	446,575,293	331,224,917	777,800,209
Unrecognised actuarial Gains/(Losses) as at 31st December 2020	-	-	-
Liability recognised in the balance sheet as at 31st December 2020	446,575,293	331,224,917	777,800,209

Expenses recognised in the income statement

Interest Cost	40,648,711	29,293,173	69,941,884
Current Service Cost	26,302,419	17,955,413	44,257,831
Net Actuarial (Gain)/Loss recognised immediately	28,600,270	34,213,355	62,813,625
Expences recognised in the Income Statement	95,551,399	81,461,941	177,013,341

Movements in the Net Liability Recognised in the Balance Sheet

Opening Net Liability as at 01st January 2020	369,533,735	266,301,574	635,835,309
Expenses recognised in the Income Statement	95,551,399	81,461,941	177,013,341
Gratuity paid for those who left during the period	(18,509,841)	(16,538,599)	(35,048,440)
Gratuity payable for those who left during the period			
Closing Net Liability as at 31st December 2020	446,575,293	331,224,917	777,800,209

Notes to the Financial Statements

(Figures in Rs.)

Valuation Assumptions:

Mortality : A 1967/70 Mortality Table

Disability : 10% of the Mortality

Staff Turnover Rates : 2%

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

Rate of Discount :8% p.a.

Salary Escalation Rates : Permanent staff: Basic Salary : 18% p.a. once in three years with next revision due in 2021 July

Salary Increment Scale revision : 18% p.a. once in three years with next revision due in 2021 July

COLA : 18% p.a. once in three years with next revision due in 2021 July

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: Summary Results (Category wise)

Category	No. of Emps	TOT Basic Salary (Rs.)	TOT Other Allowances	Normal Gratuity Provision (Rs.)	Special Gratuity Provision (Rs.)	Total PV-DBO (Rs.) (Normal +Special Gratuity)
Permanent	541	33,024,524	17,820,027	440,680,997	324,953,602	765,634,600
Trainee	20	272,000	0	190,059	79,380	269,439
Contract	73	2,141,375	0	353,470	114,545	468,015
TOTAL	634	35,437,899	17,820,027	441,224,526	325,147,527	766,372,053

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	702,282,993
1% decrease in discount rate	841,073,042
1% increase in Salary Escalation rate	789,427,959
1% decrease in Salary Escalation rate	744,133,414

Detailed Accounting Disclosures :

	Normal Gratuity +Special Gratuity
Break up of actuarial (gain)/loss on the defined benefit obligation (Rs.)	
Experience adjustment (Financial and Demographic)	(18,345,068.00)
Due to changes in financial assumptions	92,739,821.63
Due to changes in demographic assumptions	(11,581,128.63)
Total	62,813,625.00

Distribution of Present Value of Defined Benefit Obligation In Future Years (Rs.)

During fiscal year ending December 31, 2021	33,180,419.30
During fiscal year ending December 31, 2022	49,817,800.55
During fiscal year ending December 31, 2023	43,057,396.35
During fiscal year ending December 31, 2024	63,070,895.67
During fiscal year ending December 31, 2025	50,430,026.95
Beyond next 5 years	526,815,514.64
	766,372,053.47
Weighted Average Duration of Defined Benefit Obligation (Years)	9.66

Name of the Actuary	M. Poopalanathan
Date of the Actuarial Computation	26th January 2021
Method of Valuation	Projected Unit Credit Method

31. CURRENT TAX LIABILITIES

Year	2020	2019
Opening balance 01/01/	333,629,689	57,327,668
Charge for the year - Income Tax	435,146,769	309,423,162
Charge for the year - Prior Year Adjustments	-	26,526,633
Charge for the year - Other Taxes	319,756,444	474,949,765
Sub Total charge for the year	754,903,213	810,899,560
Tax Payments for the Year	(646,759,838)	(534,597,539)
Closing balance 31/12/	441,773,065	333,629,689

32. OTHER LIABILITIES

Year	2020	2019
Sundry creditors	71,441,613	121,264,898
Interest payable	-	-
Impairment in respect of off-balance sheet credit exposures (Note 10)	-	-
Other payables	118,153,524	64,129,671
Total	189,595,136	185,394,569

33. PERPETUAL BOND

	2020	2019
Capital	250,000,000	250,000,000
Interest	31,250,000	16,708,172
Total	281,250,000	266,708,172

Notes to the Financial Statements

(Figures in Rs.)

