



YOUR FUTURE



The Housing Bank...

HDFC BANK OF SRI LANKA
ANNUAL REPORT 2012

THE STORY OF THE SECOND INTEGRATED ANNUAL REPORT

The first integrated annual report of HDFC Bank was published for the financial year 2011. In consideration of the high degree of stakeholders' positive feedback, it was very encouraging to continue with the integrated reporting effort. HDFC depends on our valued shareholders who have vested interest in us ensuring that we deliver not only positive financial returns, but also positive social, environmental and broader economic returns in the long run. HDFC Bank crossed over a challenging financial year in 2012. We believe that in the troubled environment, being more informative with both positive and negative aspect of our operation is crucial to see-through the permanent strategies being implemented. Being focused on meeting all stakeholders' long-term interest allows us to grow in a way that's aligned with our vision and mission.

Reporting Period and Framework

This Annual Report attempts to offer an integrated view of the bank's operation for the period 1st January 2012 to 31st December 2012. The most recent report was published in May 2012, covering the performance of financial year 2011.

In compiling the report, HDFC has complied with the following standards, code of best practices and guidelines where applicable.

Sri Lanka Accounting Standards (SLAS) and Sri Lanka Financial Reporting Standards (SLFRS)
Finance Act and the rules and regulations issued by the Central Bank of Sri Lanka.
Listing rules of the Colombo Stock Exchange (CSE)
Code of best practice on Corporate Governance issued jointly by the Securities Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.
Companies Act No 7 of 2007
Sustainability reporting G3.1 guideline issued by Global Reporting Initiative (GRI) and the prototype framework for integrated reporting released by the International Integrated Reporting Council (IIRC)

Stakeholder Feedback

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

Editorial Information

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The future of housing for the masses has become a key significant area of thought and progress in many countries and in a growing nation; our needs are not that different. This is where HDFC has taken a significant step in providing housing finance options for all strata of society in order to create a sheltered Sri Lanka. From simple family homes to urban shelters, we are looking at the future to inspire and motivate us to keep to our vision of providing housing related finance based on quality and trust.



The Housing Bank...

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REPORT PARAMETERS

Materiality

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

Stakeholder Inclusiveness

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

Sustainability Content

The report attempts to offer an integrated view of the company's performance from financial, economic, social and environmental facets, where stakeholders from employees to community, customers to valued business partners, shareholders to the nation at large

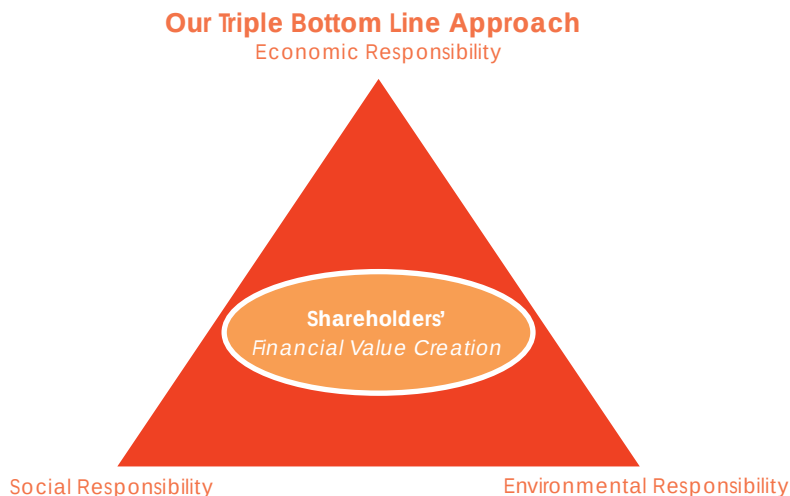
become a part of the HDFC journey. Our primary business platform is housing and housing related finance, and we strive to drive our core business to contribute in our capacity, towards the United Nations Millennium Development Goals. The report attempts to present an integrated analysis of both positive and negative performances of the Bank in a manner, our shareholders and other important stakeholders are able to gain a comprehensive view of our policies, interactions and processes. The report also enables us to critically look at ourselves, analyse the gaps and attempt to bridge them for a more holistic approach to a sustainable business.

Specific Limitation

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

Data Measurement and Standard Disclosure.

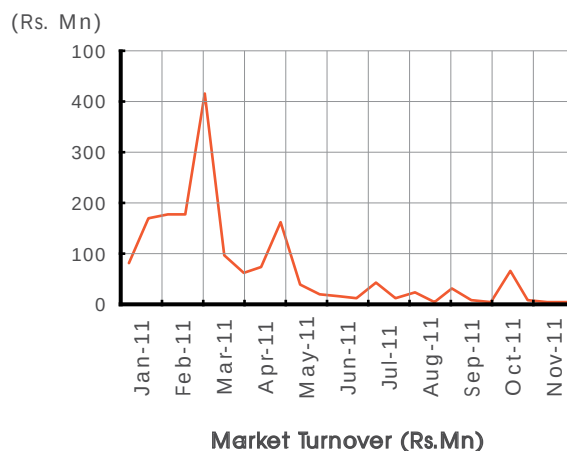
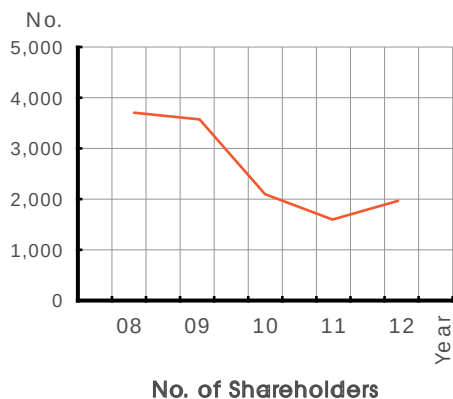
Financial information pertaining to economic, social and environmental performance has been extracted from the audited financial statements while other internal information has been obtained from the subsidiary records of the Bank.



HIGHLIGHTS

HDFC SHARE

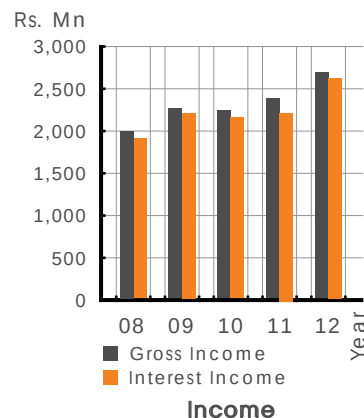
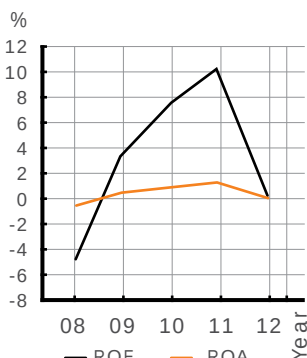
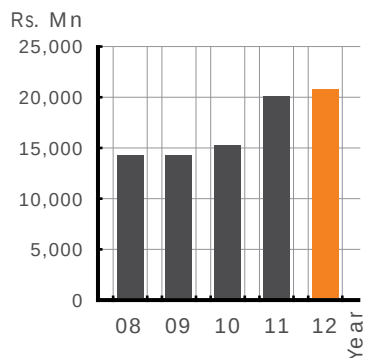
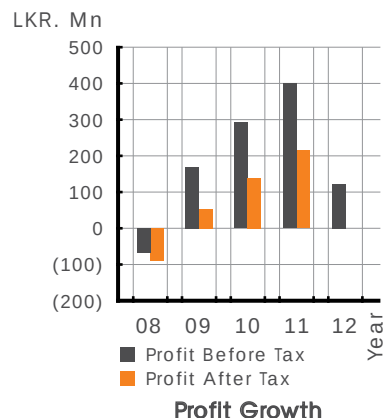
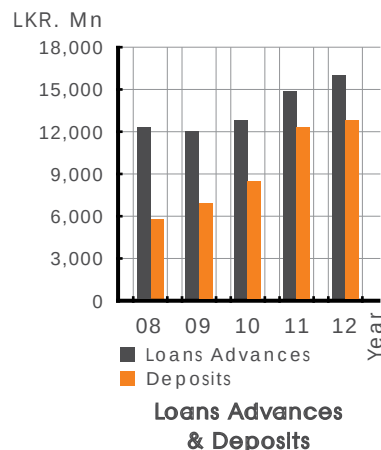
	2012	2011	Change
No. of Shares Issued	64,710,520	64,710,520	0%
Stated Capital LKR-million	962	962	0%
No. of Shareholders	1,992	1,615	23%
No. of Public shareholding	13,712,355	13,660,000	0.4%
Percentage of public shareholding %	21	21	0%
Market Capitalisation -Year end LKR million	3,028	9,059	-67%
Share Volume Traded	2,372,110	1,192,100	99%
Average Monthly Share Volume Traded	197,676	99,342	99%
Share Market Turnover - LKR million	188	1,444	-87%
Share Price high LKR	119	190	-37%
Share Price low LKR	44	55	-19%
Share Price Closing LKR	51	140	-64%
Net Assets Value per share LKR	36.95	36.11	2%
Ratio			
Earning per share (EPS)	0.04	3.34	-99%
Price Earning -time	1,335	42	3083%
Earning yield ratio	0.0007	0.024	-97%



* Nominal Value of Rs 100/= Share was subdivided to Rs 10/= Share in march 2012 and comparative figures in 2011 were restated accordingly.

HIGHLIGHTS FINANCIAL

	2012 LKR.Mn	2011 LKR.Mn	Change %
Results for the year			
Income	2,691	2,386	13
Profit Before Taxation	123	402	(69)
Provision For Taxation	120	186	(35)
Profit After Taxation	2	216	(99)
Revenue to the Government	123	189	(35)
Financial Ratios			
Return on Average shareholders Fund (%)	0.10	10.32	(99)
Return on Average Assets (%)	0.01	1.22	(99)
Share Holders Equity to Total Assets (%)	11.50	11.73	(2)
Statutory Ratios			
Liquid Assets (%)	22.65	21.15	7
Capital Adequacy -			
Tier I (%) - Minimum Required 5 %	20.79%	21.34%	(3)
Tier II (%) - Minimum Required 10 %	21.46%	21.95%	(2)
Other Information			
Branchers	32	31	3
Employees (No of Staff)	488	505	6
Credit Rating - Fitch Rating	BBB Stable	BBB + Stable	



HIGHLIGHTS OPERATIONAL

We granted 12,400 housing loans valued LKR 3,599 Mn compared to 14,224 facilities in 2011 worth LKR 4,700 Mn.

Our deposit customer base improved from 261,000 to 330,000 giving a deposit improvement of 5%.

We enhanced customer access points from 31 branches to 32 branches, 310 ATMs to 360 ATMs and 100 mobile bankers to 120 mobile bankers, island wide.

Over 33,000 people were financially included through mobile banking.

Achieved yearly targets of becoming a carbon neutral organisation.

We invested over LKR 1.8 Mn for community sustaining.

Goals ahead - Medium Term

	2011 - Actual	2012 - Actual	2013 - Budget	2013 - Goal
Return on equity	10.32%	0.10%	4.12%	18.5%
Return on assets	1.22%	0.01%	0.41%	2%
Cost to income ratio	82.74%	95.39%	93.91%	43%
Customer deposits (LKR Mn)	12,336	12,923	17,980	17,500
Total Assets (LKR Mn)	19,927	20,801	25,336	30,000
Shareholder funds (LKR Mn)	2,337	2,391	2,508	2,700
No. of branches	31	32	32	50
Staff Strength	505	488	500	500
ATM access	310	360	400	500

LKR 3,599 Mn for housing loans
for 12,400 households

10,517 Ltr
Water Consumption

679,256 Kwh
Electricity Consumption

17,066 Ltr
Fuel Consumption

12,242 Kgs
Paper Consumption

3,934 Kgs
Paper Recycled

CHAIRPERSON'S STATEMENT

I am confident the public trust in the HDFC brand will generate rapid results in the new markets that we plan to enter

Sri Lanka is now on course to double per capita income to US\$ 4,000 by 2016 and the Government is planning a second wave of growth to avoid the middle-income trap. As part of this long term vision, the country is experiencing an unprecedented scale of development activities across almost all economic spheres. The year 2012 saw the realisation of many of these development projects. The massive infrastructure development drive during 2012 encompassed construction and renovations of ports, airports, roads, railroads, irrigation, energy, water supply, housing and also urban development. During the year, the Upper Kotmale hydropower project came online and the Mattala Rajapaksa International Airport was finalised for take-off in March 2013. The Colombo South Harbour Project, the Colombo Outer Circular Highway, Phase II of the Magam Ruhunupura Mahinda Rajapaksa Port, Phase II of the Southern Expressway, the Colombo - Katunayake Expressway, and the extension of the Northern railway line up to Jaffna, are some of the other significant land marks of the year. In addition to these major infrastructure projects, numerous small scale schemes were implemented across the country uplifting rural quality of life. Under the Government's urban development plan, Colombo city embarked on a full scale facelift with the construction of walkways, rehabilitations of roads, parks, restaurants, commercial centres, recreational facilities and streamlined waste management. The year also saw a number of significant private sector investments materialise, particularly in the field of property development. These multi-sectoral development ventures will start contributing to overall economic growth in the near future by supporting travel and transportation, commercial enterprises and

tourism, while also uplifting overall quality of life of both rural and urban populations.

Housing remained a priority, with the Government adopting a multidimensional approach towards meeting housing needs by constructing new houses, rehabilitating existing housing facilities, relocating from low quality housing, assisting low and middle income families to build houses, and facilitating resettlement and confirmation of property rights. We, at HDFC, extended our full support to the national housing vision of 'house ownership for all' that targets 600,000 houses by 2016, by granting loan facilities for 12,400 new houses during the year.

While all key sectors contributed positively to the economic growth of 6.4% in 2012, the Industry sector was the main driver of growth, fuelled by construction. The construction sub sector made the most significant contribution, reflecting the massive public investment programme and several private sector real estate projects.

However, the rising interest rates during the year resulted in a sharp increase in our cost of finance and interest expenses. While HDFC responded by marginally raising lending rates, it was not financially and socially viable to increase our lending rates drastically to compensate for the rapid rise in rates, as our customer base is mainly made up of middle and low income segments, with limited incomes. As a result, HDFC Bank had to absorb almost the full shock of the sharp interest rate increase, with limited avenues to generate income from other sources.



DESPITE THE SETBACKS, I AM HAPPY TO ANNOUNCE THAT THE FUTURE LOOKS EXTREMELY PROMISING FOR YOUR BANK AS WE HAVE ALREADY TAKEN STEPS TO CREATE NEW GROWTH OPPORTUNITIES.

A promising future

Despite these setbacks, I am happy to announce that the future looks extremely promising for your Bank as we have already taken steps to create new growth opportunities. In 2011, our efforts to amend the HDFC Act, pertaining to the Bank's scope of operations, saw positive outcomes, and as a result, HDFC Bank is now able to expand business activities into hitherto untapped areas. This situation has opened up new vistas of growth for the Bank and I am confident the public trust in the HDFC brand will generate rapid results in the new markets that we plan to enter in the new financial year. We have already initiated an internal capacity building process with this future growth in mind.

New revenue streams

We expanded our operations to create new revenue streams for the Bank by linking our growth strategies with the wider needs of Sri Lankan society. The 'HDFC Group Housing Fund' was introduced as a low cost, long term source of funding for the Bank, which at the same time addresses the pressing need in Sri Lanka for effective retirement schemes to ensure a secure future for the country's aging population. This unique savings scheme allows the public to participate and benefit directly from the country's housing demand growth,

that will be sustained into the future. The product ensures higher future financial returns for account holders, as it always gives the highest market interest rates for any size of deposit. The account matures when the deposit holder reaches the age of 55 years and by this time the savings account would have grown into a significant retirement fund. The response to this product has been most encouraging and I am confident this product will continue to gain popularity in the coming years given Sri Lanka's aging population phenomenon.

We have also continued to devise innovative ways to meet housing needs of low income groups. The 2012 census data indicates that while Sri Lanka has been successful in managing the national housing gap, a substantial gap prevails within the low and lower middle income groups, mainly due to population growth and resettlement needs in the North and East. Meanwhile, demand for urban housing is rising exponentially, with the country poised for rapid urbanisation. However, while the middle and upper economic segments are well served by the formal financial system, Sri Lanka's low income and informal sectors, that account for about 30% of the potential housing market in the country, are still largely under served. We have responded to this social need with a unique and sustainable solution that leverages the traditional asset of gold.

CHAIRPERSON'S STATEMENT CONTD.

Although Sri Lanka has experienced historically low savings to GDP, we believe that even low income populations invest in savings. However, such savings have traditionally been in the form of gold. As a result, such populations are unable to access formal financial systems for credit, due to a higher credit risk profile. However, we have introduced a win-win solution that allows low income groups to convert their gold savings into their share of equity in housing loans. The loan scheme is a low risk and growing source of revenue for the Bank, and contributes directly towards the Bank's social and economic sustainability agenda, by supporting vulnerable groups. Traditionally, such segments would have had no option but to resort to informal financing that is both unsafe, due to lack of regulation, and also unfair, due to exorbitant interest rates. Through HDFC's gold loans these populations now have the opportunity to make their dream of owning a home, become a reality.

Building capacity

Ensuring long term stability in the face of external unpredictability has been a primary sustainability concern for the Bank. Therefore, we continued our ongoing efforts to build internal capacity, to generate permanent solutions that would contribute towards sustaining future growth. This included developing staff skills, realigning internal processes and improving our technology.

We widened our market reach by leveraging mobile and palmtop banking methodologies and through strategic alliances that expanded our ATM coverage. These solutions have allowed effective market expansion, at low cost. In January 2012, we opened the first HDFC Bank branch in Jaffna to serve reconstruction and rehabilitation needs in the North. This move allows us to serve the growing housing demand in conflict recovering areas, while also supporting the Government's development plans.

In line with Central Bank directives, we increased our capital base to Rs 2 billion in 2011 and we are now preparing to raise this to Rs 2.5 billion in 2013.

Future outlook

Over the years HDFC has built a name as a leading and trusted housing finance institution in the country. Today, with a more relevant regulatory mandate, we are in a stronger position than ever before to meet challenges that may come our way in the future. Therefore, we will continue to leverage our expertise in the local housing market to develop unconventional and effective strategies to sustain growth and create long term value for our shareholders.

Empowered by the amendments to the HDFC Bank Act, we are now preparing to venture into the SME and micro finance sectors. To cater to the micro industry segment, we will introduce a unique financing model that accommodates economic activities together with housing development. Our innovative housing finance proposition will facilitate housing that accommodates business activities, meeting both the housing needs and business needs of micro entrepreneurs. We also hope to use our new statutory mandate to enter the leasing market, which will allow us to offer a comprehensive package of services to support SMEs and micro businesses.

In the new financial year, we will continue to expand our geographic market reach through a combination of mobile banking, palm top banking and new customer service points to mobilise deposits and advances. I am confident our operations in the North and East will see rapid expansion as resettlement and recovery gathers pace. We will continue to develop flexible solutions to meet the growing housing demand across the country, particularly in the area of sustainable urban housing.

Appreciation

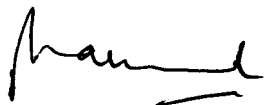
I would like to express my sincere appreciation to His Excellency the President and Minister of Finance, Mahinda Rajapakse, for his vision that has brought an era of lasting peace and development to the country. I would like to thank the Secretary to Treasury, Dr. P. B. Jayasundara, and the Governor of the Central Bank of Sri Lanka, Mr. Ajith Nivard Cabraal, for their regulatory supervision and guidance. I am grateful to the Board

of Directors of HDFC Bank for their contribution and unfailing support during a challenging year. My thanks also go out to the Acting General Manager, Mr. S. Dissnayake, for his valuable services in 2012 and to the new General Manager of HDFC Bank, Mr. Nimal Mamaduwa, who joined us on January 1, 2013.

As always, I am grateful to my corporate, executive and all other staff, for their dedicated services and commitment and I would like to acknowledge the HDFC Bank Trade Union for its support in ensuring the wellbeing of both the Bank and the HDFC employees. I wish to also thank all our customers for their steadfast confidence in the Bank at all times, which has been an enormous source of strength for the Bank.

I would like to address a special note of appreciation to the shareholders of HDFC Bank, for their constant support of the Bank and I take this opportunity to assure our shareholders that your Bank is now poised for transition, with stronger fundamentals and a legal mandate into a new era of possibilities. Therefore, your patience and consideration will see rich dividends in the near future and you will continue to reap dividends in the longer term.

Thank you



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

GENERAL MANAGER/CEO'S REVIEW

We believe diversification is a permanent and sustainable solution to reduce operational risks while also opening up avenues of future growth. Therefore, we are in the process of changing our business model by rebalancing our business operations.