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)	Clarrification if not fully utilised including where the fund is 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

34. STATED CAPITAL/ASSIGNED CAPITAL

	2020	2019
Capital	962,092,936	962,092,936
Total	962,092,936	962,092,936

35. STATUTORY RESERVE FUND

Year	2020	2019
Opening balance at 01/01/	209,601,642	188,424,906
IFRS 9 Adjustments/Restatements	-	(2,608,886)
Transfers during the period	35,406,840	23,785,622
Closing balance at 31/12/	245,008,482	209,601,642

36. RETAINED EARNINGS

Year	2020	2019
Opening balance at 01/01/	3,679,558,147	3,319,553,632
IFRS 16 Adjustments/Restatements	-	(44,351,060)
Profit for the year	708,136,803	475,712,442
Transfers to other reserves and adjustments	(106,220,518)	(71,356,866)
Dividend	-	-
Closing balance at 31/12/	4,281,474,432	3,679,558,147

37. OTHER RESERVES**a. Bank - Current year (2020)**

Description	Opening balance at 01/01/2020	Movement/ transfers and IFRS 9 Adjustments	Closing Balance 31/12/2020
General reserve	345,604,782	70,813,680	416,418,462
Revaluation reserve	(0)	-	(0)
Cash flow hedge reserve	-	-	-
Foreign currency translation reserve	-	-	-
OCI reserve	(77,749,748)	(45,231,810)	(122,981,558)
Others	-	-	-
Total	267,855,033	25,581,870	293,436,903

b. Bank - Previous year (2019)

Description	Opening balance at 01/01/2019	Movement/ transfers	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)	(32,152,568)	(77,749,748)
Others	-	-	-
Total	286,540,902	(18,685,869)	267,855,033

38. CONTINGENT LIABILITIES AND COMMITMENTS

Year	2020	2019
Guarantees	7,623,000	5,870,000
Bonds	-	-
Letters of credit	-	-
Other contingent items	-	-
Undrawn loan commitments	372,388,076	426,371,260
Others	-	-
Total	380,011,076	432,241,260

39. NET ASSETS VALUE PER ORDINARY SHARE

Year	2020	2019
Net Assets	5,782,012,753	5,119,107,758
No. of Ordinary Shares	64,710,520	64,710,520
Net Assets Value per Ordinary Share	89.35	79.11

Notes to the Financial Statements

(Figures in Rs.)

39.1 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 2020 (Rs. 000')	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	More than 5 Years	Total
Assets						
Cash	155,041	-	-	-	-	155,041
Due from Banks	150,848	-	-	-	-	150,848
Investments	3,252,794	5,843,161	7,416,680	893,353	-	17,405,988
Loans and Advances	353,284	1,267,835	7,081,355	14,409,486	18,080,029	41,191,989
Fixed Assets	-	-	-	-	720,540	720,540
Other Assets	19,659	60,367	76,057	84,282	1,165,015	1,405,379
Total Assets	3,931,626	7,171,363	14,574,092	15,387,121	19,965,584	61,029,786
Percentage 31st Dec 2020	6.44	11.75	23.88	25.21	32.71	100.00
Percentage 31st Dec 2019	14.05	7.41	16.48	27.46	34.60	100.00
Liabilities						
Total Capital Fund	-	-	-	-	5,782,013	5,782,013
Deposits	5,350,033	9,253,538	16,053,043	8,937,391	8,353,001	47,947,005
Borrowings	677,272	148,487	754,435	3,049,262	912,707	5,542,162
Other Liabilities	165,071	41,455	505,998	504,563	541,519	1,758,605
Total Liabilities	6,192,375	9,443,480	17,313,476	12,491,216	15,589,239	61,029,786
Percentage 31st Dec 2020	10.15	15.47	28.37	20.47	25.54	100.00
Percentage 31st Dec 2019	8.07	11.15	40.45	12.60	27.74	100.00