I am honoured to present HDFC's performance for the year 2012.

The year under review was a challenging one for the entire country, due to a combination of external global conditions and local factors. The world economy was weighed down by the European sovereign debt crisis, the fiscal cliff in the US, Iran sanctions and persistently high petroleum prices that aggravated geopolitical uncertainties.

In the local context, high imports and excessive credit demand, coupled with drought conditions and heavy rains and floods in the last quarter of the year, destabilised the country's hydro power production, agricultural outputs and food supplies, dampening the domestic economy. Faced with this situation the Central Bank of Sri Lanka implemented several tough policy decisions in the areas of monetary policy, exchange rate policy and fiscal policy, in early 2012. A credit ceiling was imposed on bank lending and policy rates were revised upwards to contain excessive credit and import growth, which in turn, resulted in lower liquidity and higher market interest rates.

However, the country continued to show strong Economic growth despite the adverse impacts on the economy, with GDP growth reaching 6.4%. Economic fundamentals were further strengthened with the Government making a serious commitment to sustain fiscal consolidation. The year also saw progress and development with the continuation of massive infrastructure projects like road development, power projects, ports and airports and rural infrastructure projects like Gama Neguma, Maga Neguma, Uthuru Vasanthaya and Neganahira Udanaya. Foreign Direct investments continued to flow into the country towards hotels, condominiums and new shopping malls that are rapidly transforming the country. The tourism sector continued to show exceptional growth with arrivals surpassing one million visitors for the first time in history and the growing confidence of overseas investors was evident.

Overall, the country's banking sectors responded to the needs of the economy by contributing towards sustaining the strong economic growth. Sri Lanka is moving closer towards achieving the Millennium Development Goals and the Government is preparing



the groundwork for sustained progress towards a US \$ 100 billion economy and a US\$ 4000 + per capita income by the year 2016. HDFC is contributing towards these national goals in our capacity as specialists in housing finance, which is a key element of social progress and empowerment.

Our performance

I am happy to announce creditable progress by your Bank during the year under review, despite the unexpected impediments faced by the Bank, due to the broader macroeconomic conditions. Overall, your bank sustained a 13.4% growth in income during the year from our core business. However, due to rising interest rates, our interest expenses increased by 33%, which led to a negative net interest income position. The Bank also experienced an increase in operating costs due to employee salaries being revised upwards by 33%, under a new collective agreement with the HDFC branch of the Ceylon Bank Employees' Union.

As rising interest rates caused the housing market to slump, we could not compensate for higher costs by increasing our revenues. As a result our revenue targets could not be met and we have experienced a decline in profitability compared to the financial year 2011. Nevertheless, due to our strong focus on growth, the Bank has continued to sustain growth of deposits and advances.

Deposits

The overall deposit base of the Bank grew by 5% during the year and HDFC continued to develop new products and focused on expanding the savings deposit base to strengthen low cost, long term funding. Currently the Bank's time deposits account for 87% of the deposit base, while savings account for 13%. However, through our initiatives to promote savings products we hope to increase our savings base to 20% of the overall deposit portfolio, within the next three years. This would strengthen HDFC's long term funding situation by providing a source of low cost funding.

Advances

Total advances grew by 8% compared to the previous financial year, despite the credit restrictions experienced by the market. During the year, we also introduced a new product in the form of gold loans and promoted Employee Provident Fund (EPF) backed housing loans, as a strategic response to the credit ceiling and market downturn.

We are happy to announce that we have received an encouraging market response to our gold loans and we are confident of strong growth in this segment as the product becomes more popular. We have also continued to increase EPF backed loans for land purchases for housing and housing purposes.

GENERAL MANAGER/CEO'S REVIEW CONTD.

Credit quality

The NPL ratio saw an improvement at 20.52% as against 22.21% in 2011, due to the implementation of more stringent credit evaluation processes, coupled with a strong emphasis on recoveries. However it is noteworthy to mention that this includes NPL Loans backed by EPF Balance which are guaranteed by the Central Bank of Sri Lanka (CBSL). The ratio excluding EPF category Stands at 7.8% as at 31.12.2012 as against 11.37% in 2011.

Technology

Improving our technology remained a priority during the year, to capitalise on efficiency and productivity gains that can be facilitated through the creative use of IT and other technologies. During the year we expanded our palmtop operations to reach deeper into rural parts of the country at a minimum cost. To enhance consumer access to the Bank, particularly in rural areas, we launched an agreement with Sampath Bank to enable HDFC Bank customers to utilise the more extensive Sampath Bank ATM network. As a result, in addition to our network of 32 branches island wide and 120 mobile bankers using palm top technology for customer service, HDFC customers now have access to 360 ATM machines across the country.

Fee based income

In our efforts to diversify our revenue streams we have been concentrating on expanding our services into the remittances market, through Western Union, since 2011. In 2012, we expanded these services to all HDFC branches. We have also facilitated utility bill payments as a source of fee based income and customer convenience and during the year we provided a unique service of door-to-door utility bill payments, through our team of mobile bankers.

Our people

As in the case of any service organisation, our staff are our greatest asset and we have been providing continuous training and development opportunities to all our staff. Due to our transition into a specialised bank in 2003, a need has been created to re-train and re-orient our staff, to deal with the new mandate of the Bank, in areas such as banking regulations, risk management and customer service. Therefore, we have conducted a skills gap evaluation and identified training needs required to improve the Bank's competitiveness and our

staff have been subject to regular training at specialised institutions such as the Central Bank, the Institute of Banking of Sri Lanka and the Chartered Institute of Sri Lanka. Our employees have also been sent for foreign training depending on the requirement.

We also encourage our employees to obtain professional qualifications as we believe our skill base will act as a competitive advantage in the face of future challenges.

Capital adequacy

HDFC Bank has met its capital adequacy ratio requirements in 2012, with the Tier 1 capital adequacy ratio at 20.8% and the total capital adequacy ratio at 21.5%, as against the regulatory requirement of 5% and 10%, respectively.

The Bank has also maintained a satisfactory liquidity ratio of 25.2%, as against the regulatory requirement of 20%.

Necessary strategies have been developed for the Bank to achieve the minimum capital requirement of Rs 2.5 billion by end 2013.

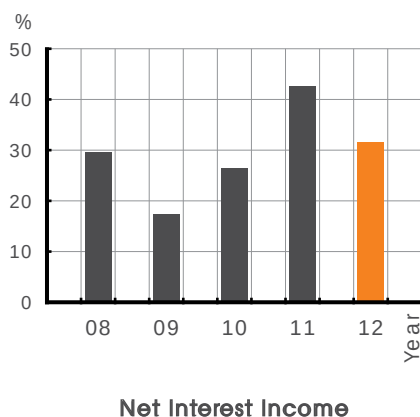
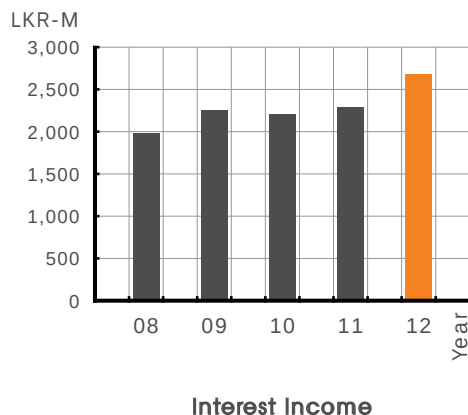
Implementation of IFRS

HDFC Bank was one of the first banks that published quarterly statements in line with IFRS standards and the Bank's final accounts for 2012 have been prepared in compliance with IFRS standards.

Awards / Recognition

I am happy to place on record that HDFC Bank's transparency in communications is gaining recognition. HDFC Bank won the ACCA Sustainability Reporting award for the 3rd consecutive year, in the small scale category. Annual Report 2011 was the HDFC's first integrated report in line with international integrated reporting standards and was also a first for the local banking industry.

HDFC also won the bronze award in the financial institutions sector, at the annual report competition organised by the Institute of Chartered Accountants of Sri Lanka. In addition, HDFC was the runner up at the Business Excellence Awards organised by the National Chamber of Commerce of Sri Lanka.



We will continue to maintain our corporate communications policy in line with internationally accepted sustainability guidelines, to ensure greater transparency and accountability towards all our stakeholders.

Way forward

We believe diversification is a permanent and sustainable solution to reduce operational risks while also opening up avenues of future growth. Therefore, we are in the process of changing our business model by rebalancing our business operations. While long term housing finance will remain our core business, we are expanding the Bank's short term asset base through new products and services, which will promote greater operational flexibility, while also helping to spread the operational risk.

With the amendment of the HDFC Act in 2011, HDFC is now able to diversify business operations. Under our new, broader operations mandate, we plan to enter the country's leasing, micro finance, SME and agriculture markets. For this purpose, we have already initiated a funding scheme with the Central Bank of Sri Lanka, and we hope to negotiate more such funding arrangements with specialised agencies. Through the Central Bank's refinance scheme, HDFC is now ready to gain a foothold in micro finance, SME lending and agricultural financing.

In the new financial year, we will also continue to promote our highly successful gold loans scheme. Expansion of our savings base will continue to remain a priority for the Bank, for the purpose of mobilising an ongoing stream of low cost funding. We will continue to consolidate our operations in 2013 by improving our systems, processes and skill base, to deal with future growth opportunities and to compete successfully in an increasingly competitive market. As part of this process, we have already strengthened the Bank's Regional management structure by giving greater decision making autonomy to Regional managers.

Appreciations

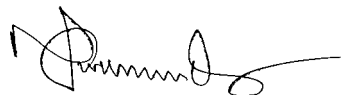
I would like to extend my appreciations to Mr. Ajith Nivard Cabraal the Governor of the Central Bank and the Director and staff of the Central Bank's Bank Supervision

department, for their professional guidance during the year. I am also grateful for the support extended by the officials of the Ministry of Finance, the Auditor General and staff, and officials of the Ministry of Housing and the National Housing Development Authority.

My most sincere gratitude goes out to Mrs. Siromi Wickramasinghe, the Chairperson, and the Directors of the Bank for the confidence they have placed in me to drive the bank to greater heights and also for their valuable advice.

I also acknowledge the services rendered during the year 2012 by the Acting General Manager/CEO, Mr. S. Dissanayake, for his hard work and contributions. My thanks are also due to the corporate management and the staff members at all levels, as we could not have achieved our current position without them.

Last but not least, my appreciations go out to the shareholders of HDFC and all other stakeholders for their support during the year under review.



Nimal J. B. Mamaduwa
General Manager/CEO
HDFC Bank of Sri Lanka


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HDFC BANK
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OUR COMPANY

Towards responsible housing finance

OUR VISION & OUR MISSION

Our Vision

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

Our Mission

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

Our Objectives

Customer:

to provide a caring customer service anticipating solutions required by our customers and innovatively satisfying them beyond expectations.

Shareholders:

to optimise return on shareholders' fund.

Organization:

to commit ourselves to the highest standards in corporate and business ethics whilst maintaining financial stability and growth.

Employees:

to motivate, develop, recognise and reward our employees.

Community:

to be strongly committed to contribute to the national goal of providing shelter for all.

Industry:

setting industry benchmarks of international standards in delivering customer value through out comprehensive product range, customer service and all our activities.

Ethics:

maintaining the highest ethical standards worth of a leading corporate citizen.

Values

The foundation of the success story.

Transparency:

being honestly and candidly accountable.

Fairness:

stakeholders viewing as winners.

Openness:

respecting each other and showing genuine interest

CORPORATE INFORMATION

Name and Address :

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

Registered and Head Office :

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

Telephone : 2356800, 2446241, 2446239, 2447354

Fax : 2446392, 2356829, 2356827

Web Site : www.hdfc.lk

E-mail : hdfc@sltnet.lk

Legal Form :

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

Stock Market Listing :

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

Board of Directors :

Mrs. S.N. Wickramasinghe (Chairman)

Mr. W.J.L.U. Wijayaweera (Director)

Mrs. C. Wijayawardhana (Director)

Mr. W.D.R.D. Goonaratne (Director)

Mr. S.A.J. Samaraweera (Director)

Mr. A.J. Aloysius (Director)

Mr. L. E. Susantha Silva (Director)

Mr. G.L.S. Senadeera (Director)

Company Secretary :

Mrs. Dharshani De Silva

Attorney – at – Law & Notary Public, Company Secretary, Commissioner of Oaths.

Tel. 2423362

E-mail secretary@hdfc.lk

Registrars :

SSP Corporate Services (Pvt.) Limited

Address : 101, Inner Flower Road, Colombo 03.

Telephone : 2573894

Fax : 2573609

E-Mail : sspsec@sltnet.lk

Year of Incorporation as a Building Society :

1984

As a Licensed Specialised Bank : 2003

Auditors :

Auditor General – Department of Auditor General Battaramulla.

Credit Rating :

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

Bankers :

Bank of Ceylon

Corporate Branch, Echelon Square, Colombo 01.

Sampath Bank

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

People's Bank

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

Commercial Bank of Ceylon Limited

Commercial House, Union Place Branch, Colombo 02.

Corporate Management

Mr. Nimal J. B. Mamaduwa - Chief Executive Officer/ General Manager

Mr. S. Dissanayake - Chief Operations Officer

Mr. D.V. Pathirana - Chief Financial Officer

Mr. W.M.A. Bandara - Chief Information Officer

Mr. A.J. Athukorala - Chief Internal Auditor

Mr. L. Edirisinghe - Chief Manager (HR & Admin)

Mrs. W.W.D.S.C. Perera - Chief Manager (Legal)

Mrs. H.S. Gunathilaka - Chief Manager (Business

Development & Marketing)

Mr. C.R.P. Balasooriya - Chief Manager (Treasury)

Mr. D.M.D.M.K. Dissanayake - Chief Manager

(Credit)

Investor Information

Mr. D. Vidana Pathirana

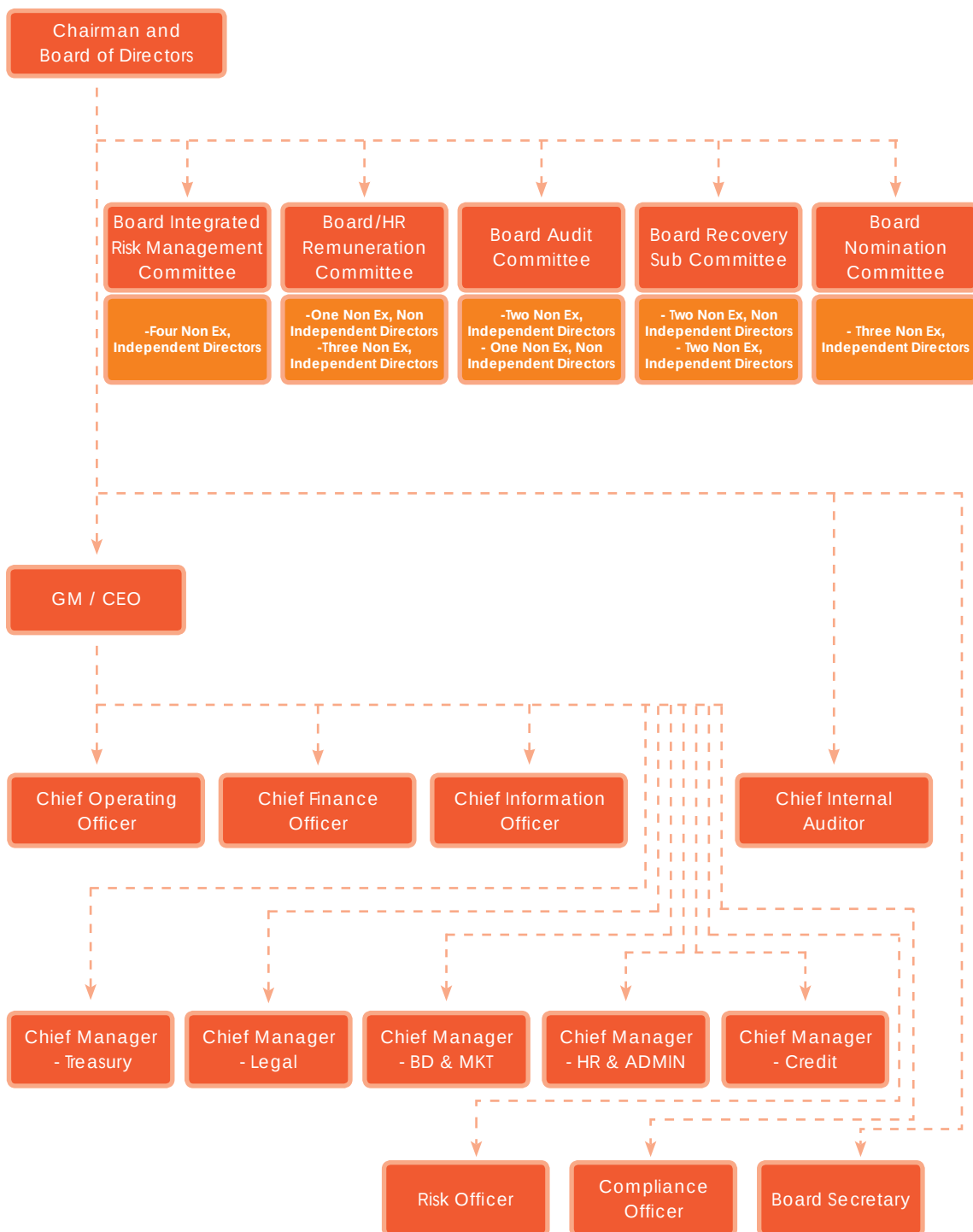
Chief Finance Officer

T.P.2356800, 2446241, 2446239

D/L 4717864 Fax : 2356829

E-mail - cfo@hdfc.lk

ORGANIZATIONAL STRUCTURE



BOARD OF DIRECTORS



1. Mr. A. J. Aloysius

(Non – Executive, Non-Independent Director)

2. Mr. W. D. R. D. Goonaratne

(Non – Executive, Non-Independent Director)

3. Mr. G. L. S. Senadeera

(Non – Executive, Independent Director)

4. Mrs. S. N. Wickramasinghe

Chairman (Non – Executive, Independent Director)

5. Mr. L. E. Susantha Silva

(Non – Executive, Independent Director)

6. Mr. S. A. J. Samaraweera

(Non – Executive, Non Independent Director)

7. Mrs. C. Wijayawardhana

(Non – Executive, Independent Director)

8. Mr. W. J.L.U. Wijayaweera

(Non – Executive, Independent Director)

BOARD OF DIRECTORS CONTD.

Mrs. S. N. Wickramasinghe**Chairman (Non – Executive, Independent Director)**

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

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

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

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

Mr. W. J.L.U. Wijayaweera**(Non – Executive, Independent Director)**

Mr. Upali Wijayaweera was appointed as a Director of the HDFC Bank in June 2006 and is also functioning as the Secretary to the Ministry of Labour and Labour Relations. He is the Chairman of National Institute of Occupational safety and Health, Srama Vasana Fund and National Institute of Labour Studies. He has been posted to the Sri Lanka Administrative Service in 1984. He has joined the Department of Labour in 1985 and has held several important posts; Assistant Commissioner of Labour, Senior Assistant Commissioner of Labour, Deputy Commissioner of Labour, Commissioner of Labour, Commissioner General of Labour. In 1997, he was posted as the Counsellor in the Sri Lankan Embassy in the State of Kuwait followed by the posting in the Sri Lankan Embassy in the Kingdom of Saudi Arabia as the Counsellor in 1999. In year 2000 he was appointed as the Commissioner of Labour Standards. From 2009 – 2010 he held the post of Commissioner General of Labour and from 2010 November, he is functioning as the Secretary to the Ministry of labour and labour relations. He was also a director of National Child protection Authority. He holds a B.Com (special) Degree from the University of Kelaniya and is a PGD in Public Administration from SLIDA (Sri Lanka).

Mrs. C. Wijayawardhana**(Non – Executive, Independent Director)**

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

Mr. W. D. R. D. Goonaratne**(Non – Executive, Non-Independent Director)**

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

Mr. S. A. J. Samaraweera**(Non – Executive, Non Independent Director)**

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

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

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

Mr. A. J. Aloysius

(Non – Executive, Non Independent Director)

Mr. Arjun Aloysius was appointed as a Director of the HDFC Bank in May 2011. Currently he is the Deputy Chairman of WM Mendis & Co. Ltd, Director of Perpetual Capital (Pvt.) Ltd and the Chief Executive Officer of Perpetual Asset Management (Pvt.) Ltd. He is heading the Free Lanka Group Investment arm.