39.2.Maturity Analysis - Lease Liability

	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	More than 5 Years	Total
Lease Liability	5,330,125	10,660,250	47,971,123	285,475,011	-	349,436,509

40. DIRECTORS INTEREST IN CONTRACTS WITH THE BANK

Name	Related Party	Office Holding	Transactions (Rs.Mn.)	Nature of Transactions	% Regulatory Capital
Mr. D.M.A.K. Dassanayake	National Housing Development Authority	Vice Chairman	35.00	Rent /Savings Deposits	0.59%
Mrs. R.M.R. Wasantha Manchanayake	Director HDFC	Chairperson	10.00	Savings/ Fixed Deposit	0.17%
Mr. K.D. Gunawardana	Director HDFC	Director	0.11	Savings/ Fixed Deposit	0.00%
Mr. P.A.S. Athula Kumara	Director HDFC	Director	0.07	Savings/ Fixed Deposit	0.00%
Mr. L.E. Susantha Silva	Director HDFC	Director	0.16	Savings/ Fixed Deposit	0.00%
Mr. S. Neavis Morais	Director HDFC	Director	0.32	Savings/ Fixed Deposit	0.01%
Total			45.660		0.78%

40.1. Transactions with KMPs

The transactions made with KMP's as follows (Balance as at 31.12)	2020 Rs.000'	% of Regulatory Capital
Loans and Advance	58,052	0.98%
Deposits	48,349	0.82%
Total	106,401	1.80%

41. 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.

42. MINIMUM SHAREHOLDERS FOR COMPLIANCE

Option - 5	Minimum Shareholders for Compliance		
	Float-adjusted Market Capitalisation	Public Holding Percentage	Number of public Shareholders
Minimum	Less Than 2.5 Bn	20%	500
Available	0.84	35.80%	2,383

43. ASSETS PLEDGE

Type of Facility	Amount of Facility Rs. Mn.	Nature of Seurity	Value of Security Rs. Mn.	Balance as at 31-12-2020 Rs. Mn.
(1) Overdraft (Sampath Bank)	300	Unsecured	-	(90)
(2) Borrowing (Term Loan) (Sampath Bank)	1,750	Part of Portfolio	998	983
(3) Borrowing (Term Loan) (BOC)	500	Unsecured	-	317
(4) Borrowing (Term Loan) (PABC)	500	Unsecured	-	492
(5) Overdraft (BOC)	500	Unsecured	-	(450)
(6) Borrowing (MCB)	250	Part of Portfolio	335	70

Type of Facility	Amount of facility Rs. Mn.	Nature of Seurity	Value of security Rs. Mn.	Balance as at 31-12-2020 Rs. Mn.
(1) Listed ,Secured ,Redeemable Debenture	1,409	Unsecured	-	1,402



SUPPLEMENTARY INFORMATION

Measurement of Financial Instruments

(Figures in Rs.)

a. Analysis of Financial Instruments by Measurement Basis –as at 31.12.2020

Description	AC	FVPL	FVOCI	OTHER	Total
ASSETS					
Cash and cash equivalents	-	-	-	305,889,183	305,889,183
Balances with central banks	-	-	-	-	-
Placements with banks	9,859,832,746	-	-	-	9,859,832,746
Derivative financial instruments	-	-	-	-	-
Loans and advances	41,191,989,221	-	-	-	41,191,989,221
Debt instruments	7,546,155,115	-	-	-	7,546,155,115
Equity instruments	-	-	-	-	-
Total financial assets	58,597,977,083	-	-	305,889,183	58,903,866,266
Other Assets	-	-	-	2,125,919,323	2,125,919,323
Total assets	58,597,977,083	-	-	2,431,808,506	61,029,785,590