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

Mr. L. E. Susantha Silva

(Non – Executive, Independent Director)

Mr. Susantha Silva was appointed to the Board of the HDFC Bank in May 2012.

Mr. Silva is a Fellow of the Institute of Chartered Accountants of Sri Lanka, a Fellow of the Institute of Certified Management Accountants and a Fellow of the Institute of Certified Professional Managers and B.Com (SP) Degree with a second class (upper division) from the University of Kelaniya.

He is presently the Managing Director of Ceylon Petroleum Corporation and has vast experience and exposure locally and internationally in Business Management.

Mr. G. L. S. Senadeera

(Non – Executive, Independent Director)

Mr. Sunil Senadeera was appointed to the Board of HDFC Bank in January 2013. He is presently the Additional Secretary (Housing & Development) to the Ministry of Construction, Engineering Services, Housing and Common Amenities. He is a Grade 01 SLAS officer. He started his career as Secretary, Urban Council Ja-ela in 1985. He has served as an Assistant Divisional Secretary to the Divisional Secretariat Narammala, and Divisional Secretary to the Divisional Secretariat Rajanganaya. He held many post; as Cooperative Commissioner of the Provincial Council Sabaragamuwa, Deputy Commissioner of the Department of land Settlement, General Manager Sri Lanka Cement Corporation, Deputy Controller of the Department of Immigration and Emigration, Controller (Travel) of the Department of Immigration and Emigration. He holds a Bachelor of Art (Second Lower) Degree from the University of Sri Jayawardenapura and a Master of Arts (Social Science) from the University of Keleniya.

CORPORATE MANAGEMENT



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1. Mr. Nimal Mamaduwa CEO/GM

is a Senior Professional Banker with 38 years' experience in commercial and development banking. He started his banking career at HNB PLC and during his 29 years' service at HNB he has held many senior positions in the areas of Credit, Development Banking and Operations. He left HNB in 2003 and joined Sanasa Development Bank PLC in the capacity of Asst. General Manager (Credit) and was elevated to Deputy General Manager in the year 2005 and in June 2006 he assumed duties as Chief Executive Officer/General Manager at Sanasa Development Bank PLC, which position he held until October 2012. During this period he has been successful in transforming the Sanasa Development Bank from a literally unknown enterprise to a vibrant dynamic development Bank by increasing the Branch Network from 25 to 85 within 6 year span. He has extensively travelled overseas and has represented Sanasa Development Bank at various International Forums in Canada, Netherlands, Vietnam and China in relation to Micro Finance. He assumed duties as Chief Executive Officer/General Manager of HDFC Bank with effect from 1st January 2013. He is an Associate Member of the Institute of Credit Management of Sri Lanka, holds a Diploma in Bank Management from Institute of Bankers Sri Lanka and a Fellow Member of the Chartered Management Institute of UK.

2. Mr. S. Dissanayake Chief Operating Officer

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

Administration division and Branch Operations had been under his supervision for several years. Presently he is the Chief Operating Officer of the Bank.

3. Mr. D. Vidana Pathirana Chief Finance Officer

Mr. D. Vidana Pathirana is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA), a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka (FCMA), a Fellow Member of the Institute of Certified Professional Managers of Sri Lanka (FCPM). He holds a Bachelor of Science Degree (Specialised in Public Administration) from the University of Sri Jayawardanapura, and MBA Specialised in Sustainability in Business Management. He has over 27 years experience in the fields of Auditing, Accounting, Financial Management, Management Accounting, Banking, Projects and Investment Promotion both in Sri Lanka and overseas. He is currently responsible for Finance and Planning Department of the Bank.

4. Mr. W. M. A. Bandara Chief Information Officer

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

5. Mr. A. J. Atukorala Chief Internal Auditor

Having been appointed as the Chief Internal Auditor in 2009 Mr. Athukorala counts over 25 years of executive experience in the banking sector. Specialising in the auditing function,



he has had exposure to both Private and Public sector banks. Graduated from the University of Colombo (BSc in Physical Science), he is also an Associate Member of the Chartered Institute of Management Accountants (CIMA-UK). He also holds the Diploma in Computer Systems Design awarded by the National Institute of Business Management, Sri Lanka and also awarded with the titles of 'Certified Information Systems Auditor' and 'Certified Information Security Manager' by the Information Systems Audit & Control Association (ISACA – USA).

6. Mr. L. Edirisinghe

Chief Manager - HR & Administration

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

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

Chief Manager – Legal

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

8. Mrs. H.S. Gunathilake

Chief Manager (Business Development & Marketing)

Mrs. Himali Gunathilake is the Chief Manager (Business Development and Marketing) of The HDFC Bank. She holds a Bachelor of Arts Degree from the University of

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

9. Mr. C.R.P. Balasooriya

Chief Manager – Treasury

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

10. Mr. Manjula Kithsiri Dissanayake

Chief Manger – Credit

Mr. Dissanayake brings in a high level of experience and expertise gained from a career spanning over 15 years 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. He is currently responsible for managing all Credit functions of the Bank.

Mr. Manjula Dissanayake is an Associate Member of the Institute of Chartered Accountants of Sri Lanka.

SENIOR MANAGEMENT



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1. Ms. K.T.D.D. De Silva

Bank/Board Secretary

2. Mr. H.A. Anura

Senior Manager - Finance

3. Ms. W.N.D. Botheju

Senior Manager - Accounts Control

4. Mr. A.M. Neelachandra

Senior Manager - IT

5. Mr. K. R. M. A. Bandara

Compliance Officer

6. Mr. Kasun de Silva

Senior Manager - IT

(Operation, Technical Support and System Security)

REGIONAL MANAGERS AND MANAGERS



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Regional Managers

1. Mr. R.M. Sugathapala - *Uva*
2. Ms. R.R. Gunawardena - *Western*
3. Mr. W.D.K. Senevirathne - *North Western*
4. Mr. N.C. Ranjith - *Southern*
5. Mr. H.M. Thilakerathne - *Central*

Managers

Mr. P.S. Pitawela
Manager - Administration

Mrs. L. Gunathilake
Manager- Recovery (Western Region)

Ms. L. A. S. C. Wijethunga
Manager - (Property)

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

Mr. W.M. Chandrasena
Manager - Valuation

Mr. N.L. Wijesiri
Manager (Technical & Premises Maintenance)

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

Mr. I. Nishantha
Risk Officer

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

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

Mrs. M.N. Sumanaratne
Manager - IT

Mr. G.D.K.H. Perera
Manager - Business Development & Mobile Banking

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

Branch Managers

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

Mr. P.A. Seneviratna - *Anuradhapura*

Mr. U.B.G.P. Balasooriya - *Awissaawella*

Mr. K.D. Ruwansiri - *Badulla*

Mr. T. Kandiah - *Batticaloa*

Mr. H.M.U. Samaraweera - *Chilaw*

Mr. R.A.J.N. Ranasinghe - *Colombo*

Mr. N.M. Jayawardena - *Embilipitiya*

Mr. M.L.R. Kumara - *Galle*

Mr. T.M.D.D.K. Madatuwa - *Gampaha*

Mr. L.S.B. Ratnayake - *Gampola*

Mr. U.K. Samararachchi - *Homagama*

Ms. D.T.A. Jayasinghe - *Horana*

Mr. E.D.D. Sampath - *Hyde Park*

Mrs. M.S. Ponweera - *Ja-Ela*

Mr. D.K.P. De Silva - *Kalutara*

Ms. N.A.A.N.S. Nissanka - *Kandy*

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

Mrs. M. Malani - *Kurunegala*

Mr. S.H.K. Gamage - *Kuliyaipitiya*

Mr. I.K. Dawatanga - *Matale*

Ms. K.W.Y. Indira - *Matara*

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

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

Mr. M.J. Pathirathne - *Nuwara-Eliya*

Mr. S.C. Amarakoon - *Peliyagoda*

Mr. A. I. Kiriella - *Piliyandala*

Mr. S.M.S.K. Bandara - *Ratnapura*

Mr. W.Y.K.J. Weerasinghe - *Tangalle*

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

Mr. K. Mugunthan - *Vauniya*

Mr. P. Rajarajan - *Jaffna*

INCORPORATION AND LEGAL BACKGROUND

Corporate Objective and Incorporation

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

HDFC marked its 28th year in 2012 since incorporation as a Building Society and 8th milestone as a licensed specialised bank. Year 2012 also marked the completion of the 7th year since listing at the Colombo Stock Exchange.

Governance Framework

HDFC Bank of Sri Lanka is to comply directly with the constitutional boundaries under the provisions of the HDFC Act and Finance Act and also regulatory

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

The Bank also adopts the code of best practices of corporate governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and CSE. Please refer to the section of the Corporate Governance of this report for more information on our governance structure and level of compliance. Page 92 to 123.

Composition of the Board of Directors.

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

Corporate Milestones

1984	Incorporated as a Building Society
2000	Converted to a public corporation.
2003	Obtained the status of a Licensed Specialised Bank
2004	Winner – NCCSL Business Excellence Award – Financial Service Sector.
2005	Listed at Colombo Stock Exchange.
2005	Winner- NCCSL Business Excellence Award – Financial Service Sector.
2006	Runner up- NCCSL Business Excellence Award – Financial Service Sector
2010	Runner up- NCCSL Business Excellence Award – Financial Service Sector
2010	Winner- ACCA Sustainability Reporting Award 2010- Small Scale Category.
2010	Winner- ACCA Sustainability Reporting Award 2010- First time entry group.
2010	Winner – Golden Maco Award 2010.
2011	Achieved LKR 2,000 Million capital requirement
2011	Reached LKR 20 Billion balance sheet.
2011	Merit winner - NCCSL Business Excellence Award 2011– Financial Service Sector
2011	Winner of a certificate of recognition for the Annual Report 2010, from the Institute of Chartered Accountants of Sri Lanka.
2011	Winner- ACCA Sustainability Reporting Award 2011- Small Scale Category.
2012	Winner- ACCA Sustainability Reporting Award 2012- Small Scale Category
2012	Runner up - NCCSL Business Excellence Award 2012– Financial Service Sector
2012	Bronze Award - Annual Report competition 2012, the Institute of Chartered Accountants of Sri Lanka.

OUR SHAREHOLDERS

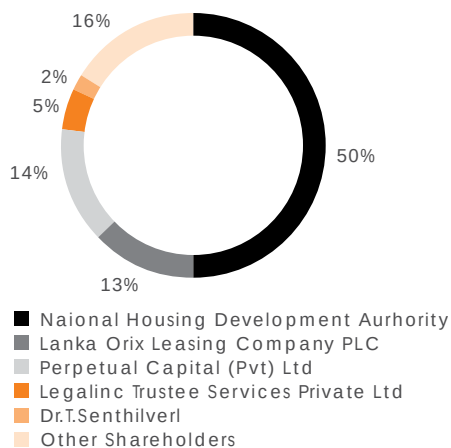
Government's Shareholding.

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

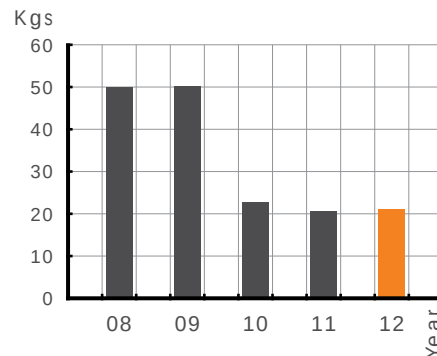
Five largest Shareholders.

Five largest institutional shareholders hold 90.80% of shares of the Bank, namely NHDA 49.73% , Lanka Orix Leasing Company PLC (LOLC) 15 %t , Perpetual Capital (Pvt) Ltd 14.07 per cent of the shareholding as at 31st December 2012. We are also proud to be the first state bank in Sri Lanka to have instituted an Employee Share Ownership Programme, which divested 5,395 of the Banks ownership to the staff as tabulated in the five largest shareholder list given below.

Five Largest Shareholders	2012		2011	
	No. of Shares	%	No. of Shares	%
	Nominal Value Rs 10/-		Nominal Value Rs 100/-	
National Housing Development Authority	32,180,000	49.73%	3,218,000	49.73%
Lanka Orix Leasing Company PLC	9,707,740	15.00%	970,774	15.00%
Perpetual Capital (Pvt) Ltd	9,105,425	14.07%	908,000	14.03%
Legalinc Trustee Services Private Ltd	3,485,520	5.39%	348,522	5.39%
Dr. Senthilveri Thirugnanasambandar	1,376,926	2.13%	121,300	1.87%
Total held by largest five shareholders	55,855,611	86.32%	5,566,696	86.02%
Other Shareholders	8,854,909	13.68%	904,456	13.98%
Total Shares	64,710,520	100.00%	6,471,052	100.00%



Five Largest Shareholders



Public Shareholding
as per rule 7.6 of CSE

BUSINESS OVERVIEW

Values and Business Philosophy.

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

We are committed to create long term values to our shareholders while balancing economic, environmental and social foot prints for the long term prosperity of the economy. In our daily operation we respect our values; transparency, fairness and openness, and also pay maximum concerns to economic, environmental and social rights and interest of our stakeholders. We pay particular emphasis to be compliant with all regulatory requirements and locally and internationally accepted industry standards and norms and social codes.

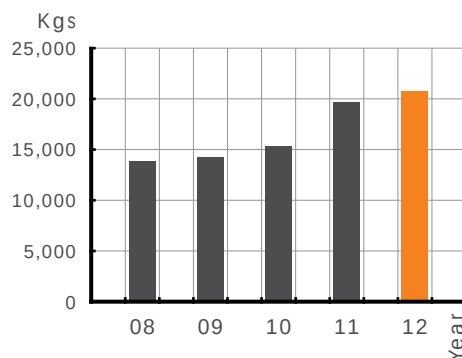
Corporate Engagement and Communication.

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

Size and Operational Strength

As at 31st December 2012, our total assets LKR 21 Billion and Shareholders' fund recorded as LKR 2 Billion. We have the most youngest team of staff of 488 people and 32 dedicated branches and customer service outlets.

	2010	2011	2012
Income – LKR M	2,250	2,386	2,691
Total Assets – LKR M	15,374	19,927	20,801
Shareholders funds – LKR M	1,849	2,337	2,391
Deposits- LKR M	8,526	12,336	12,923
Other Liabilities – LKR M	5,012	5,236	5,487
Value of loans granted – LKR M	3,065	4,659	3,599
No of Loans granted	10,739	14,224	12,404
No of Employees	425	505	488
No of Branches	28	31	32
No of ATM Access	225	301	360



Growth of Total Assets 2006 - 2011

HOUSING FINANCE MARKET AND HDFC'S SHARE

Housing Finance Market

Sri Lanka's housing finance balance has reached LKR 239 billion representing 8.3% of the Gross Domestic Product (GDP) as at 31st December 2012 and out of which HDFC Bank has contributed 6.1%. Based on the CBSL information, HDFC holds 0.47% share of the Banking Industry's assets and 2.71% of the Licensed Specialised Banking (LSB) sector's assets as at 31st December 2012.

Strategic Distribution of Service.

Over the years HDFC Bank has strategically distributed its loan portfolio proportionately among the income segments of the population. Over 70% of the loan portfolio has been distributed to the Low and Middle income group of the country that represents 60% to 70% of the population. Over the years movements of the average size of the loan as tabulated in Table-1, warrants our commitment to this segment of the population and Table-2 showcases how we have responded to the demographic transition needs of the country. More information on our market performance is given under the headings Economic and Customer Responsibility of this report.

Table-1

Average Size of loans Year	LKR-M
2007	0.240
2008	0.255
2009	0.235
2010	0.285
2011	0.330
2012	0.290

Table -2

Geographical Distribution of the Loan Book as at 31st December 2012

Province	LKR-M	%
Western	8,413	54%
Central	1,681	11%
Southern	1,471	9%
Uva	685	4%
North Western	1,327	8%
Sabaragamuwa	1,171	7%
North Central	414	3%
Nothern	74	0%
Eastern	468	3%
Total	15,708	100%

HDFC GOLD LOAN
 ඩබ්ලිව් නිවාස බැංකුවෙන්

- ඩබ්ලිව් රන් ආණ්ඩුවට අයුළු පොළියකට උපරිම ණය මුදලක්
- උපරිම සුරක්ෂිතභාවය
- රන් ආණ්ඩු වලට භාණ්ඩයකින් තොරව නවීන තාක්ෂණික පරීක්ෂාව
- ඩබ්ලිව් රහස්‍යභාවය සුරැකීම
- විශ්වාසනීය සහ සුභාදර්ශී පාරිභෝගික සේවය

දුරකථන - **0115 73 73 73**
 *කොන්දේසි අදාළවේ.

HDFC බැංකුව
 "ඩබ්ලිව් නිවාස බැංකුවයි"
 Fitch Rating BBB+ (Ika)

MAIN BRANDS OF PRODUCTS AND SERVICES



Kedella

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



Situ Sevana

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



Sirisara Home Loan, Home improvement loan

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



Thilina Home Loan

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



Thilina Rekawarana

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



HDFC Housing Fund Scheme

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



Shrama Udana

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



Guru Sevana

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



Prathilaba

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



Dhana Nidhana

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



Arumbu

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



Ashcharya

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

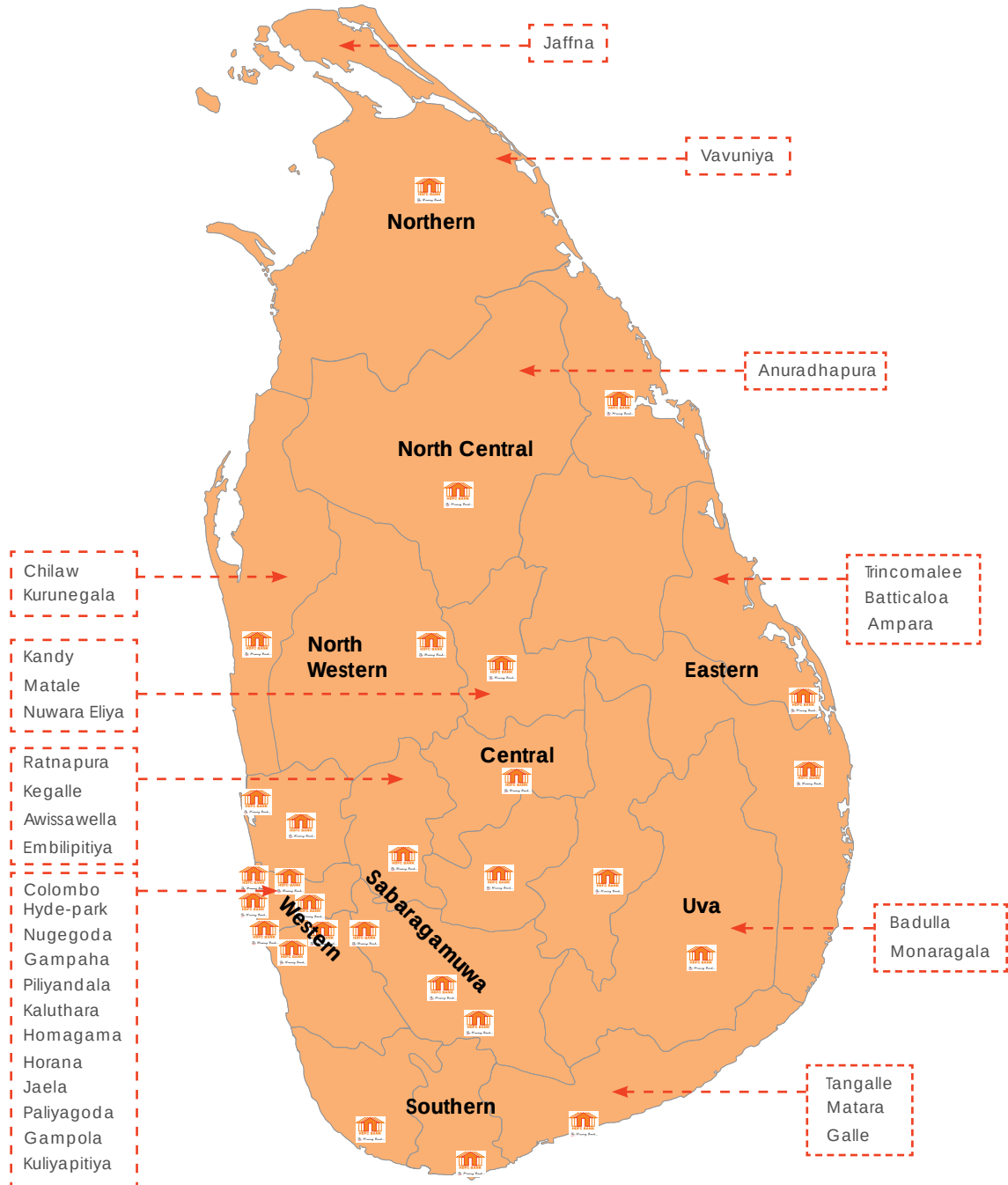


Vishrama Udana

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

OPERATIONAL LANDSCAPE

Branch Location



Branch Addresses

Colombo

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

Nugegoda

1st Floor Railway Station, Nugegoda

Hyde Park Corner

No. 63, Hyde Park Corner, Colombo 02

Kandy

NHDA Building, Yatinuwara Veediya Kandy

Kegalle

1st Floor, Royal Shopping Complex, Main Street, Kegalle

Matale

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

Kalutara

13, Gnanodaya Mw, Kalutara South

Gampaha

101/1, Colombo Road, Gampaha

Matara

9, HGPM Building, Kotuwegoda, Matara

Galle

No 4, Sri Dewamiththa Mawatha, Galle

Batticaloa

58/1, Baily Road, Batticaloa

Trincomalee

N.C. Road, Trincomalee

Badulla

71 / 1 LG, New Passara Road, Badulla

Chilaw

2nd Floor, Sky Line Building, Colombo Road, Chilaw

Ratnapura

No. 51 1/1, Main Street, Ratnapura

Tangalle

150, Matara road, Tangalle

Ja-Ela

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

Kurunegala

No 12/B, 1st Floor, Dambulla Road, Kurunegala

Anuradhapura

No 396/14, Court Place
Bandaranayaka Mawatha, Anuradhapura

Vavuniya

No. 68, Station Road, Vavuniya

Monaragala

No 310/A, Kachcheriya Junction
Wellavaya Road, Monaragala

Homagama

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

Nuwara - Eliya

No.72, Park Road, Nuwara - Eliya

Ampara

Uhana Road Ampara

Awissawella

90/B, 1st Floor, Yatiyantota Road, Awissawella

Horana

No.231, Panadura Road, Horana

Piliyandala

No.21, Vidyala Mawatha, Piliyandala

Embilipitiya

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

Paliyagoda

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

Gampola

134, Kandy Rd, Gampola.