Description	AC	FVPL	OTHER	Total
LIABILITIES				
Due to banks	2,408,780,533	-	-	2,408,780,533
Derivative financial instruments	-	-	-	-
Financial liabilities to Amortise cost	-	-	-	-
- due to depositors	47,947,005,442	-	-	47,947,005,442
- due to debt security holders	1,422,976,094	-	-	1,422,976,094
- due to other borrowers	1,710,405,847	-	-	1,710,405,847
Total financial liabilities	53,489,167,916	-	-	53,489,167,916
Other Liabilities	349,436,509	-	1,409,168,411	1,758,604,919
Equity	-	-	5,782,012,753	5,782,012,753
Total liabilities & Equities	53,838,604,424	-	7,191,181,164	61,029,785,590

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 31.12.2019

Description	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	-	-	-	1,878,267,092	1,878,267,092
Total financial assets	53,635,910,968	19,250,000	-	2,299,485,380	55,954,646,348

Description	AC	FVPL	OTHER	Total
LIABILITIES				
Due to banks	953,384,855	-	-	953,384,855
Derivative financial instruments	-	-	-	-
Financial liabilities at amortised 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	1,870,491,681	-	-	1,870,491,681
Total financial liabilities	49,370,529,835	-	-	49,370,529,835
Other Liabilities	310,149,189	-	1,154,859,568	1,465,008,757
Equity	-	-	5,119,107,758	5,119,107,758
Total liabilities & Equity	49,680,679,024	-	6,273,967,326	55,954,646,348

Capital Adequacy

CAPITAL BASE As at 31st December	2020 (Rs.000')	2019 (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	245,008	209,602
Published Retained Profits/(Accumulated Losses)	4,281,474	3,679,558
Accumulated other comprehensive income (OCI)		
General and Other Reserves	416,418	345,605
Sub Total	5,904,994	5,196,858
Total Adjustments to CET1 Capital		
Deferred tax assets (net)	205,078	112,649
Other intangible assets (net)	127,570	152,781
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
Common Equity Tier I (CETI) Capital after Adjustments	5,572,346	4,903,486
Additional Tier 1 (AT1) Capital after Adjustments		
Qualifying Additional Tier 1 Capital Instruments	250,000	250,000
Total Tier 01	5,822,346	5,153,486
Tier 2 Capital after Adjustments		
Additions		
General Provisions (Stage 1&2 Impairment)	134,804	252,429
Deductions		
Investments in the capital of financial institutions and where the Bank does not own more than 10% of the issued capital carrying voting rights of the issuing entity		252,429
Tier II Capital	134,804	
Capital Base	5,957,151	5,153,486
Total risk adjusted balances (credit risk, market risk, operational risk)	28,819,963	26,931,562
Risk Adjusted Capital Ratios		
Common Equity Tier 1 Capital Ratio *	19.34%	18.21%
Tier I (Total Tier 1 capital / Total risk adjusted balances) **	20.20%	19.14%
Tier II (Capital base / Total risk adjusted balances) ***	20.67%	19.14%

* Minimum 7.00 ** Minimum 8.50% ***Minimum 12.50%

Risk Adjusted On - Balance Sheet Exposure - Rs. 000'