Kuliyaipitiya

No/20 A, Parakrama Mw, Kuliyaipitiya.

Jaffna

127, K.K.S Road, Jaffna.

SOCIAL AWARDS AND RECOGNITION

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

In the year of 2012, the bank was honored with the following prestigious awards.

1. ACCA Sustainability Reporting Award 2012- Winner Small Scale Category on economic, environmental and social performance reporting- an internationally recognised prestige awards in the fields of sustainability reporting. HDFC Bank has won this award for the 3rd consecutive year
2. Annual Report Award of the Institute of Chartered Accountants of Sri Lanka – Bronze award financial institution sector
3. Business Excellence Awards 2012 runner up - National Chamber of Commerce of Sri Lanka (NCCSL),



COMMITMENT TO EXTERNAL INITIATIVES

External Codes, Principles and Initiatives

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

Relations with Important Organizations

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

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

STRATEGIC RISKS, CHALLENGES AND OPPORTUNITIES

Triple Bottom Line	Risk	Challenges	Opportunities
Economic	● Lack of long term funds exposes the Bank into high level of Assets and Liability mismatch. ● High level of assets and liability mismatch exposes the Bank into interest rate mismatch risk and liquidity risk ● This risk factor increases the vulnerability of the financial bottom-line of the Bank in a volatile financial market situation.	● Inflationary shocks on the cost of construction materials and finance market pressures on the affordability of housing and housing finance. challenges the economic and financial bottom lines. ● Lack of low cost matching funds to support the increasing demand of housing finance. ● Regulatory framework does not complimentary the expected pace envisage for the growth of the housing finance market. ● Need for improvement in governance in the process of assuring construction quality and sustainability, since residential mortgages form the largest and longest financial asset class in the economy. ● Housing finance invariably has to be long term to maintain affordability. But long term projection of economic aspect is a challenge. ● High competition from the big players with more capacities and financial resources.	● Ever increasing market. According to the Ministry of Housing, existing housing backlog is around 650,000 which annually increases with natural demand. ● Housing finance creates multiple positive economic impacts in other sectors to boost the economic growth. ● Creates long term financial assets with fixed cash flows, backed by solid securities with ever increasing values. ● Large market potential in the North and East after the war situation ● Large business potential for visionary entrepreneurs ● High potential for FDI inflows to the housing industry which could boost the demand for end buyer housing finance

Triple Bottom Line	Risk	Challenges	Opportunities
Environment	● High credit risk on granting loans to customers with agriculture based income due to climate change. ● Risk of environmental degradation due to increasing consumption of unrennewable resources. ● Climate change could create health problems and demand for foods which are more fundamental than payment for housing	● Increasing legislation and public policies in sourcing of construction materials such as sands, bricks, metal, cement etc, challenge the housing and housing finance industry. ● Managing the objective of maximising business return whilst conforming to growing pressure of adopting sustainability driven management practices. ● Advising customers to incorporate sustainability aspects in house designing and construction is a challenge, because most of the rural houses are self built with own supplied timber, sand and metal etc. ● Climate change could affect loan repayment cash flows of the borrowers ● Initial cost of incorporating sustainability practices in house construction and office management is costly; solar power etc.	● Improving brand recognition by integrating and reporting on sustainability in the daily management operation. ● Opens doors to source local and international ethical finance . ● Increasing demand for green loan products and services. ● Improve productivity and save cost on electricity, transport, stationary and enhances competitiveness.
Society	● Credit risk due to lack of financial literacy. ● The main segment of the market is highly vulnerable ● Unfocused publicity could damage the brand value.	● The continuous maintenance of the affordability of our service to the society is a challenge, particularly in the changing macro environment. ● Social interaction is also costly and challenging in the competitive market dominated by big players ● Increasing business climate would increase opportunities for possible corruption.	● Socio – economic challenges faced by the society gives us opportunities to formulate successful business strategies that could maximise return whilst addressing the social challenge. ● Regular engagement with the society enhances long term business opportunities ● The main focus on the low and middle income harnesses the social license and brand value of the Bank.

Welcome
retirement
 with **confidence**
 INVEST IN the
HDFC
Group Housing Fund

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

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

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

🏠 What is the HDFC Group Housing Fund?

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

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

The initial investment is Rs. 500/-

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

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

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

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

STRATEGIC FOCUS

In accordance with my vision sustainable development should be the core determinant of HDFC Bank, the kind of development that HDFC was created to foster.

HDFC Chairman, Mrs Siromi Wickramasinha, Annual Report 2010

COMMITMENT TOWARDS LONG-TERM ECONOMIC PROSPERITY

Responsible housing finance

Decent housing is a basic human need. Housing assists in several dimensions to improve the physical quality of life and economic growth of a country. Owning a house is the largest investment of an average income earning family. It is also the only lifetime saving for many. Because of ever increasing construction costs and land prices, gaining an ownership of a house has become a dream which most families struggle to realise. HDFC Bank's core business and statutory objective is assisting people in finance in housing development and other necessities. As per the income distribution, around 60-65% of the Sri Lankan population is coming under the low and middle income households segment who commonly faces the challenge of realising the dream of housing from their average income. In this circumstances, HDFC Bank is strategically as well as obligatorily has to focused more on this large segment of the market in managing its core business.

HDFC is therefore focused in managing the core operation of the Bank in a manner which delivers long-term value creation in the economic, environmental and social front of the largest segment of the population and thereby seizing economic opportunities that ensures the Bank's continued growth and stability maximising shareholders' wealth while delivering its overriding objective of expanding home ownership in the country.

Commitment towards Millennium Development Goals (MDGs).

Access to safe and healthy shelter is essential to a person's physical, psychological, social and economic well-being. The right to adequate housing is a basic human right and is emphasised in the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights. Decent housing assists in several dimensions to improve physical quality of life and economic growth of a country as measured and communicated by the Millennium Development Goals (MDGs). The country is marching towards achieving the most of MDGs by year 2015. HDFC Bank being a prominent development finance partner strives to contribute in realising these goals, through promoting responsible housing finance.

In this context, HDFC bank's corporate philosophy is strategised in four main directions; acting as a social and economic stabiliser, Improving accessibility to housing finance, managing ecological footprint and being a role model of a good corporate citizen.

Product Diversification

With the amendment of the parliamentary Act of Incorporation at the end of 2011, HDFC Bank was permitted to play in a wider scope of operation and carried out the business activities articulated in the schedule four of the Banking Act while maintaining housing finance as core business. Within this privilege the Bank is strategically diversifying its products portfolio with more short tenure loans products with the focus of lifestyle development and economic empowerment of people.

Housing Finance - housing related finance products

Lifestyle Finance - financing of household items, furniture and vehicles

Empowerment - micro finance and loans against gold facilities

Empowerment - business loans, leasing etc

Education - loans for higher education

STRATEGIC DIRECTIONS

Acting as a Social and Economic Stabilizer	Improving Accessibility to Housing Finance
HDFC Bank's primary business objective is assisting people to own a decent house by providing affordable housing finance, the foundation upon which our economic and social sustainability ethos has been constructed. Housing not only provides physical shelter but also has significant impact on the lives of the dwellers in terms of skill enhancement, education, health, income generation, security, self confidence and human dignity. In a social context it reduces domestic violence and addresses many other social issues. Housing is also a key driver of a country's economy. As per an international assessment, it is estimated that six hundred industries are linked to housing. One Rupee invested in housing creates Rupees five to seven impact in other economic sectors. Therefore broadly, housing development finance plays a crucial role in boosting economic growth and reducing poverty, improving living conditions and empowering low and middle income groups.	Access to adequate housing has become a key issue for a considerable share of the Sri Lanka's population. Economic growth has contributed to a significant increase in the size of the middle class, where changing culture and shrinking household size have fueled the need for decent housing even further. But household savings has been inadequate to finance housing for many. Formal housing finance is less accessible for many due to lack of formal employment, regular income, collaterals and formal credit histories. HDFC Bank being a fully fledged housing finance provider, is committed to serve this sector which represents 60 – 70% of the population.
Managing Ecological Footprint.	Role Model of a Good Corporate Citizen
Housing begins with construction which involves the input of a large amount of capital, energy, water, other natural resources and making of substantial amounts of solid and liquid waste. It permeates an adverse impact on the environment and prevalent eco-systems if resources are not managed properly. At HDFC we believe that sustainable housing practices could mitigate the negative impact of housing on the environment while delivering long lasting economic and social benefits. Hence we strive to promote a culture where the end result of our operation must be the fruition of sustainable construction, which delivers long lasting economic, environmental and social benefits to our stakeholders.	We believe that sustainability should be a core focus of our business. At the same time, we want to be a role model of an economically stable, ecologically responsible and socially fair corporate citizen. Therefore, we strive to ensure that our business fundamentals are within the industry norms and standards, and follows generally accepted codes of best practices and respect sustainability principles and practices related to human rights, labour, the environment and anti-corruption which leads to long-term value creation, that can simultaneously benefit the corporate and the societies at large.

COMMITMENT TOWARDS VALUED PARTNERS

Policy Directives.

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

Our approach to recognising important stakeholders HDFC Bank recognises that statutory and financial obligations and equitable partnership as the basic principles used in the process of identifying the stakeholders with whom the Bank is to maintain regular engagement. The prime stakeholder, the Bank is statutorily obliged to engage with, is the government; who is the founder of the Bank by an Act of Parliament and the major shareholder. The secondary priority of the Bank is in its financial and statutory obligation to

the shareholders / investors who ensures the existence of the Bank. HDFC also maintains an equitable partnership with the other stakeholders who directly and indirectly interact and are influenced by the bank's operations.

Accordingly the following table contains a summary of broad categories of stakeholders who have been identified as substantially influential to the Bank's operation and also whose economic, environmental and social interests are substantially influenced by the Bank and crucial to maintain an open and straight forward engagement.

- Investors/Shareholder
- Government of Sri Lanka and regulators
- Customers
- Employees
- Suppliers
- Environment
- Community



STAKEHOLDERS' INTEREST, OUR COMMITMENTS AND MANAGEMENT APPROACH OF ENGAGEMENT

Stakeholder Group and key topics		Our Commitment and management approach of engaging.
Stakeholder	Topics	
Investors/ Shareholder	● Sustainable growth ● Enhance shareholders' value through market capitalisation ● Protect and safeguards their interest. ● Facilitate the rights and ensure fairness and transparency	● Managing business to deliver consistent growth and satisfactory return ● Implementing an efficient risk management, good governance practices and internal control system ● Respects all national and international codes of best practices, standards and norms where applicable. ● Ensuring adequate and timely communication through quarterly and annual financial statements and press release ● Providing a balanced, comprehensible assessment of the state of affairs of the Bank, its performance, and prospects. ● Timely publishing of Annual Reports and conducting AGM. ● Participating and networking with industry related national and international organizations and sharing expertises. ● Participating national and international competitions.
Government and regulators	● Contributing for the economic growth by enhancing , investment, consumption and proliferating savings through promoting national housing stock ● Improve quality of life of people through enhancing homeownership ● Support to maintain the stability in financial system.	● Maximising , direct value creation to the economy ● Assisting people to construct, own. and upgrade homes or meet ancillary needs by providing affordable housing finance under the power vested by the Act and in conjunction with the national housing policy, with particular focus on the low and middle income groups and promotion of equitable human settlement. ● Assisting to minimise development disparities through promoting equal access to housing finance and resource mobilisation - sector and regional basis and through enabling employment generation ● Contributing to economic empowerment through inculcating banking habits, financial literacy and inclusion ● Contributing to the governments special development initiatives -national and regional level, through promoting housing finance and inculcating Banking habits ● Participating working groups and forums.
Environment	● Sustaining biodiversity and ecological footprint of the country by promoting sustainable housing development. ● Managing own carbon footprint	● Educating customers on importance of being compliant with applicable environmental and development regulations ● Promoting the importance of sustainable housing and living – resource efficient affordable construction and maintenance ● Minimising D2 emission from direct business operation and staff transport ● Saving electricity, fuel and water. ● Reducing paper consumption and thereby saving trees, bio-system and climate

STAKEHOLDERS' INTEREST, OUR COMMITMENTS AND MANAGEMENT
APPROACH OF ENGAGEMENT CONTD.

Stakeholder Group and key topics		Our Commitment and management approach of engaging.
Stakeholder	Topics	
Employees	● Recognition and Rewarding ● Career development and job security ● Healthy and work life balance. ● Equal opportunities.	● Maintaining an efficient staff performance through performance reviews, remunerations, benefits, rewards, recognition and regular surveys on staff satisfaction ● Maintaining smooth relationships through open and honest dialogue between employees, trade union and management and respecting human rights ● Maximising capacity through encouraging further education, conducting training and development, providing job enrichment and career progression opportunities ● Maintaining diversity and providing equal opportunity ● Maintaining a balance between personal and professional life by ensuring health and safety, encouraging extracurricular and recreational activities
Customers	● Cost of bank's services. ● Provide services at a convenient manner. ● Improving accessibility to credit and financial inclusion ● Level of customer service	● Maintaining affordability of our service to masses with special focus on low and middle income groups ● Extending flexible and customised solutions collating customers need, level and pattern of income and available collaterals ● Enhancing accessibility to our services equally to all segments in the society in all districts and provinces ● Continuous improvement of the quality of our services and processes with proven technology and innovations to delight our customers ● Regular assessment of customer satisfaction and follow up
Suppliers	Ensure rights and fairness	● Implementation of a procurement procedure with internal controls and make decisions based on market information in an transparent and fair manner for all qualified and registered suppliers ● Ensuring and respecting their rights through timely payments and long lasting relationships
Community	Long lasting relationship	● Striving to improve quality of life by facilitating accessibility to clean water and healthcare ● Supporting needy children in education and sports ● Interacting with community organizations to improve the well being of the people ● Providing assistance in the event of natural disasters ● Empowering through inculcating banking habits and proliferating savings

MANAGEMENT DISCUSSION

Financial and Operational Review

National Economic Responsibility

Environmental Responsibility

Sustaining Our Staff

Customer Responsibility, Products and Services

Sustaining Our Community

FINANCIAL & OPERATIONAL REVIEW

Overview

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

Macro Economic Environment

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

Domestic Economy

The Sri Lankan economy recorded a growth of 6.4% in 2012, despite of several domestic and global challenges. From 2003 the country has clocked an impressive average annual GDP growth of 6.3 percent which supplemented by exceptionally high 8 percent growth recorded preceding two consecutive years. The GDP growth rate was triggered by the growth in all key sectors of the economy. The industry sector recorded a remarkable growth of 10.3 percent, with improved performance in mining and quarrying, manufacturing, gas, electricity, water, and construction sectors. The services sector recorded a slower growth of 4.6 percent compared to the 8.6 percent growth in 2011, supported by higher contribution from domestic and foreign trade, transportation, tourism and financial services. Agricultural Sector recorded an impressive growth of 5.8%.

Financial Sector Performance

According to the CBSL, financial sector expanded during the year with increased access to finance although assets growth moderated due to the credit ceiling imposed early in the year. Nevertheless, the soundness

of the financial institutions sector improved, in terms of capital, adequate liquidity buffer and earnings. The regulatory and prudential framework of the financial sector was further strengthened by the CBSL, in line with the international standards and best practices, and providing an enhanced focus on governance and risk management. With the raising of funds from abroad, the Banking sector was able to diversify its base of funding substantially.

Financial Reporting

Financial Statements for the year 2012, has been prepared International financial Reporting Standards (IFRS) and Sri Lanka Financial Reporting Standards (SLFRS), application of which was mandatory from 1st January 2012. Comparative figures of 2011, in the Comprehensive Income Statement and the Statement of Financial Position were restated accordingly to showcase a fair presentation of financial information.

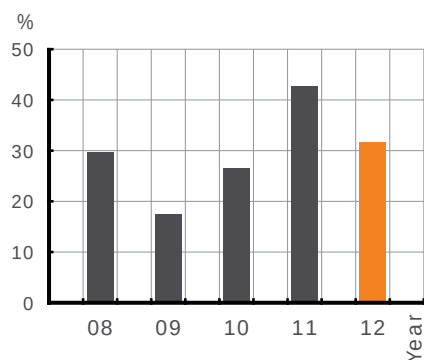
Operational Income and Expenditure

Operating Summary LKR –Mn 2011-2012

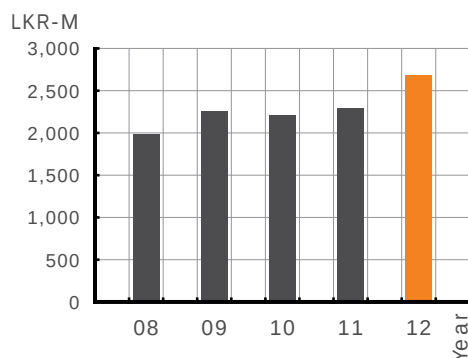
Year	2012	2011
Interest Income	2,635	2,269
Interest Expense	(1,805)	(1,354)
Net Interest Income	830	906
Non Interest Income	58	125
Net Income	888	1,031
Non Interest Expense	766	630
Profit Before VAT	122	401
VAT on Financial Services	50	81
Operating Profit Before Tax	73	320
Corporate Tax	71	104
Profit After Tax	2	216

Interest Income and Margin

During the year, the Bank was able to record 16% increase of interest income due to reprising of the existing loan portfolio and enhancing the loan mix with high interest earning loans. But, over 33% increase in the interest cost, over the year precluded the benefits of swollen interest income, resulting 8 percent declining in net interest income in 2012. The unfavorable finance market condition prevailed in 2012, leading to a significant interest rate mismatch resulting in a substantial drawback in interest margin from 40% to 31% during the year.



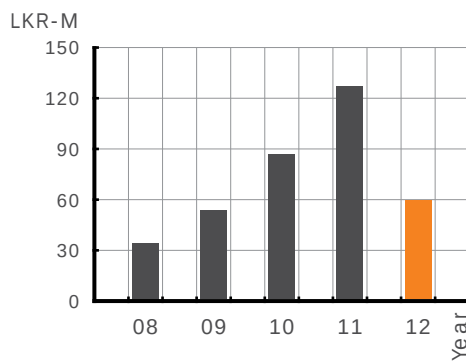
Net Interest Income



Interest Income

Non Interest Income

In 2012, HDFC recorded a non interest income of LKR 58 million in 2012 against LKR 125 million in 2011, which was mainly earned from the disposal of motor vehicles and a land at Wellawatta. Non interest income also de-escalated due to the decline in the loan processing fee, valuation, fees, technical and legal fees etc, consequent to the credit ceiling imposed during the period. The Bank has approved 12,404 loans in 2012, compared to 14,224 loans in 2011.