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2020	2019		2020	2019
Exposures					
Cash- Local Currency	155,041	150,213	0%		
Sri Lanka Govt Treasury Bills and Bonds	4,920,030	2,963,655	0%		
Central Bank of Sri Lanka			0%		
Claims on Public Sector Entities (PSEs)			100%		
Loan & Advances					
Claims Secured by Residential Property					
Claims that qualify for regulatory capital purposes	10,318,465	10,820,351	50%	5,159,232	5,410,176
Claims that not qualify for regulatory capital purposes	553,545	1,493,076	100%	553,545	1,493,076
Housing loans against EPF	11,119,023	10,179,298	0%		-
Cash Margin Loans	1,712,333	1,687,318	0%		-
Gold Loans			0%		-
Loan to Value Ratio equal to or less than 70%	22,511	14,301	0%		-
Loan to Value Ratio over 70% and less than 100%	225,104	75,772	20%	45,021	15,154
Loan to Value Ratio equal to or over 100%	175,184	202,964	100%	175,184	202,964
Trading Investment		25,000			
Retail claims that qualify for regulatory capital purposes			75%		
SME exposures secured on Immovable Property	1,258,581	1,448,417	60%	755,148	869,050
Other SME exposures	1,366,207	279,622	75%	1,024,655	209,716
Individual exposures	7,930,156	8,360,656	75%	5,947,617	6,270,492
Retail claims that do not qualify for regulatory capital purposes	20,516	53,240	100%	20,516	53,240
Claims Secured by Real Estate			100%		
Non Performing Assets					
Past Due Residential Mortgage Loans					
Specific provisions are more than 20%	582		50%	291	
Specific provisions are less than 20%	2,231,504	1,393,860	100%	2,231,504	1,393,860

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2020	2019		2020	2019
Housing loans on Guarantors & others Lease					
Specific provisions are more than 20%			100%		
Specific provisions are less than 20%	1,816,083	1,239,491	150%	2,724,124	1,859,237
Due From local Commercial Banks Less Than Three Months (AAA to BBB-)	8,386,474	6,751,499	20%	1,677,295	1,350,300
Due From local Commercial Banks Less Than Three Months (BB+ to B-)	557,324	511,998	50%	278,662	255,999
Due From local Commercial Banks More than Three Months (AAA to AA-)	25,766		20%	5,153	
Due From local Commercial Banks More than Three Months (A+ to BBB-)	1,554,347	1,204,187	50%	777,174	602,093
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	20%		40,257
Claims on Financial Institutions/Primary Dealers/Finance Companies (A+ to BBB- and unrated)	2,161,871	1,784,488	50%	1,080,935	892,244
Claims on Financial Institutions/Primary Dealers/Finance Companies (BB+ to B-) & unrated	287,189	327,712	100%	287,189	327,712
Claims on Other Financial Institutions (A+ to A-)	508,639	276,555	50%	254,320	138,278
Claims on Corporate (BBB+ to BB-)			100%		
Claims on Corporate (Below BB-)	64,490	58,469	150%	96,735	87,703
Claims on Corporate (Unrated)	228,293	535,551	100%	228,293	535,551
Fixed Assets	223,329	227,519	100%	223,329	227,519
Other Assets	1,519,239	1,385,318	100%	1,519,239	1,385,318
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet					
Total Risk Weighted Assets On Balance Sheet	59,341,826	53,651,814		25,065,163	23,619,940
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet	7,623	5,870	100%	7,623	5,870
Total Risk Weighted Assets	59,349,449	53,657,684		25,072,786	23,625,810
Total risk adjusted balance for operational risk				3,747,177	3,265,752
Total risk adjusted balance for Market risk					40,000
Total risk adjusted balances (credit risk, market risk, operational risk)				28,819,963	26,931,562

Share Information

As at 31-12-2020

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

Shareholders	December 31, 2020								
	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	1,710	923,737	1.43	5	1,309	0.00	1,715	925,046	1.43
1,001 - 10,000	531	1,901,242	2.94	4	13,000	0.02	535	1,914,242	2.96
10,001 - 100,000	121	2,889,785	4.47	1	50,000	0.08	122	2,939,785	4.55
100,001 - 1,000,000	15	2,735,149	4.23	2	260,180	0.40	17	2,995,329	4.63
Over 1,000,000	3	46,781,118	72.29	1	9,155,000	14.15	4	55,936,118	86.44
Total	2,380	55,231,031	85.35	13	9,479,489	14.65	2,393	64,710,520	100.00

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

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

	December 31, 2020				December 31, 2019			
	No. of Share holders	%	No. of Shares	%	No. of Share holders	No. of Shares	%	
Individuals	2,263	94.57	6,089,635	9.41	2,152	94.14	5,940,730	9.18
Institution	130	5.43	58,620,885	90.59	134	5.86	58,769,790	90.82
Total	2,393	100.00	64,710,520	100.00	2,286	100.00	64,710,520	100.00

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

	Name Of Shareholder	No. of Shares 2020	Percentage (%) 2020	No. of Shares 2019	Percentage (%) 2019
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. Senthilvel	4,893,378	7.56	4,893,378	7.56
5	Urban Development Authority	300,000	0.46	300,000	0.46
6	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	148,074	0.23	141,485	0.22
14	Mr. S.N.C.W.M.B.C. Kandegedara	139,568	0.22	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	Sezeka Limited	127,000	0.20	127,000	0.20
18	State Engineering Corporation	120,000	0.19	120,000	0.19
19	Road Development Authority	120,000	0.19	120,000	0.19
20	National Water Supply & Drainage Board	120,000	0.19	120,000	0.19
21	DFCC Bank PLC/N.A.L. Dias & D. Dias	106,588	0.16	106,588	0.16
22	Miss. S. Durga	88,500	0.14	88,500	0.14
23	Mr. G.A.M.P. Chandana	86,072	0.13	-	-
24	Mr. A.H. Munasinghe	85,000	0.13	85,000	0.13
25	Mr. P.G. Piyasiri	74,134	0.11	-	-
	Total	59,296,171	91.63	59,296,171	91.63

Share Information

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

	2020 Rs.	2019 Rs.
Highest	41.50	35.00
Lowest	14.00	20.00
Year end	36.20	32.00

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

	2020	2019
Dividend per share (Rs.)	0.25	-
Dividend payout ratio (%)	2.28	-
Net Assets value per share (Rs.)	89.35	79.11
Earnings per Share (Rs.)	10.94	7.35

Directors and General Manager /CEO Shareholding (as at 31st of December 2020)

Name	2020	2019
Mrs. R.M.R.W. Manchanayake	Nil	Nil
Senior Prof. K. D. Gunawardana	1,000	1,000
Dr. S.N. Morais	1,000	1,000
Mr. P.A.S.A. Kumara	Nil	Nil
Mr. L.E.S. Silva	1,000	Nil
Senior Prof. A. Jayamaha	1,000	Nil
Mr. D.M.A.K. Dassanayake	Nil	Nil
Mr. Palitha Gamage (GM/CEO)	Nil	Nil

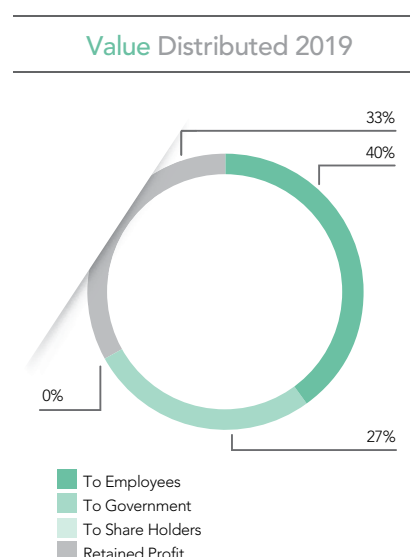
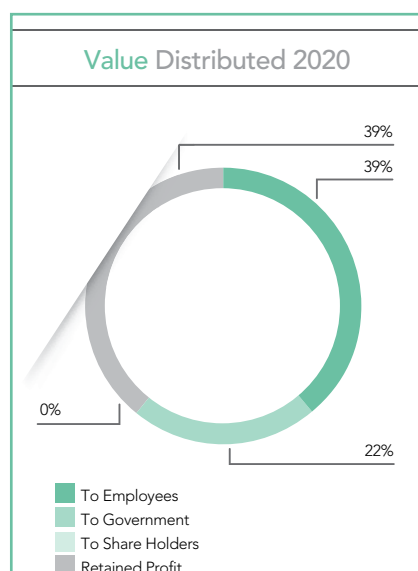
Public holding (As per rule No. 7.13.1 of the Colombo Stock Exchange)