Non Interest Income

Operational Expenses

The overall operating expenses for the year, other than the loan loss provision, increased by 23 percent due to the rise in staff costs, premises equipment and establishment expenses as tabulated in the following table. Staff cost rose mainly due to staff salary increase inline with the new collective agreement and absorption of over 45 probationers to permanent cadre during the year.

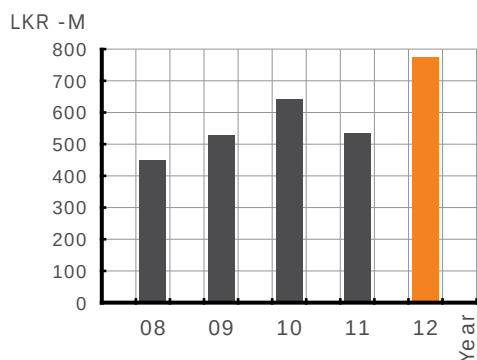
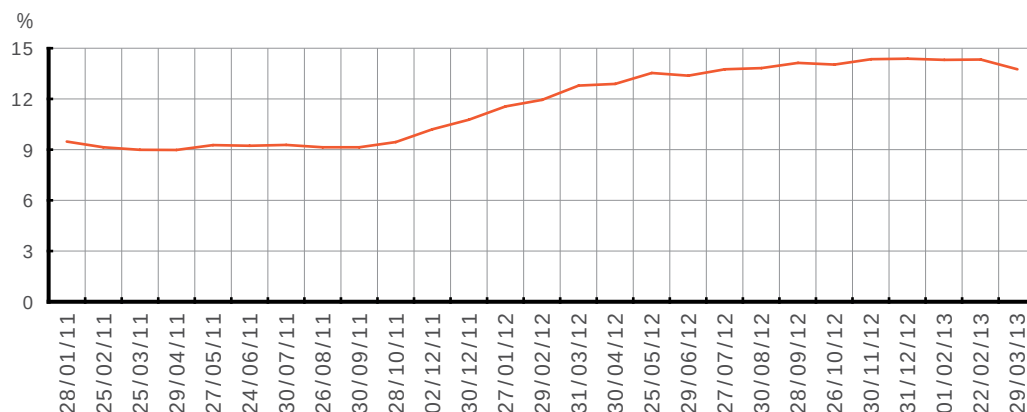
FINANCIAL & OPERATIONAL REVIEW CONTD.

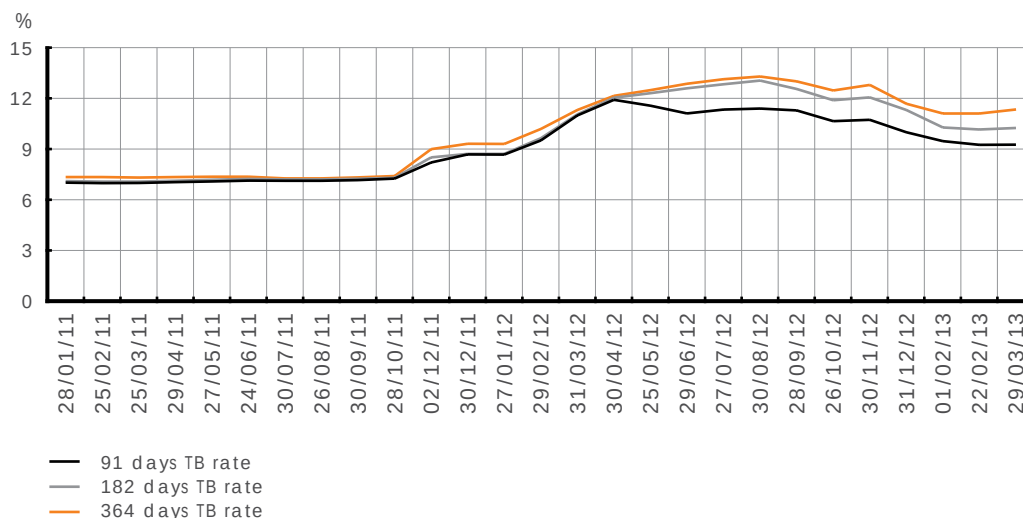
Operational Expenses LKR –Mn

	2012	2011
Personal Cost	374	319
Contribution to defined benefits and contribution plans	84	42
Premises & Establishment Cost	153	132
Operating Expenses	150	126
Provision for Loan Losses	1	10
Total	762	629

Profitability

The Bank significantly underperformed in terms of the after tax financial bottom line compared to the LKR: 216 million recorded in 2011. This de-escalation in profit resulted was mainly due to escalation of the interest cost of market mobilised funds rocketed up with the pressure of the finance market vulnerability prevailed throughout the year 2012 as showcased by the AWPLR and Treasury Bills interest graphs given below. Interest cost of funds has increased by 33% over the period. The Bank as a policy could not transfer the incremental cost of funds on to customers since they are mostly from the highly vulnerable sector of the population representing the low and middle income families.

**Operational Expenses****AWPLR**



Movement of Treasury Bills Interest Rates

Liquidity Position

Capital Adequacy

HDFC maintains a capital adequacy ratio, well above the required level in accordance with the directions of the CBSL, largely due to the low risk weight assigned to our housing finance portfolio. Tier 1 ratio was 21.7 percent and Tier 11 ratio was 21.46 percent whereas required minimum levels are 5 percent and 10 percent respectively. The comparative figures in 2011, were 20.3 percent and 21.95 percent respectively.

Statutory Liquid Assets Ratio (SLAR)

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

Capital Adequacy	2012	2011	2010
Equity/Total Assets %	11	10.7	11.7
Equity/Loans %	15	14.4	13.9
Capital/Risk-Tier-1 %	20.79	21.3	20.7
Capital/Risk-Tier-11 %	21.46	21.9	21.8
Liquid Assets/Total Deposits %	25.44	21	13.2

Growth and Stability

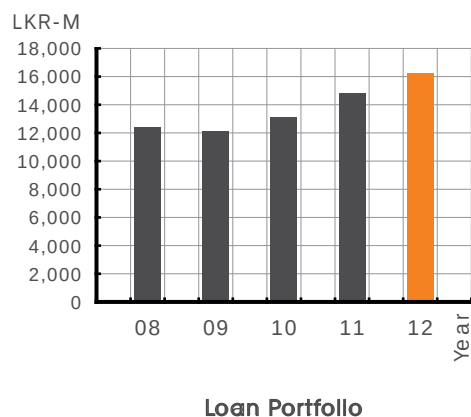
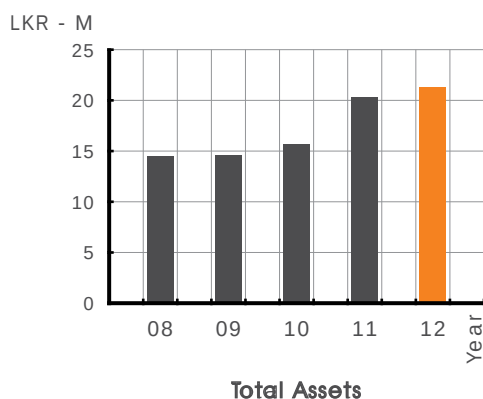
Balance Sheet LKR-Mn

Asset	2012	2011	2010
Cash at hand and with CBSL	1,390	528	406
Investment	3,025	3431	1,512
Loans & Advances	15,965	14,594	12,510
Other	420	1,144	959
Total	20,800	19,697	15,387
Liabilities			
Deposits	12,922	12,336	8,526
Borrowings	3,189	3,556	3,634
Other	2,298	1,680	1,379
Shareholder Funds	2,391	2,125	1,848
Total	20,800	19,697	15,387

FINANCIAL & OPERATIONAL REVIEW CONTD.

Assets Growth

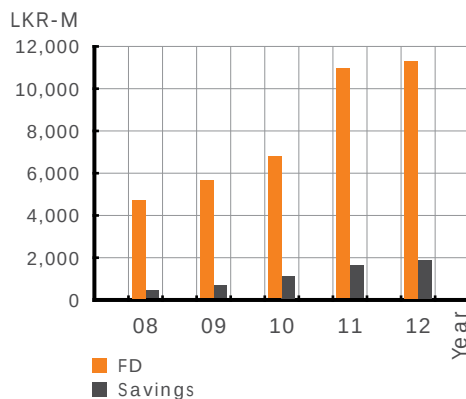
HDFC's total assets value increased by 4 percent to LKR 20,800 million as against 28 percent growth recorded in 2011. The asset growth was mainly driven by the loan portfolio which recorded a 7 percent escalation YOY basis. During the year, the entire assets growth was financed from market deposits. The loan portfolio is strategically diversified against the collateral, such as property mortgage, EPF balance, personal guarantees and cash backed securities etc, ensuring the quality of the main income generating asset base.

**Investments**

The portfolio is mainly driven by the investment of liquid assets maintained for liquidity management. Investments are maintained in the form of Government securities, commercial papers and fixed deposits with other banks.

Deposits

The deposits base of the bank, that constituted 63 percent of the total liabilities in 2011, reached LKR 12,965 million at the end of 2012 increasing the composition to 77 percent. However, the Bank was able to achieve only a 5% growth in deposits YOY basis. Savings deposits which included in total deposit balance has recorded a YOY growth of 16%.

**Core Capital funds**

The Bank achieved the LKR 2,000 million core capital requirement on 31st December 2011, as per the CBSL directions from internally generated profit. The same has to be enhanced to LKR 2,500 million by the year 2013 is a major strategic concern of the Bank in 2013.

Future Focus**Accelerated Lending**

As the only fully fledged housing finance bank, in the country, HDFC plays a vital role in the post conflict development scenario through providing affordable housing finance. HDFC strategises to extend over LKR 6,000 million loans to reach LKR 18,000 million loan portfolio balance in 2013.

HDFC Act which was amended in 2011, would facilitate the Bank to achieve the target loan growth with more diversified loan products in terms of tenure and interest yields. The Bank has already launched few high interest earning short tenure loans schemes, to manage the maturity mismatch. Thus the financial outlook will be more progressive and defined to a considerable degree in 2013.

NATIONAL ECONOMIC RESPONSIBILITY

Our approach

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

Millennium Development Goals (MDGs)

Economically, environmentally and socially affordable decent housing could assist in several dimensions to improve the physical quality of life and economic growth of a country as measured and communicated by the Millennium Development Goals (MDGs). HDFC Bank being a prominent development partner of the Government is committed to provide assistance in realising these goals. Housing conditions which have substantially improved since 1980s, in particular with respect to housing materials and access to electricity, safe water and sanitation, ownership of radios and television sets have substantially contributed to achieving these goals.

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

- Direct economic value creation.
- Promote equitable human settlement through enhancing the national housing stock and homeownership with special focus on the less privileged groups.
- Assist in minimising development disparities through equitable regional distribution of service and resource mobilisation.
- Contribute to economic empowerment through instilling banking habits and financial inclusion.
- Contribute to the Government's special development initiatives- national and regional.
- Our economic responsibility is directed by the policies stated above and statutory directives upon which we have established our social license over the last 26 years as a leading player in the affordable housing finance market in the country.

Policies and Governance

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

Key Performance Indicators - National Economic Responsibility

Economic Value Created	2012		2011	
	LKR-Mn	%	LKR-Mn	%
Interest Income	2,635	98	2,260	94
Other Income	57	2	125	6
Total Value Created	2,692	100	2,385	100
Economic Value Distribution				
To Goods and Services Providers	2,051	76	1,564	66
To Employees	458	17	345	15
To the Government	123	5	189	8
To the Shareholders (Dividends)	0	0	0	0
Retaining (Depreciation, Loan Loss Provision, Retained Profit)	60	2	244	10
Total Value Distributed	2,692	100	2,374	100

NATIONAL ECONOMIC RESPONSIBILITY CONTD.

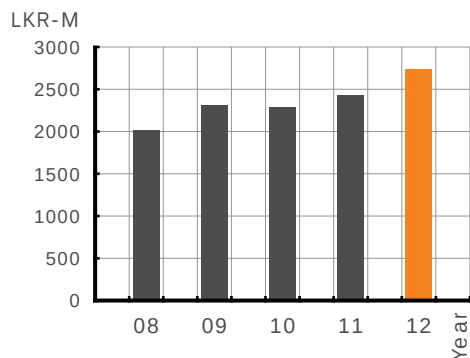
	2012		2011	
Financial Return on Government's investment LKR-Mn				
Taxes	123		189	
51 % of Dividends	0		0	
Total Financial Return to the Government	123		189	
Government's Investment (51 % of Shareholders' funds)	1,219		1,084	
Return as a % of Investment	10%		19%	
Promoting Human Settlements				
Aggregate Service enhancing National Housing Stock and the Home Ownership				
Cumulative No. of Loans up to 31/12/11	156,563		144,159	
Cumulative Value of Loans up to 31/12/11 LKR- M	31.83		28.23	
No. of Families Assisted for New House Construction	10,024		12,142	
No. of Families Assisted for Other Housing Purposes	2,380		2,082	
Total No. of Families Assisted for Housing Purpose.	12,404		14,224	
Value of Loans Granted During the Year LKR-Mn	3,599		4,659	
Average Size of Loans Granted During the Year LKR-Mn	0.29		0.33	
Purpose wise distribution of service				
	LKR-M	%	LKR-M	%
Construction	2,833	79	3,594	75
Purchasing	323	9	573	12
Redemption	112	3	64	1
Repairs & Improvement	71	2	290	6
Lifestyle Needs	260	7	240	5
Total	3,599	100	4,762	100
Assistance to Minimise Development Disparities				
Service to Needy Group – No. of Loans	Loan	%	Loan	%
Low Income Group (LIG)	7,091	57	4,823	34
Middle Income Group (MIG)	2,831	23	4,894	34
Wider Income Group (WIG)	2,482	20	4,507	32
Total	12,404	1.00	14,224	100%

	Loan		Loan	
Sector Wise Distribution of Service	LKR-Mn	%	LKR-Mn	%
Services	2,781	77%	3,560	75
Industrial	545	15%	824	17
Agricultural	269	7%	371	8
Other	4	0%	7	0
Total	3,599	100	4,762	100
Provincial Distribution of Service -No. of Loans	Loans	%	Loans	%
Western	5,058	41	5,740	40
Central	2,243	18	2,775	20
Sothorn	1,085	9	1,188	8
Eastern	1,199	10	809	6
Uva	766	6	819	6
North- Central	317	3	475	3
Sabaragamuwa	903	7	1,369	10
North – Western	791	6	880	6
Northern	42	0	169	1
Total Loans	12,404	100	14,224	100
Services Provided Out of Colombo	Loans	%	Loans	%
No. of Loan Granted Outside Colombo District	9,989	81	11,279	79
No. of Loan Granted Outside Western Province	7,346	59	6,239	60
No. of Loan Granted Outside Colombo and Gampaha Districts	8,344	67	9,770	69
No. of Loans Granted in the North and East	2,349	19	1,850	13
Employment generation and Poverty Elevation				
Direct Employments provided	488		505	
Indirect Employments induced in the economy	9,969		13,180	
Promoting Financial Literacy and Inclusion				
Cumulative No of Mobile Banking Customers. (MBC)	98,971		65,743	
No of new MBCs Promoted During the Year	33,228		20,177	
Contribution to Defined Contribution and Benefits Plans				
Contribution to Defined Contribution Plan	42.74		32.71	
Contribution to Defined Benefits Plan	41.18		9.44	
Total	83.92		42.15	

NATIONAL ECONOMIC RESPONSIBILITY CONTD.

Direct Economic Value Creation and Distribution

During the year HDFC Bank has created LKR 2,691 million value to the economy as against LKR 2,385 million in 2011. This value has been distributed among the suppliers, employees, Government and shareholders, while LKR 60 million was retained within the Bank. We have contributed LKR 123 million to the Government as direct and indirect taxes in 2012.

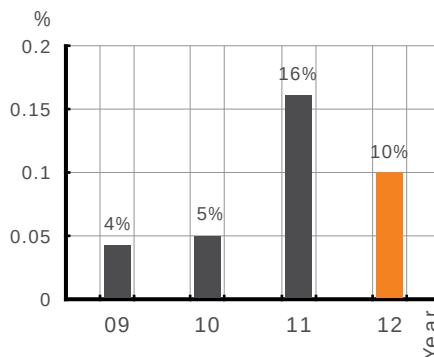


**Economic Value created
2006 - 2012 LKR-M**

Financial return to the Government

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

Accumulated funds of the Government at HDFC Bank; initial capital LKR 490.62 million and 51 percent of the accumulated reserve capital of LKR 728 million, accounts for LKR 1,219 million. During the year HDFC Bank has paid to the Government in terms of taxes and dividends LKR 123 million indicating a 10 percent financial return on investment of LKR 1,219 million..



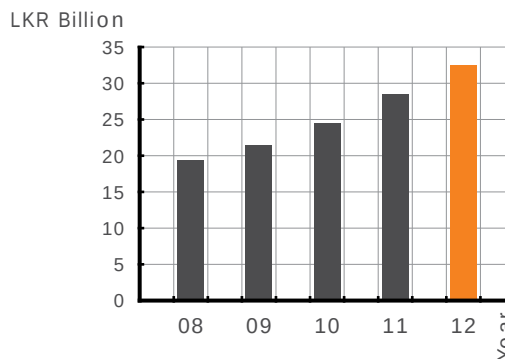
**Return to the Government
2009 - 2012**

Promoting Human Settlement

Despite the direct economic value creation from the core business operations, we assess that indirect impact of HDFC's core business over the last 27 years is significant in the context of this socio economic development of the country.

Aggregate Service in the Country

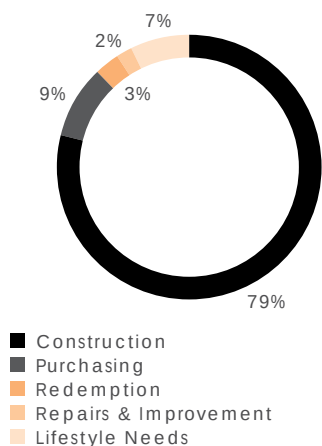
HDFC has assisted over 157,000 families to obtain homeownership, improve existing dwellings and acquire household equipments and accessories. The total value of the facilities granted since year 2000 is over LKR 32 billion, and over 75 percent of these advances has been extended to the low and middle income groups.



**Aggregate Value
of Loans Granted**

Enhancing Home Ownership

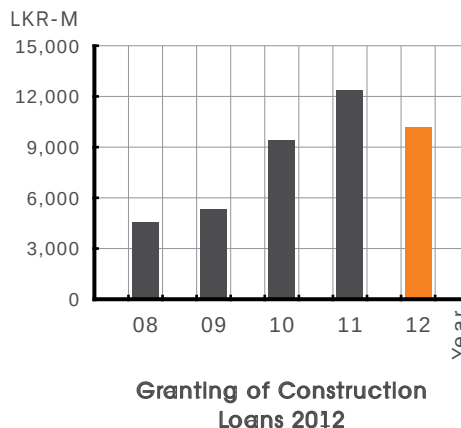
During the year HDFC extended 12404 facilities, totaling LKR 3,600 million. These facilities were extended for house construction, purchasing, redeeming of housing loans obtained at high interest rates, renovations, repairs and extensions to existing structures. Number of loans granted for purchasing of household items, furniture and other lifestyle development needs were 1,536, with a total credit value of LKR 260 million. We estimate that, these facilities have assisted over 12, 000 families and over 55,000 people to fulfill their pressing need of shelter.



**Purpose Wise Distribution
of Service 2012**

Contribution to the National Housing Stock

During the year 2012, HDFC contributed towards increasing Sri Lanka's national housing stock by approximately 10,024 new houses. HDFC financed LKR 3,599 million of the construction value of these houses. The number of construction loans granted during the year decreased by 17 compared to 12,142 loans in 2011. The Bank also granted LKR 71 million for repairs, renovations and improvements of existing dwellings.



Assist to Minimise Development Disparities

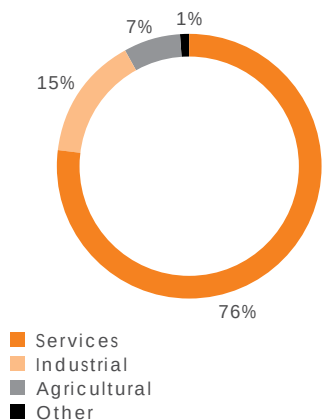
Prioritised Services to the Low and Middle Income Segments

During the year, more than 80 percent of the approved facilities were granted to low and middle income group representing 60 percent of the value of loans approved. Out of approved facilities, 57 percent of the loans were less than LKR 200,000. Loans between LKR 200,000 and LKR 500,000 accounted for 23 percent. The average size of the loan granted by the Bank rose from LKR 327,000 in 2011 to LKR 290,000 in 2012, reflecting the widened scope of our social responsibility toward serving the needy groups of the country. Majority of loans were made to the low income families who hardly had accessibility to formal housing finance. Enabling these families to realising the dream of owning a house had invariably improved the quality of life and the living standards of households.