	2020	2019
Number of Public Shareholders	2,383	2,272
Public shareholding	23,168,429	23,156,274
Percentage of public holding	35.803%	35.784%

Value added Statements

For the period ended 31st December

Rs. '000	Bank			
	%	2020	%	2019
Interest Income		7,456,679		7,683,162
Other Income		399,754		407,303
Gross Income		7,856,434		8,090,465
Cost of Service		4,812,186		5,189,793
Total Value Additions		3,044,248		2,900,672
Value Distributed				
To Employees				
(Remuneration & Benefits)	38.6	1,174,051	40.1	1,164,469
To Government				
Income Tax	22.3	678,895	26.7	773,835
Value Added Tax, NBT & DRL FS	11.8	360,299	10.3	298,795
Nation Building Tax	10.3	312,686	16.2	469,973
Crop insurance Levy	-	-	-	-
Crop insurance Levy	0.2	5,792	0.2	4,822
Stamp Duty	0.0	119	0.0	245
	22.3		26.7	
To Share Holders (Dividend)				
	-	-	-	-
		*		*
Retained in the Business				
Retained Income	39.1	1,191,301	33.2	962,369
Depreciation	23.3	708,137	16.4	475,712
Loan Loss Provision	5.1	156,638	5.6	163,763
	10.7	326,526	11.1	322,893
Total Value Distributions	100.0	3,044,248	100.0	2,900,672