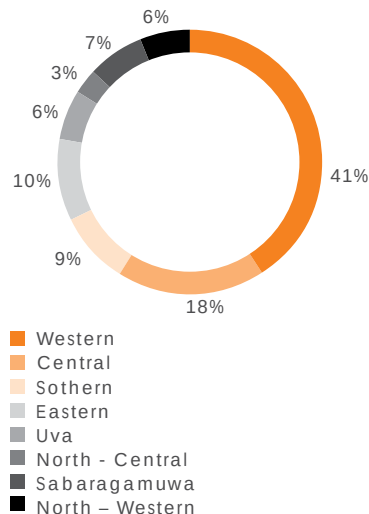
Sectorial distribution of service

During the year, LKR 2.8 Billion was disbursed to customers from different service sectors representing 77% of the total value of loan granted. Another 15% was approved to the customers with industrial sector income and 7% to the customers from agricultural sector.

NATIONAL ECONOMIC RESPONSIBILITY CONTD.



Sectorial distribution of Service 2012



Provincial Distribution of Loans 2012

Provincial Distribution of Service

Increasing urbanisation has seen the burgeoning of urban dwellers, rising sharply at 3 percent per annum. This trend is significantly reflected in the Western province due to the large number of immigrant families which has triggered land and construction labour prices within the province to rise to unaffordable proportions. Given these emerging trends, HDFC extended 5,058 loans within the Western Province representing 41 percent in volume and 69 percent in value of loans granted in 2012, respectively. Of these, 66 percent of the loans were granted to the middle income group, with loans for new constructions representing 73 percent, home purchases 6 percent and other housing related loans 11 percent.

Service provided out of Colombo

Out of the total number of loans granted, 81% has been extended to the districts other than Colombo and 67% within the Districts other than the Colombo and Gampaha. Almost 59% has been granted to customers from out of the Western province.

Resources Mobilization to Regions

Other than the Western Province, the Bank mobilised large sum of financial resources to finance regional housing finance needs which made a significant contribution to regional socio economic development. HDFC has mobilised LKR 1,602 million to Southern Province, LKR 1,121 million to North Western province and LKR 1,140 million to the Uva province as at 31st December 2012 as tabulated in the following table indicating the Bank's commitment to regional development, which made a significant contribution to minimise provincial development disparities.

Mobilisation of Financial Resources to Regions

	Loans LKR Mn	Deposits LKR Mn	Financial Resources Mobilized to the Region LKR Mn
Western	7,256	3,168	4,088
Southern	2,369	767	1,602
Central	2,408	1,183	1,225
North West	1,786	665	1,121
Uva	1,513	373	1,140
	15,332	6,156	9,176

Improving Accessibility to Housing Finance

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

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

HDFC continually strives to improve the accessibility of housing finance by promoting savings. HDFC uses its resources and expertise to inculcate banking habits, skills and confidence in this community thus enabling them to access formal housing finance. We are delighted to mention that a majority of our customers are from this category.

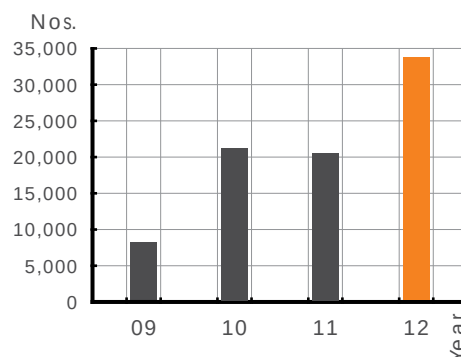
Mobile Banking Operation and Financial Inclusion

As a strategic approach, HDFC initiated its mobile banking operation (Palm Top) to capture the low

income segment who do not use formal banking channels, to promote banking and savings habits among them. The operation was initiated in 2007 and is currently operating successfully throughout the country over 146 townships via the branch network with over 115 Palm Top operators. Our promotional assistants visits approximately 15,000 customers island wide on a daily basis majority being pavement hawkers, boutique/shop keepers, daily waged laborers, fishermen etc. whose income is not permanent. For over 35 percent of these customers, the average daily deposit is less than Rs.250/- per day. It was the very first time that most of these customers were exposed to formal banking channels through our Mobile Bankers.

Promoting Financial Inclusion and Literacy.

In 2012, 33,228 new Mobile Banking Customers (MBC) were added to HDFC as depositors from the low income segment through the country. We launched a special loan scheme for lifestyle development secured on a group guarantee system and a micro loan scheme secured against gold savings of mobile banking customers via the mobile banking network. HDFC Bank deployed a dedicated staff to educate the low and middle income segment on the importance of saving and banking and to assist them to fill account opening documents. We also encourage them to save part of their daily wage for retirement and for the future well being of their children. For this purpose we educated them to invest any amount exceeding LKR 100 in a flexible intervals in an attractive customised group investment fund scheme, formulated specially for them to create wealth for the retirement.



Growth of Mobile Banking Customers

ENVIRONMENTAL RESPONSIBILITY

Our Approach

Why Environment is Material?

a. End result of the core business has a material impact on the ecosystem and the environment which threatens the sustainability of the Bank.	b. A house is the immediate environment which could influence customers' cash flows and living style.	c. Our segment of the housing finance market is substantially vulnerable for any form of climate change
We are mindful that, our core business of facilitating human settlement has a significant indirect impact on the eco system and climate change. House construction and maintenance requires a substantial amount of natural resources and energy such as soil, wood, cement, water, electricity and gas etc. It also involves a large amount of capital and emits a substantial amount carbon and waste. Therefore unsustainable approach of house construction hampers affordability of housing not only to the customers but also the environment.	A house is the immediate environment of a family and exerts influence on children's education, health, domestic peace and reflects the quality of life and aspirations of the household. In the process of demographic transition, clusters of homes form neighbourhood and clusters of neighbourhoods form towns and cities. Therefore, the way houses are designed, planned and constructed has enormous influence on the environment which could ultimate challenge customer 's capacity of loan repayment	HDFC Bank grants facilities with 10 to 15 years longer repayment periods during which degree of risk exposure on repayment cash flow, quality and value of collateral due to environmental change is unpredictable. Therefore the Bank's exposure to climate change risk is material on the quality of financial assets and mortgaged properties. On the other hand, over 70% of our facilities have been extended to customers from low and middle income families whose income is fully or partly earned from vulnerable economic sectors such as farming, agriculture, fisheries etc. This segment frequently faces the challenge of extreme weather conditions and natural disasters such as flood, storms, drought , ambient temperature and water availability etc. This group also often faces the challenges of weather pattern related illness or diseases and income variations and job security.

Environmental Policy, Governance and Goals

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

HDFC Environmental Policy

1-Environmental Regulations and Legislation

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

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

2- Promoting Affordable housing

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

3-Emission control

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

4-Natural Resources Utilization

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

5-Sustainable Supply Chain Management

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

6-Community and Employee Awareness

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

ENVIRONMENTAL RESPONSIBILITY CONTD.

Our Facets of Managing Environmental Responsibility

Environmentally Responsible lending	Promoting Sustainable Housing and Living	Conservation of Biodiversity	Being sustainable in daily operation
In driving HDFC towards its objectives, we have been mindful of our responsibility to balance environmental needs with human needs while respecting the human rights aspects of the environment. Corporate goals should not exert an adverse impact on culture, biodiversity and overall uniqueness of our country and environmental rights of the community. Gathering our pool of knowledge and experience, it is apparent that regulatory complied designs and construction always minimise the negative impact of development. Resources efficient and environmental friendly house designs always become affordable not only to the personal cash flow of the household, but also to the economy, environment and society at large In this context HDFC has complied strictly with the environmental and development regulations in extending facilities for house construction. We ensure that all plans are prepared by adequately qualified planners and approved by relevant local authority. In a case of a purchase loan we ensure that subject property is properly approved and street line and non-westing certificates are obtained, allocation of infrastructure such as road ways, smooth flow of water, assurance of uninterrupted power supply, solid waste disposal and rain water drainage systems are addressed.	Housing construction requires a substantial amount of natural resources and land preparation which causes extensive environmental destruction, and at the same time housing is a major source of greenhouse gas emission. We believe that sustainable housing and living can mitigate the negative impact of house construction and maintenance on the environment. We believe that, for a house to be sustainable, its construction and maintenance should be affordable to the households and resource efficient to the economy and environment. Meanwhile, the house should be constructed in conformity with the relevant environmental rules and regulation for the house to be environmentally responsible. Therefore, we believe that, environmental challenges due to residential expansion can be substantially mitigated by promoting sustainable housing - resource efficient and environmentally and socially affordable housing. We also encourage employees to reflect their commitment to the environment by supporting staff driven voluntary programs for promoting in-house greening and educating local communities. HDFC as a leader in housing finance industry believes that, by promoting sustainability practices to every home loan customer could contribute substantially to improve awareness of the people	Environmental sustainability means managing and protecting our natural resources to make them available for future generations. In Sri Lanka, the natural forest cover has decreased substantially from 80 percent in 1881 to 24 percent in 1990 while it has further decreased by 6.6 percent from 1990 to 2001. According to statistics, average 40,000 ha of forest area are cleared every year, for agricultural and residential purposes. We are mindful that our core business causes deforestation substantially through expansion of residential development. In this context we encourage, customers, community, and schools on tree planting bio conservation projects.	HDFC Environmental Policy specifies that every employee should comprehend the importance of incorporating environmental consideration in their daily operation and business activities. HDFC Bank consumes a large amount of natural resources such as electricity, water and fuel etc in our daily operations which directly induces greenhouse gas emission. As a responsible corporate citizen, we are committed for efficient and sustainable use of these global resources and manage our carbon footprint.

Environmentally Responsible Lending

HDFC Bank strives to ensure that all facilities approved are extended only for the constructions and purchases of properties which are properly approved and complied with the relevant environmental laws and development regulations. The following table showcases the level of compliance with this policy in 2012.

Promoting Sustainable Housing and Living Awareness on Carbon Footprint

The Bank also published a booklet on the theme "Manage your carbon footprint" and distributed among the railway commuters at the Fort Rail Way Station. The booklet was aimed at providing guidance on ways of identifying carbon footprints, and how people could contribute to its management in social

Level of compliance with development and environmental regulatory requirements

	2012	2011	2010	2009
% of Plan Approval Out of Total Construction Loans	100%	100%	100%	100%
% of Plan Approval Out of EPF Construction Loans	96%	97%	97%	97%
% of Site Plan Approval Out of Total Mortgage Loans	100%	100%	100%	100%
% of Local Authority Complaints / Total Construction Loans	Nil	Nil	Nil	Nil
% of Environmental Disputed Total Construction Loans	Nil	Nil	Nil	Nil



ENVIRONMENTAL RESPONSIBILITY CONTD.

life, office life, at home and during home construction. The booklet is kept in the counters of all branches and encouraged to be distributed among the customers.

Conservation of Biodiversity

In celebration of world environmental day 2012, HDFC Bank planted trees, at Hide Park corner branch with participation of the chairperson and senior management.



Managing Carbon Footprint

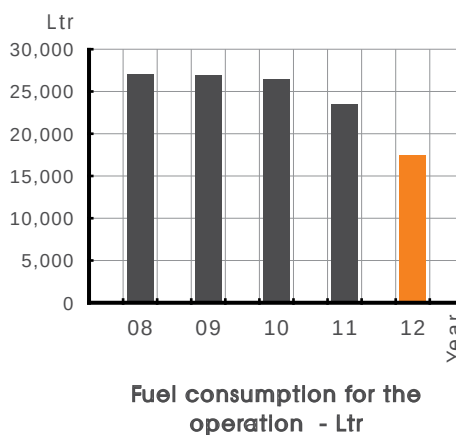
We identified that fossil fuel consumption caused by business and staff travel, consumption of electricity, water and paper as the core areas of focus in managing the Bank's carbon footprint. Internal indices which were identified in 2009 and 2010, were further developed to monitor green house gas emission.

Being sustainable in daily operation

Business Travel and Fuel Consumption

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

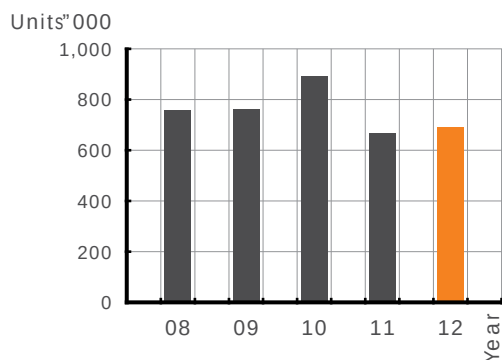
During the year Bank's fleet of vehicles has run 155,986 kilometers and consumed 17,066 litres of diesel and petrol for business purposes. This translates into a ratio of 5 litres of fuel per LKR 1 million loans approved and mileage of 43 kilometers per LKR 1 million loan approved, compared to 5 litres and 44 kilometers respectively in 2011. This indexes showcases the correlation between business travels and performance, which encourages the management of greenhouse gas emissions judiciously. Same time, HDFC also has managed total fuel consumption substantially over the last four years from 26,000 litres to 17,000 litres.



Electricity Consumption and Emission Control

Substantial amount of electricity supply in the country is fueled by fossil fuel extraction and utilisation of which substantially influence the Eco diversity and climate pattern of the planet. Sustainable consumption of electricity can largely contribute in mitigating this challenge and while conserving the fossil fuel reserve for the future generation. Integration of this climate responsibility into daily operations of the Bank is one of the environmental managements at HDFC. During the year, HDFC has consumed 679,256 units of electricity which records 4% increase than 2011, mainly as a result of opening new branches and an undergoing refurbishment programme.

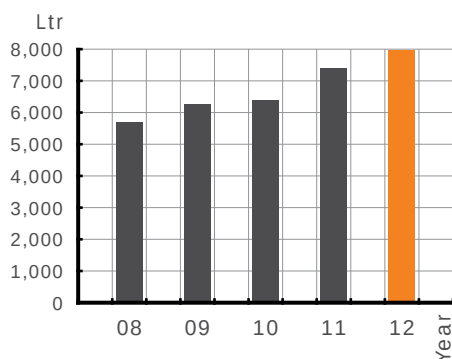
Further, we have established internal indices for the purpose of monitoring efficiency in consumption of electricity per employee and Sq.ft of building occupied by the Bank. We were able to reduce the index of electricity consumption per employee from 1,299 units to 1,228 units and per sq:ft index from 8 units to 7 in 2012, through staff education and awareness programmes.



Total Electricity Consumption

Water Consumption and Emission Control

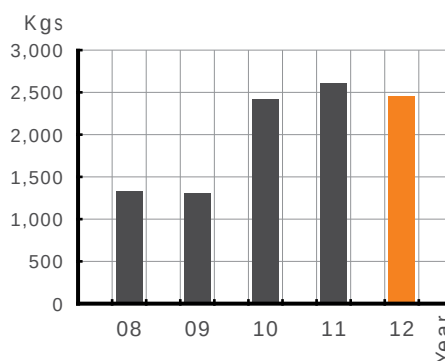
During the year, the Bank has consumed 7,890 liters of water on its operations compared to 7,340 liters in 2011, which was mainly due to the increase of floor area and branch offices and the rise in the number of staff. However the index of water consumption per employee was maintained at the same level as 2011.



Water Consumption Ltr

Paper Consumption

Waste Management and management of paper consumption were prioritised this year. We sought avenues to simplify the loan approval process to minimise documentations. These efforts enabled us to reduce average paper consumption per Rs. 1 million loans approved, from 342 to 340 during the year. There has been considerable savings on print cartridges, maintenance of equipment and the time spent on distribution, handling and filing of documents as well. Going forward, we will continue to improve this ratio further as a medium term goal.



Paper consumption Kgs

ENVIRONMENTAL RESPONSIBILITY CONTD.

Key Performance Indicators - Environmental Responsibility

	2012	2011	1010
Save Electricity, Water and Reduce Emission			
Electricity Consumption - Kwh	679,256	656,231	836,488
Electricity Consumption - Kwh Per Employee. Per Annum	1,250	1,299	1,486
Electricity Consumption per Sq:ft Occupied	8	8	13
Water Consumption Ltrs	10,517	7,340	6,331
Water Consumption Ltrs - Per Employee. Per Annum	19	15	15
Paper Consumption - Save Trees, Resources and Reduce Emission.			
Weight of Paper Purchased - Kgs	12,242	13,925	14,011
Papers Consumed per LKR.1Mn Loans Approved	340	342	380
Waste Paper Disposed for Recycling - Kgs	3,934	4,077	3,261
Savings of Recycled Disposed Papers – Trees	66	69	55
Water- Ltrs	125,022	129,567	103,634
Electricity- Kwh	15,736	16,308	13,044
Oil – Ltrs	6,884	7,155	5,723
Land Fill- Cubic Meters	11	12	9
Business Travels, Fuel Consumption and Emission Controls.			
Diesel and Petrol Ltrs Consumption	17,066	23,051	25,050
No. of Km Run by Banks Vehicles	155,996	207,738	273,921
Vehicle Mileage Per Approved Loan Value LKR. 1 Mn	44	44	89
Fuel Ltr (Petrol & Diesel) Per LKR.1Mn Loan Approved	5	5	8
Fuel Ltr Per Loan Approved	1.4	1.6	2.4

SUSTAINING OUR STAFF

Our Approach

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

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

Also we adhere to other relevant human resource standards and regulations very stringently. We refer the Establishment Code for all labour related matters where internal policies and rules are not available.

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

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

Team Profile and Development Indicators	2012	2011	2010	2009
No. of Staff	488	505	425	364
Percentage of Women	41%	42%	45%	46%
Percentage of Graduates	19%	19%	19%	21%
Percentage of Professionals (Including Banking)	46%	46%	45%	41%
Average Age (Years)	36	35	36	37
Average Service Period (Years)	9.5	8.4	8.8	9.64
Average Absenteeism	0.26%	8.33%	8.40%	10.60%
Average Medical Consultation – LKR	37,269	31,770	47,024	40,228
% Employees Covered by Collective Agreement	98%	98%	98%	98%
Turnover Index	8.11%	4.55%	2.58%	4.67%
Average Gross Salary- LKR	50,975	42,497	47,266	57,371
Average Basic Wage –LKR	21,838	17,479	18,266	15,849
Average Cost Per Employee – Monthly – LKR	84,000	63,000	64,000	61,000

HR Practices and Policy

We are an equal opportunity employer as discrimination based on religion, caste, gender or any other profile is not in our mandate of HR recruitment and development. We also ensure that we follow the ILO declaration on fundamental principles which aim to achieve both economic growth and equity through a combination of social and economic goals.

Performance Review Recognition

Performance appraisal

A staff appraisal system has been formulated to recommend annual salary increments and identify employee attitudes and training and development needs. Performance appraisal system is in place for all categories of employees which applies annually for the entire staff.

SUSTAINING OUR STAFF CONTD.

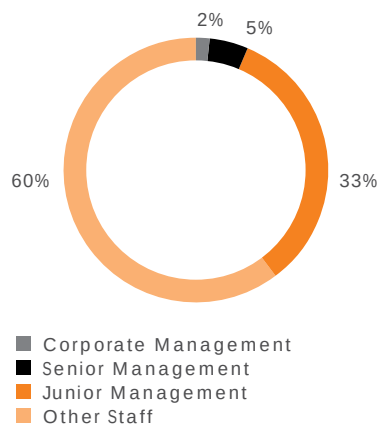
Employee feedback and results of the staff satisfaction surveys enable us to identify specific training and development needs. Operational targets are given to all members of the staff where appropriate. Branch wise loan, recovery and fund mobilisation targets are some of the other strategies used in performance review and productivity development. A system to review, reward and recognise best annual performers is in place in respects of branch operations.