10 Year Summary

Year ended 31st December (Rs. Mn.)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
OPERATING RESULTS										
Income	2,386	2,744	3,803	4,566	4,925	5,928	6,978	7,120	8,090	7,856
Interest Income	2,261	2,635	3,528	4,378	4,660	5,473	6,614	6,679	7,683	7,457
Interest Expense	1,354	1,805	2,469	2,535	2,539	3,509	4,742	4,441	4,783	4,475
Other Income	82	110	275	188	265	455	365	442	407	400
Operating Expenses	620	762	938	1,123	1,288	1,409	1,472	1,668	1,740	1,674
Provision for Loss	10	1	87	131	89	160	-57	93	323	327
Profit Before Tax	402	176	309	777	1,009	848	821	919	1,244	1,381
Income Tax and Finance VAT	186	120	151	402	500	365	407	354	769	673
Profit After Taxation	216	56	158	375	509	483	414	564	476	708
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer Deposits	12,336	14,695	18,902	24,479	28,593	32,123	36,655	37,016	42,504	47,947
Borrowings	3,556	3,214	5,257	6,213	9,037	8,863	7,917	6,653	6,866	5,542
Other Liabilities	1,699	500	834	840	920	872	920	860	1,465	1,759
Shareholders' Funds	2,337	2,391	2,575	2,886	3,364	3,821	4,232	4,757	5,119	5,782
Total	19,927	20,801	27,567	34,418	41,913	45,679	49,724	49,285	55,955	61,030
ASSETS										
Loans and Advances	14,888	15,966	19,701	23,357	26,685	30,260	34,968	37,949	41,216	41,192
Cash, short term funds and statutory	3,960	3,679	6,601	8,997	11,852	11,807	11,027	7,592	11,984	17,186
HTC & Sell, FVTPL Investments				850	2,043	2,053	2,115	2,014	877	526
Property, Plant and Equipment	250	288	290	296	435	478	513	466	380	351
Other assets	830	868	975	918	898	1,080	1,101	1,264	1,498	1,775
Total	19,927	20,801	27,567	34,418	41,913	45,679	49,724	49,285	55,955	61,030
RATIOS										
Return on Average Shareholders Funds (%)	10.3	2.35	6.36	13.72	16.30	13.46	10.29	12.56	9.63	12.99
Income Growth (%)	6.0	15.0	38.6	20.1	7.9	20.3	17.7	2.0	13.6	-2.9
Return on Average Assets (%)	1.2	0.27	0.65	1.21	1.33	1.10	0.87	1.14	0.90	1.21
Advance to Deposits and Borrowings (%)	106.7	112.2	122.6	131.4	141.0	135.4	127.5	115.1	119.8	129.9
PPE on Shareholders Funds (%)	10.7	12.0	11.2	10.3	12.9	12.5	12.1	9.8	7.4	6.1
Total Assets to shareholders funds (times)	8.53	8.70	10.70	11.93	12.46	11.95	11.75	10.36	10.93	10.53
SHARE INFORMATION										
Market Value per Share (Rs)	For Rs.100/= Shares		For Rs.10/= Shares							
High (Rs.)	1,900.0	119.0	52.5	52.5	76.5	70.0	44.5	30.0	30.0	41.5
Lower (Rs.)	546.0	44.0	48.2	48.2	58.5	46.5	31.7	23.0	23.0	14.0
Close (Rs.)	1,400.3	50.6	49.6	49.6	67.1	47.2	32.7	26.0	26.0	36.2
Earnings per Share (Rs.)	3.34	0.86	2.44	5.79	7.87	7.47	6.40	8.72	7.35	10.94
Price Earnings Ratio	419.47	58.84	20.31	8.57	8.53	6.32	5.11	2.98	3.54	3.31
Net Assets per Share(Rs.)	36.11	36.95	39.80	44.60	51.98	59.05	65.39	73.51	79.11	89.35
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*	505	488	488	477	561	570	567	561	558	633
No. of branches	31	32	33	36	38	38	39	39	39	39
No. of ATM (Access)	255	360	652	775	854	3,000+	4,350	4,850	5,132	5,075

*- From 2020, consider contract employees also

Corporate Information

Name and Address

HDFC Bank of Sri Lanka
(Housing Development Finance Corporation Bank of Sri Lanka)
Ministry of Finance, Economy and Policy Development
(Further refer page No. 124 : Report of Directors')

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 incorporated under the provisions of Housing Development Finance Corporation, Act No. 07 of 1997, amended by Act No. 15 of 2003 and Act 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. R.M.R. Wasanthi Manchanayake (Chairperson)

Senior Professor K.D. Gunawardana (Director)

Dr. S.N. Morais (Director)

Mr. P.A.S. Athula Kumara (Director)

Mr. L.E. Susantha Silva (Director)

Senior Professor A. Jayamaha (Director)

Mr. D.M.A.K. Dassanayaka (Director)

Mr. M.P.D.U.K. Mapa Pathirana (Director)

Company Secretary

Mrs. Dharshani De Silva

Attorney - at - Law and Notary Public

MBA & LL.M.

Telephone : 2423362

E-mail : dharshani.d@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 +Stable (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. A.J. Athukorala – Chief Operating Officer

Mrs. W.W.D.S.C. Perera – DGM - Legal and Recoveries

Mr. C.R.P. Balasuriya – DGM -Treasury and Payment

Mr. H.A. Anura – Chief Financial Officer

Mr. D.M.D.M.K. Dissanayake – AGM-Credit

Mrs. K.T.D.D. De Silva – AGM - HRM & Company Secretary

Mrs. W.N.D. Botejue – AGM - Admin

Mr. K.R.M.A. Bandara – AGM - Compliance Officer

Mr. A.M. Neelachandra – Chief Manager - IT

Mr. I. Nishantha – Chief Manager - Risk

Investor Information

Mr. Anura Hettiarachchi

Chief Financial Officer

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Fax : 2356829

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