Training and Awareness

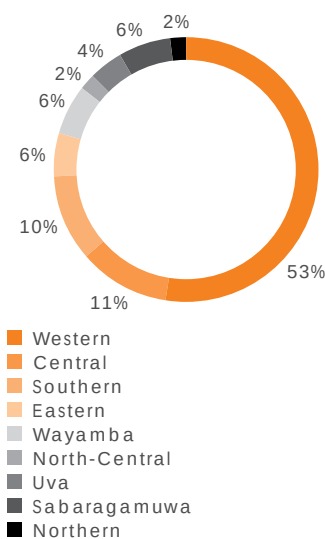
Staff is kept well informed on new products and policy developments, and changes in procedures and regulatory requirements through circulars and internal memos. These communiqués are originated by the respective departments and communicated centrally by the operating department. Procedure manuals are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

Labour practice and Decent Work

During the year the strength of permanent employees declined due to revision of HR policy applicable to mobile bankers who were on contract basis. Majority of the mobile bankers were recruited during the year as trainees with potential to recruit on contract basis based on their performance. HDFC conducts regular training and orientation programs to improve the performance of the staff and provide satisfactory career development.



Employees by Grade



Provincial distribution of Staff

Our workforce is mainly concentrated in the Western province as 39 percent of the total staff is based in the head office in Colombo. In an effort to promote an equitable regional distribution of the staff, we gradually reduced the work force in the Western Province from 64 per cent in 2008 to 53 per cent in 2012 while majority of the mobile banking trainees recruited from the Central, Southern, Eastern and Northern Provinces.

Key Performance Indicators – labour practice and Decent Work

Staff by Employment	2012	%	2011	%	2010	%
Corporate Management	9	2%	7	1%	7	2%
Senior Management	23	5%	16	3%	16	4%
Junior Management	163	33%	169	33%	166	39%
Other Staff	293	60%	313	62%	236	56%
Total	488	100%	505	100%	425	100%
New Appointments						
Corporate Management	1	0	0	0	0	-
Senior Management	2	0	0	0	0	-
Junior Management	1	0	0	0	1	2%
Other	-21	0	80	100%	59	98%
Total	-17		80	100%	60	100%
Turnover						
Corporate Management	2	0.36%	2	0.40%	0	0%
Senior Management	5	0.92%	0	0	1	0%
Junior Management	1	0.18%	1	0.2	1	0%
Other	11	2.03%	9	1.80%	9	2%
Bank Average	19	3.49%	12	2.37%	22	3%
Provincial Distribution of Our Staff						
Western	257	53%	281	55%	246	58%
Central	54	11%	49	10%	37	9%
Southern	51	10%	44	9%	36	8%
Eastern	27	6%	27	5%	12	3%
Wayamba	209	6%	34	7%	25	6%
North-Central	10	2%	9	2%	13	3%
Uva	20	4%	20	4%	18	4%
Sabaragamuwa	31	6%	36	7%	33	8%
Northern	9	2%	5	1%	5	1%
Total	488	100%	505	100%	425	100%
Staff Emoluments : LKR –M						
Salaries	286	76%	230	76%	206	76%
Overtime	5	1%	11	4%	7	3%
Bonus	23	6%	34	11%	35	13%
Staff Medical	18	5%	16	5%	14	5%
Leave Encashment	9	2%	8	3%	8	3%
Incentives	33	9%	18	1%	2	1%
Total LKR -M	374	100%	302	100%	272	100%

SUSTAINING OUR STAFF CONTD.

Labour Relation and Human Rights**Right of Unionisation and Collective Bargaining**

Freedom of association and collective bargaining is a human right of the workers in an organisation, as defined by the UN Universal Declarations of Human Rights and ILO conventions. Collective bargaining is a forum of stakeholder engagements that helps to build an institutional framework which contributes to a stable society. Our approach to industrial relation spans beyond the collective bargaining mechanism. We recognise the Ceylon Bank Employees Union (CBEU), which comprise almost 81 percent of our staff across all executive grades, as a consultative and supportive group that articulates a forum for improved communication, grievance handling, career counseling and creating an environment conducive to healthy employee relations. Our Collective Agreement which was renewed in 2010, for three years with effect from 2009, is available at our corporate web site www.hdfc.lk for public reference.

Minimum Notice Period

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

Occupational Health and Safety**Staff Health Plan**

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

Other Initiatives to Improve Work Life Balance

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

- Implementation of a Business Continuity Plan to address emergency situations.
- Improving a healthy and a safe environment; nine branches were fully refurbished with new facilities during the year whilst many divisions in the head office were refurbished.
- Arrangements were made to provide safe drinking water and implement a standard lighting system to all branches.

Key Performance Indicators- Labour Relation and Human Right

	2012	2011	2010
No. of Staff	488	505	425
CEBU Membership	397	494	419
Membership %	81%	98%	98%
Employee Benefiting From Full Freedom of Association %	100	100	100
No. of Pending HR Cases Against the Bank	4	5	4
No. of hours of staff trained on HR policies and procedures relevant to operation	3,240	1,738	444
% of staff trained on HR policies and procedures relevant to operation	36%	20%	3%

- All female members of the staff at head office participated in two health education programs.
- A chemical treatment campaign was conducted in the head office for the prevention of dengue and all branches were encouraged to follow suit.
- Cost of funeral visits by staff in group vehicles is reimbursed by the Bank subject to a limit of 50 percent.
- The HDFC Community Policy approved by the Board in 2010, acknowledges Bank's commitment to sponsor a needy person for medical, sports or educational needs and encourages voluntary staff participation.

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

Cultural and Sport Events

Cultural Activities

We encourage the staff to develop cultural and sporting talents as it creates camaraderie and promotes a sense of team spirit among the employees. The Buddhist society of the Bank conducts a religious ceremony in the head office annually with financial contribution from the Bank and staff members. This year, the society conducted a 'Vesak Dansala' and offered kiribath to people in the city in which a large number of staff and ex-staff members participated.



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

Sport achievements

During the year, HDFC Cricket Team won the Governors Trophy, cricket tournament held in July 2012 by beating Sampath Bank, RDB, NSB, Central Finance, Central Bank and the final with PABC. This tournament was organised by The Credit Information Bureau (CRIB) and was held at Colombo Colts Cricket Ground. HDFC Bank team was led by Duminda Sanjeewa (Captain), Asitha Perera (Vice Captain), Duminda Lakmal, A.M.M. Dinesh, Ushantha Amarasinghe, T.H. Kasun De Silva, Eranga Pradeep, Jayadewa Kahawita, V.G.N. Rangana and S.C.K. Ariyaratna. Asitha Perera of HDFC Bank was also selected the Man of the Match.

SUSTAINING OUR STAFF CONTD.



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

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

Key Performance Indicators – Occupational Safety and Health

	2012	2011	2010
Staff covered by the health plan	72.90%	67.30%	67.00%
Average medical claimed per employee– Rs.	37,269	31,777	47,024
Occupational injury	0	0	0
No. of occupational diseases	0	0	0
No. of lost day rate	0	0	0
Absenteeism rate	0.21%	8.33%	8.40%
Fatality	0	1	1

Training and Education

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

As depicted in the table of key performance indicators – training and Education, we significantly increased the number of training hours given to the operational staff and junior executives. Total training hours in 2012, increased by 94 percent compared to 2011.

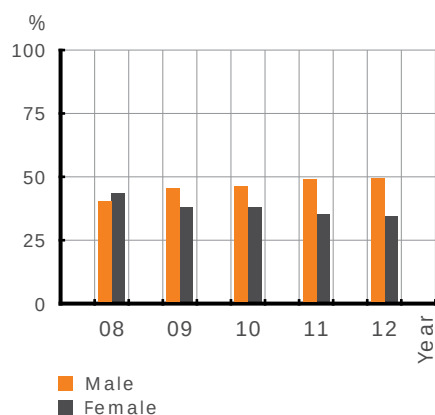
The conducive strategies implemented in the recent years have resulted in a significant qualitative improvement in our workforce. The numbers registered with the Institute of Bankers for professional banking examinations and qualified bankers increased to 29 per cent in 2012 compared to 26 per cent in 2011. The percentage of graduates qualified in the areas of commerce, accounting, economics, arts, geography and valuation amounted to 21 percent of the workforce. These developments have substantially strengthened the capacities of the employees

Diversity and Equal Opportunity

The extent of employee diversity based on gender, age group, service period and ethnicity within an organisation is imperative for the stability of the human capital. HDFC is an equal opportunity employer, paying a uniform remuneration for men and women for work of equal value. From inception we have employed a high percentage of women in our organisation and we strategically recruited more males to strengthen our sales team and thereby reduced the percentage of women in our workforce to 41 per cent by the year end.

Key Performance Indicators – Training and Education

Training Type	2012	%	2011	%	2010	%
Internal – hours	4,953	87%	2,242	76%	1,474	98%
External – hours	726	13%	679	2%	19	1%
Foreign – hours	35	1%	24	1%	10	1%
Total hours	5,714	100%	2,945	100%	1,503	100%
Average training hours per employee	12		6		4	
No. Staff registered for banking exams	133	27%	128	25%	65	15%
No. of staff completed banking exam	10	2%	7	1%	5	1%
No. of lawyers qualified	18	4%	18	4%	16	4%
No. of accountants fully/partly qualified	51	10%	51	10%	50	12%
No. of IT qualified/partly qualified	37	8%	33	7%	33	8%
No. of degree holders	103	21%	97	19%	82	19%
Other	136	28%	171	34%	174	41%
Total	488	100%	505	100%	425	100%



Employee Strength

SUSTAINING OUR STAFF CONTD.

Key Performance Indicators – Staff Diversity

	2012		2011		2010	
Diversity - by Gender Participation	M	FM	M	FM	M	FM
Corporate Management	7	2	7	0	7	0
Senior Management	14	9	9	7	9	7
Junior Management	68	95	71	98	72	98
Other Staff	229	117	208	105	143	89
Total	318	223	295	210	231	194
Gender participation – staff	59%	41%	58%	42%	55%	45%
Gender participation - in the Board of Directors	78%	22%	67%	33%	67%	33%
Diversity - By Age (years)						
Corporate Management	50		52		50	
Senior Management	40		42		41	
Junior Management	31		32		31	
Other Staff	23		24		23	
Bank	36		35		36	
Diversity- by Average Service (Years)						
Corporate Management	9		8		5	
Senior Management	13		13		13	
Junior Management	14		14		13	
Other Staff	2		3.5		4	
Average Bank	9		8		9	
Diversity- by Ethnic Group						
Sinhalese	450	92%	471	93%	401	93%
Tamil	31	6%	25	5%	14	4%
Moor	7	1%	9	2%	10	2%
Total	488	100%	505	100%	425	100%

The average service period of above eight years indicates the level of stability and the average age of 36 reflects a high potential for development. In 2009, 99 percent of our workforce comprised of Sinhalese which was identified as a constraint for sustainable regional expansion of the Bank. In order to expand the ethnic diversity in 2012, we made a conscious effort to recruited staff from minority groups which enabled us to dilute the majority representation from 99 percent to 92 percent by the year end.

CUSTOMER RESPONSIBILITY, PRODUCTS AND SERVICES

Our Approach.

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

- Socially responsible banking,
 - Maintaining affordability of our service ,
 - Flexibility-customised solutions,
 - Customer satisfaction,
- as they main facets of our customer responsibility.

Our Facets of Socially Responsible Banking

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

CUSTOMER RESPONSIBILITY, PRODUCTS AND SERVICES CONTD.

Maintaining affordability of facilities

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

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

Flexibility and customised solutions.

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

Our facilities are extended for physical development of houses such as construction, renovation, extension and purchase of built houses. Our services have been further extended to enable customers to purchase

household appliances, furniture, fittings, amenities and accessories. HDFC has also formulated savings, deposit and investment plans tailor-made to suit different customer groups. We strive to deliver continuous improvement in our processes and services with more customer and user friendly IT based products. The basis of product customizing is more enumerated in the Customised Product Schedule, given below.

Customer Satisfaction.

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

Policy and Governance

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

Our pPerformance in 2012**Socially Responsible Banking.****Policy Development and Training**

During the year operational policies such as Integrated Risk Management, Treasury Investment, Assets and Liability Management and credit were reviewed by the Board of Directors. Meanwhile, several operational procedure manual were redeveloped and revised inline with the advancement of the products and service.

Staff training programs were conducted in the areas of banking related laws, property management, operational manuals, pawning and gold collateralised loans, antimony laundering, risk management, etc. During the year 431 members of the staff were trained spending 5,714 paid hours.

Whistle blowing mechanism and risk management

HDFC Bank accepted whistle blowing as a strong mechanism against corruptions, malpractices and irregularities and two members from the corporate management have been appointed to accept and analyse whistleblower compliance. Further integrated risk officer and compliance officers' functions were further strengthened.

Key performance Indicators – Customer responsibility

	2012		2011		2010		2009	
Purpose wise Service	No. of Loans	%	No. of Loan	%	No. of Loans	%	No. of Loans	%
Customer Reach and Accessibility.								
Permanent work force	488		505		425		364	
No. of Mobile Bankers	115		100		81		58	
No. of Branches	32		31		28		26	
No. of ATMs access	360		310		225		10	
Purpose wise distribution of service								
Construction	9,732	78%	12,142	85%	9,252	86.20%	5,197	86.70%
Purchase	443	4%	697	5%	588	5.50%	350	5.80%
Renovation/repair	9	0%	351	0%	486	4.50%	52	0.90%
Redemption	654	5%	886	6%	67	0.60%	166	2.80%
Home loans	1566	13%	428	4%	346	3.20%	212	3.50%
	12,404	100%	14,224	100%	10,739	100.00%	5,997	100
Customer wise distribution of service								
General mortgaged loans	1140	9%	1,325	9%	1100	10.20%	692	11.50%
EPF members	4038	33%	8,545	60%	6163	57.40%	3134	52.30%
Government teachers	219	2%	203	1%	387	3.60%	368	6.10%
Existing customers (Home Loan)	5107	41%	375	3%	2648	24.70%	1240	20.70%
Other	1900	15%	3,776	27%	441	4.10%	563	9.40%
	12404	100%	14,224	100%	10739	100.00%	5997	100.00%
Customer Rights								
No. of cases filed by customers on HR grounds	4		4		2		3	
No. of cases filed by the Bank	1		1		1		1	
Total litigations on HR grounds	4		5		3		3	

CUSTOMER RESPONSIBILITY, PRODUCTS AND SERVICES CONTD.

Improving Accessibility to Housing Finance**Our Delivery Channels**

Improving the accessibility of our service is a crucial factor in enhancing customer relationships. We have made our service more accessible island wide via Mobile Banking Units and ATM networks. We provide mobile banking solution in approximately 146 townships through 32 branches and service centres

Our Banking Channels

32 Branches

350 ATMs

115 Mobile

24 hours E-Banking

Our Initiatives 2012**Expansion and Improvement of Branch Network**

During the year we enhanced our geographical reach to the North by opening the Jaffna, branch relocation and refurbishment programme which was initiated in 2007, continued successfully during the year. Anuradhapura and Ampara branches were refurbished with contemporary designs and better facilities.

**Enhancing ATM Access**

Accessibility through ATMs improved from 310 to 360 via the strategic alliance signed with Sampath Bank PLC in 2010. With this cost effective initiative our customers are facilitated to transact through any Sampath Bank ATM, throughout the island.

Strengthening of Mobile Banking

Number of Mobile Banking units were increased from 100 operators to 120 operators during the year. With the objective of accelerating our geographical presence and efficiency in customer service, During the year, we expanded the operation in to 145 townships apart from towns where HDFC has its branches.



Providing customised solutions

During the year 10,024 facilities were offered for new house construction compared to 12,142 facilities in 2011 which was a 17% decline YoY basis. Further, 443 facilities were granted for house purchasing while 298 facilities were given for redemption and construction and 365 loans were granted for house improvement and repairs. Housing loans worth of LKR 2,781 Million

were extended to customers with sources of income from service sector employments and LKR 549 Million was granted to customers from the industrial sector income. The customers from farming and agricultural industry sectors were extended LKR 269 Million worth of facilities.

Purpose wise Distribution of Loans 2012

Purpose	LKR-M	Noof Loans
Construction	2,833	9,732
Purchase & Construction	324	443
Redemption	5	9
Redemption & Construction	88	289
Renovation/repairs	71	365
others	279	1566
Total	3,600	12,404

Customised Products Schedule

Customising of Loan Facilities		Deposits/Savings Plans
Customer Need	Loan Products	
* Construction	* Kedella	* Thilina
* Purchase of a house/flat	* ShramaUdana	* ThilinaRakawarana
* Purchase and construction	* Guru Sevana	* Prethilaba
* Redemption existing loans	* Sirisara	* VishramaUdana
* Extension and reconstruction	* Thilina Home Loan	* HDFC Dana Nidhana
* Renovation, repairs/improvements	* HDFC Home Loan.	* HDFC Fixed Deposits
* Purchase of residential lands	* Farmer's Loan Scheme	* HDFC Mobile Savings
* Purchase of electrical fittings	* Teacher's Loan Scheme	* Arumbu Minor Savings Plan
* Purchase of household accessories	* Project Loans	* Group Housing Fund scheme
* Development loans		
Customised Collaterally		
* Property mortgages	* Guarantor loans	
* EPF backed loans	* Group Guarantor loans	
* Cash backed guarantee loans	* Institutional Guaranteed loans	
* Gold Collateral loans		

SUSTAINING OUR COMMUNITY

Staff has donated over LKR 1.4 Mn for Community Sustaining

Management Approach

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

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

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

HDFC Community policy is available at www.hdfc.lk for public reference. During the year the Bank has invested over LKR 1.8 in the process of policy implementation representing 1% of earnings before tax.

Policy and Governance

Our community participation responsibilities are governed by the CSR Steering Committee headed by the Chief Executive Officer/ General Manager represented by DGM (Finance), AGM (Business Development & Marketing), AGM (IT), Manager Technical, Manager Treasury and a representative of the Trade Union. CSR projects and activities are proposed, identified, screened and evaluated based

on social cost benefits and are submitted for Board approval. Project implementation is assigned to the CSR Project Committee represented by a member from each functional department. The outcome of each project is reported to the Board on the completion of a project.

HDFC Community Policy

- 1. Promotion of clean water and healthcare:** - HDFC recognizes that enhanced accessibility to clean water and healthcare facilities are important factors in improving the quality of lives of people. Hence the Bank is committed to contribute to the community, directly or indirectly, in its capacity, to achieve the above.
- 2. Education:** - Since 1943, education in Sri Lanka has been considered a basic right and the country is focusing on achieving the goal of Universal Primary Education by the year 2015. HDFC recognises the importance of its contribution, involvement and participation in the society in its capacity to achieve this goal, where every child is enrolled and completes primary education in full.
- 3. Promotion of sports:** - HDFC recognises that sports are an important activity in enhancing capacity, unity and personality of our children. The Bank therefore, is committed to participate in promotion of sports in schools and the society.
- 4. Donations, sponsorships and participation in community projects:** - HDFC also recognises the importance of interaction with community organisations such as societies, associations etc for the wellbeing of the people and therefore is committed to support in its capacity financially or by other means. The Bank recognise its responsibility to support the democratic process, law and order and ensure the Government is well informed of its activities in the society. The Bank, therefore is committed to ensure that any donations and sponsorships extended are:
 - Solely for the purpose of supporting the democratic process
 - Lawfully and properly recorded and disclosed in our accounts
 - Not made, where there can be any misrepresentation of purpose

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

5. Promotion of banking habits and empowerment

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

6. Promotion of sustainable and economical housing technologies

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

Community Performance

Childrens Savings with Bank's Sponsorships

To inculcate savings habits among school children, HDFC launched the "THILINA" minor savings accounts in schools and preschools with an initial deposit of LKR 100/= from the Bank. HDFC opened THILINA minor savings accounts for 5300 children, throughout the island via the branch net work and mobile banking operations.

HDFC Bank assisted 300 flood affected families in Raththota

HDFC Bank offered assistance to the people affected by the recent floods and landslides in Raththota by donating essential items. The staff members of the Bank participated in the distribution of flood relief in several village areas of Raththota Divisional Secretariat in the Matale district. This was organised by the welfare society of HDFC Bank and the staff members of the Bank also contributed to this worthy cause. The packages of items included dry rations and essential

items such as rice, milk powder, sugar, packs of tea, dhal, coconuts, curry powder, onions, garlic, soya meat, chilies, biscuits, soap, toothpaste and etc., worth more than LKR 2,500.00 for each affected family were distributed as a timely convenience.

Donation and Sponsorships

During the year, the Bank has spent LKR 719,119 as donations and sponsorships for social events organised in various organisations, societies and schools, for the wellbeing of the society and the industry. Some of the significant donations and sponsorships are as follows:

- * Sponsorship of the Samurdhi staff welfare society's annual events -LKR 249,000
- * Sponsorship for schools events LKR 184,000
- * Donation for Deyata Kirula programme LKR 500,000.

Community Empowering Through Housing Finance

The operations of HDFC Bank are statutorily limited to housing finance and allied services. Therefore, our business strategies have to be focused on the larger segment of the households - low and middle income groups, that represent around 60 percent to 70 percent of the population. Approximately 35 percent of these households hardly have access to housing finance, even though they have the capacity and willingness to pay for low cost housing. A part of our community policy is empowering these people to access formal housing finance which would in turn improve the quality of life of these people and render enormous socioeconomic benefits the country. Our social responsibility in this direction is conducted by promoting financial inclusion through the Mobile Banking Operations which is described under our performance towards economic responsibility.

Donation of drugs

As a process of implementation of the Community Policy, HDFC Bank and staff welfare society donated LKR 50,000 worth of medicines to the Cancer Hospital, Maharagama. The chairman of the Bank and other senior staff participated for the event.

SUSTAINING OUR COMMUNITY CONTD.

**Volunteer Financial Contribution**

Moreover, HDFC staff made financial donation of LKR 1.4 Mn in support of fellow staff members in need of financial assistance due to hospitalization, housing, education, and floods etc. During the year, our staff has donated over LKR 0.200 Mn for various social needs.

Key Performance Indicators- Community Investments

	2012		2011		2010	
	Amount	As % of PBT	Amount	As % of PBT	Amount	As % of PBT
Promoting Sustainable Housing and Living	0.500	0.0	0.980	0.0	665,000	0.23%
Promoting Financial Inclusion	0.530	0.0	0.550	0.0	830,000	0.29%
Promoting Clean Water and Health	0.050	0.0	-	0.0	315,400	0.11%
Promoting Education and Sports	0.184	0.0	2.237	0.0	2,108,000	0.72%
Donations and Sponsorships	0.484	0.0	0.674	0.0	535,000	0.18%
Staff Voluntarism (Paid Hours)	0.020	0.0	0.025	0.0	38,500	0.01%
Total	1.768	1.0	4.447	1.0	4,492,500	1.54%

RISK MANAGEMENT & CORPORATE GOVERNANCE

RISK MANAGEMENT

HDFC's Risk Rational

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

HDFC's Risk Profile

Because of the long term nature of housing finance portfolio, funded by comparatively short-term funds, diversity of the market, and geographical regions in which HDFC Bank operates the implementation of an efficient risk management structure is critical for the bank. Housing sector is crucial for socio economic development of the country and considered as a specific priority area in formulation of development policies. Sensitivity to changes in those policies is also a part of risk profile of HDFC which needs a continuous strategic focus. Further impact of unforeseen changes in macro economic environment, such as global

economic and environmental changes is other aspect of concentration in the approach of risk management at HDFC. In this direction HDFC pays a high level of concentration to be in compliance with regulatory requirements issued by the Central Bank of Sri Lanka, ensuring Banking Industry sustainability. HDFC emphasizes that taking into consideration these precautions would warrant the long-term sustainability of the Bank.

Risk Management Objectives

- to contribute to the development of the Banks by optimising the overall risk-adjusted profitability;
- to guarantee the Banks sustainability as a going concern, through the implementation of policies, systems and infrastructure which promote effective risk measurement and monitoring.
- to ensure that HDFC function as a responsible corporate citizen in compliance with applicable laws, regulations and external codes of best practices
- to contribute for the sustainability of the Banking Industry.

HDFC Risk Precautionary Management Framework

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

Challenges in Managing Risk

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

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

Risk Management Governance Framework

- The HDFC Bank's risk management governance is based on:
- strong managerial involvement, throughout the entire organisation from the Board of Directors down to operational management teams;
- a tight framework of internal procedures and guidelines;
- continuous supervision by an independent body to monitor risks and to enforce rules and procedures.

Risk Management Framework of the Bank



The Board of Directors

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

Board Sub Committees

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

● Board Integrated Risk Management Committee

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

RISK MANAGEMENT CONTD.

● Board Audit Committee

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

Management Committees

The Management Committees coordinate different business processes and risk owners.

Risk Working Committee

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

Assets and Liability Committee (ALCO)

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

Credit Committee

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

Investment Committee

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

IT Steering Committee

The committee comprises of the Assistant General manager IT and members from the corporate management and oversees IT developments inline with the IT Corporate Plan and industry development.

Sustainability Committee

The committee oversees the process of integration of sustainability practices into the operation of the Bank and its engagement and communication.

Risk Management Division

Carry out the function of risk identification, analysis and managing throughout the Bank. Forward timely risk evaluation report to the Risk Working Committee and Integrated Risk Management Committee and ensure implementation of their recommendation effectively.

Business Processes and Risk Owners

● Finance Division

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

● Treasury Division

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

● Operational Division

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

● Internal Audit Function

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

External Codes/Initiatives of best practices

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

points of references and organizations with which we maintain regular engagements and are enumerated in the page No. 37 of report.

Statutory Protections Against Insolvency

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

Review of Implementation of Approved Policies and Procedures

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

RISK MANAGEMENT CONTD.

Risk Analysis and Mitigating strategies in place

Risk Category		Risk Rating	Risk Description	Controls in Place to Mitigate
Credit Risk				
1	Credit Concentration Risk	Significant	Risk arises when the loan portfolio is not adequately diversified; income group, sector, industry, geography, product, type of collateral etc.	1. Credit Policy and maximum credit exposure limits. 2. Compliance with guidelines of CBSL on single borrower limits. 3. Management of portfolio mix with particular attention to sector, scheme, income group, provincial and security wise diversity. 4. Strategic profit management through budgetary controls.
2	Risk of Climate Change	Marginal	Customers' inability to pay loans due to loss of income on consequences of extreme weather patterns.	1. Diversification of loan portfolio; income sector, income group and geographical region basis. 2. Alternative collaterally and institutional guarantee schemes. 3. Compulsory mortgage insurance cover. 4. Maintain average size of loan below LKR 1M. 5. Promoting sustainability practices.
3	Risk of less effectiveness of credit policy and recovery	Marginal	Risk of losses arising from the inability of the customer/ guarantor or other counter parties to meet home loan commitment	1. Standardised credit evaluation. 2. Regular review of credit policy and procedures. 3. Regular strengthening of recovery department. 5. Compliance with CRIB requirements. 6. Risk officers review of loan above LKR 1.5M
Interest Rate and Liquidity Risk				
1	Liquidity Risk	Significant	Risk arising from inability to meet maturity liabilities of deposits, savings or contractual obligations as they fall due.	1. Assets and Liability Committee (ALCO) that ensure managing Maturity Gap and Net Interest Margin. 2. Management of liabilities with adequate mix of deposits, savings and contractual liabilities. 3. Aggressively promoting risk pooled fund base (savings & deposit) to enhance value and spread. 4. Maintain adequate Loan to Deposit ratio. 5. Maintain Statutory Liquid Assets Ratio on or above the Central Bank's Direction.

Risk Category		Risk Rating	Risk Description	Controls in Place to Mitigate
2	Interest Rate Risk	Significant	Possible adverse effects on net interest margin and advances due to interest rate changes in finance market.	1. Regular Maturity Gap analysis and management. 2. Ensure prompt re-pricing of loans. 3. Aggressively promoting Minor Savings and long term funds. 4. Promoting institutional loan scheme with refinance funding.
Operational Risk				
1	Processing or behaviour Risk	Critical	Problems with products or services due to failed internal controls, IT system, employee integrity, errors and mistakes, negligence, accident, fraud or other weakness in operating system	1. Compliance review of transactions, new products and procedures. 2. Continuous training on system and procedures. 3. Interdepartmental internal controls. 4. Business continuity plan.
2	System Risk	Significant	Risk of financial losses due to failure to deploy and maintain adequate IT system, frequent shutdowns, malfunctions, hacking and disruptions and failure of development with the requirements of competitive market developments and delivery channels.	1. Structured IT division headed by an experienced and qualified AGM. 2. Regular developments inline with regulatory compliances and market developments following a Board approved IT strategic plan. 3. IT policies. 4. IT steering committee.
3	Human Resources Risk	Critical	Risk arising from failure to recruit, develop or retain employees with the appropriate skills and knowledge, in appropriate time and manage employee relations,	1. HR policies and procedures. 2. Collective agreement with Trade Union. 3. Regular capacity maximising through training and development, rewards and recognition ,work life balancing etc.

RISK MANAGEMENT CONTD.

Risk Category		Risk Rating	Risk Description	Controls in Place to Mitigate
4	Risk of inadequate risk control & management.	Significant	Inadequate design or performance of the existing risk management framework; risk identification risk management planning etc.	1. Internal Audit. 2. Review by Board Risk Management committee.
5	Geopolitical risk	Marginal	Possibility of financial loss or damage caused by political issues, poor quality of internal infrastructure, cultural differences, misunderstanding etc.	1. Training and Development. 2. Regular engagements with stakeholders. 3. CSR and Environmental Policy. 4. Sustainability development and reporting.
6	Risk involves with Management Information.	Significant	Inadequate, inaccurate, incomplete or untimely MIS to support the management in decisions making process.	1. System audit and developments undertaken by Internal Audit. 2. Reconciliation and day to day balancing process. 3. Information Security Policy. 4. Regular system generated MIS for management review.
7	Health and Safety Risk.	Marginal	Health and safety risk of staff and customers and public.	1. Environmental Policy. 2. Labour practice and decent work. 3. Life and fire Insurance . 4. Staff health plan. 5. Business continuity Plan.
8	Risk of lacking Corporate Governance.	Marginal.	Incompetence of Directors to fulfill their personal statutory obligations in controlling Bank.	1. Governance policies and procedures. 2. Compliance and risk management functions. 3. Company Secretarial function.
9	Risk of Criminal and illicit act	Marginal	Possibility of financial or reputation risk due to fraud, theft, gross or willfull negligence, sabotage, vandalism etc.	1. Training. 2. Insurance. 3. Physical security service.

Risk Category		Risk Rating	Risk Description	Controls in Place to Mitigate
10	Ethics risk	Marginal	Unethical business practices, including those of business partners, racial and religious discrimination, child labour, environmental issue, pollution etc.	1. Policies and procedures. 2. Development of Sustainability practices and reporting. 3. Compliance review. 4. Customer and staff satisfaction surveys. 5. Voluntary compliance with external codes of ethics, best practices etc.
Reputations Risk				
1	Reputations Risk	Marginal	Negative effects on public and customer opinion and market reputation	1. Regular training on customer care. 2. Business policies and procedures. 3. Stakeholder engagement policy. 4. Independent yearly rating from Fitch Rating Lanka Ltd.
2	CSR Risk	Marginal	Risk to brand reputation from inadequate/lack of Corporate Social Responsibility practices.	1. CSR Policy. 2. CSR and Sustainability Executive committees. 3. Compliance with GRI guideline in sustainability reporting.
Compliance Risk				
1	Legal and regulatory compliance Risk	Significant	Risk arising from non compliance with statutory and regulatory requirements.	1. Compliance officer who review adherence to regulatory requirements and report quarterly to Board Audit Committee, CBSL and CSE. 2. Existing of Separate legal department with 15 qualified lawyers headed by the Legal Manager. 3. Qualified Company secretary. 4. Policies and procedures. 5. Finance division headed by a qualified Chartered accountant as a DGM.

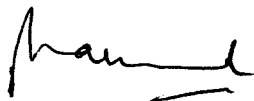
CORPORATE GOVERNANCE AT HDFC

HDFC is a licensed specialised Bank incorporated by HDFC Act No. 07 of 1997 (amended by Act No. 15 of 2003 and Act No 45 of 2011). We adopted the following statutes, regulations and social codes of best practices, with regard to the Area of Corporate Governance.

- (I) HDFC Act
- (II) Mandatory codes of Corporate Governance issued by the Central Bank of Sri Lanka, and compliance with relevant laws under the Banking Act.
- (III) Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants and Securities Exchange Commission of Sri Lanka.
- (IV) Compliance with the continuing listing requirements under section 7.10 of the listing rules issued by the Colombo Stock Exchange.

In complying with the regulatory requirements, our Corporate Governance Report consists with three sections; Section one is relevant to Banking Act Directions, Section two is relevant to Code of Best Practice on corporate governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. Section three is relevant to the continuing listing requirements under section 7.10 of the listing rules issued by the Colombo Stock Exchange.

We obtained an external auditor's certification from the Auditor General of Sri Lanka, on compliance with corporate governance directions of the CBSL, which is a further confirmation of our position.



Mrs. S. N. Wickramasighe
Chairman
Colombo Sri Lanka

SECTION ONE

Corporate Governance

The Compliance Statement HDFC Bank on Corporate Governance Directions for Licensed Specialized Banks

Guideline	Compliance Status
3(1) THE RESPONSIBILITIES OF THE BOARD	
Board Function	
3(1)(i) The Board shall strengthen the safety and soundness of the Bank by ensuring implementation of the following:	
a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the bank;	Complied with.
b) Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals.	Complied with.
c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	
d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied with.
e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied with.
f) Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with.
g) Define the areas of authority and key responsibilities for the Board of Directors themselves and for the key management personnel;	Complied with.
h) Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy;	Complied with.
i) Periodically assess the effectiveness of the Board of Directors' own governance practices, including: (i) the selection, nomination and election of Directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied with.
j) Ensure that the Bank has an appropriate succession plan for key management personnel;	Complied with.
k) Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied with.
l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied with.

CORPORATE GOVERNANCE CONTD.

Guideline	Compliance Status
m) Exercise due diligence in the hiring and oversight of external auditors.	Complied with.
3(1)(ii) The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of CBSL.	Complied with.
Board Meetings	
3(1)(iii) The Board shall meet regularly and Board Meetings shall be held at least twelve times a year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with.
3(1)(iv) That arrangements shall in place to enable all Directors to include matters and proposals in the agenda for regular Board Meetings.	Complied with.
3(1)(v) That notice of at least 7 days is given of a regular Board Meetings. For all other Board Meetings, reasonable notice may be given.	Complied with.
3(1)(vi) That a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' Meetings through an alternate Director shall, however, be acceptable as attendance.	Observed.
3(1)(vii) Shall appoint a Company Secretary whose satisfied the provisions of section 43 of Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with.
3(1)(viii) All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are follows.	Complied with.
3(1)(ix) The Company Secretary shall maintain the minutes of Board Meetings and such minutes shall be open for inspection of any reasonable time on reasonable notice by any Director.	Complied with.
3(1)(x) Minutes of Board Meetings shall be recorded in sufficient details as required under the Banking Act directions on Corporate Governance.	Complied with.
3(1)(xi) There shall be a procedure to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/ her/ their duties to the Bank.	Complied with.

Guideline	Compliance Status
3(1)(xii) Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where Independent Non-Executive Directors [refer to Direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	Complied.
3(1)(xiii) The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the bank is firmly under its authority.	Complied with.
3(1)(xiv) The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	Not arisen yet.
3(1)(xv) The Board shall, ensure that the Bank shall capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with. <i>Please refer page No. 160 for Capital Adequacy as at 31/12/2012.</i>
3(1)(xvi) Shall publish in the Banks Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied with.
3(1)(xvii) The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments	Complied with.

CORPORATE GOVERNANCE CONTD.

Guideline	Compliance Status
3(2) THE BOARD'S COMPOSITION	
3(2)(i) The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with. <i>(a) The appointments to the Board were made in accordance with HDFC Act No. 07 of 1997 amended by Act No 15 of 2003 and Act No. 45 of 2011, under following three categories</i> <i>(i) Ex-officio Directors representing the Secretary to the Treasury and Ministry of Housing.</i> <i>(ii) Nominated Directors, representing the Ministry of Finance, Labour and Minister of Housing.</i> <i>(iii) Shareholding Directors</i> <i>(b) Director Board was appointed as aforesaid and during the period under review there were 10 Directors in the Board as given below.</i> 01. Mrs. S. N. Wickramasinghe 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. C. Wijayawardhane 04. Mr. S. A. J. Samaraweera 05. Mr. W. D. R. D. Goonaratne 06. Mr. A. J. Aloysius 07. Mr. L. E. S. Silva 08. Mr. A. M. Chandrasagara (resigned -30/04/2012) 09. Mrs. K. W. P. Dayarathne (resigned – 31/10/2012) 10. Mr. W. D. K. Jayawardhana (resigned – 30/07/2012)
3(2)(ii) (A) The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years	Complied with.
3(2)(iii) An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (Executive Directors)	N/A In complying with section 4(2)(b) of HDFC Act, the Board of the HDFC Bank comprises only with Non-Executive Directors

Guideline	Compliance Status
3(2)(iv) The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher.	Complied with. As at 31st of December 2012, the constitution of the Board with regard to independency of directors, were as follows. <i>(a) Following Directors were Independent / Non-Executive Directors.</i> 01. Mrs.S.N.Wickramasinghe (Chairman) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. C. Wijayawardhane 04. Mr. L. E. S. Silva <i>(b) Following Directors are Non-Independent / Non-Executive Directors.</i> 01. Mr. S. A. J. Samaraweera 02. Mr. W. D. R. D. Goonaratne 03. Mr. A. J. Aloysius <i>(c) The Profiles of the present Director Board is given on page 22 to 23 of the Annual Report.</i>
3(2)(v) In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	Complied with. There were no alternate director appointments during the period under review.
3(2)(vi) Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied with. The relevant details are given under the Director's Profile of the Annual Report, on page 22 to 23.
3(2)(vii) A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. This sub-direction shall be applicable from 01st January 2011 onwards.	Complied with.

CORPORATE GOVERNANCE CONTD.

Guideline	Compliance Status
3(2)(viii) The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	Complied with.
3(2)(ix) There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with. (In accordance with HDFC Act)
3(2)(x) All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Not arisen yet.
3(2)(xi) If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied with.
3(2)(xii) A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another Bank.	Complied with.
3(3) CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS (In addition to provision of section 42 read with section 76H of the Banking Act, No. 30 of 1988 the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a Bank.)	
3(3)(i) The age of a person who serves as Director shall not exceed 70 years.	Complied with.
3(3)(ii) A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank of such 20 companies / entities / institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.	Complied with.
3(4) MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD	
3(4)(i) The Directors shall carefully study and clearly understand the delegation arrangements are in place.	Complied with.
3(4)(ii) The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with.

Guideline	Compliance Status
3(4)(iii) The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with.
3(5) THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER	
3(5)(i) The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with.
3(5)(ii) The Chairman shall be a Non-Executive Director and preferably an Non-Independent Director as well.	Complied with. <i>The Chairman is independent Non-Executive Director, as at 31/12/2012</i>
3(5)(iii) The Board shall disclose in its Corporate Governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with. <i>No any relationship , what so ever</i>
3(5)(iv) The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with.
3(5)(v) The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board Meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied with.
3(5)(vi) The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with.
3(5)(vii) The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied with.
3(5)(viii) The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.	Complied with.
3(5)(ix) The Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with.

CORPORATE GOVERNANCE CONTD.

Guideline	Compliance Status
3(5)(x) The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with. (a) The Board appreciates the active participation of shareholders for the Annual General Meeting. (b) All relevant information is provided to shareholders through the annual report and wherever necessary, using relevant circulars.
3(5)(xi) The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with.
3(6) BOARD APPOINTED COMMITTEES	
3(6)(i) Each Bank shall have at least four Board Committees as defined in CBSL Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) each Committee shall report directly to the Board. All Committees shall appoint a Secretary to arrange the Meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied with. <i>In complying with the directions, the following Committees are established.</i> (i) Board Nomination Committee (ii) Board Audit Committee (iii) Board Human Resource and Remuneration Committee (iv) Board Integrated Risk Management Committee. (v) Board Recovery Sub Committee
Board Audit Committee	
3(6)(ii) The relevant responsibilities related to Board Audit Committee, is separately defined under 3(6)(ii) of the Directions.	Complied with. <i>The Audit Committee comprised of following Directors, as at 31/12/2012.</i> 01. Mr. L. E. S. Silva (Chairman of the Committee) 02. Mrs. C. Wijayawardhane 03. Mr. W. D. R. D. Goonaratne <i>During the period under review, Mr. W. D. K. Jayawardena and Mr. A. M. Chandrasagara were also Committee members.</i> <i>Please refer the Board Audit Committee report on page 131 & 132 of this Annual Report for further details.</i>

Guideline	Compliance Status
Board Human Resource and Remuneration Committee	
3(6)(iii) The relevant responsibilities related to Board Human Resource and Remuneration Committee, is separately defined under 3(6)(iii) of the Directions.	Complied with. <i>The Human Resource and Remuneration Committee comprised of following Directors, as at 31/12/2012.</i> 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mr. W. J. L. U. Wijaya-weera 03. Mr. W. D. R. D. Goonaratne <i>During the period under review, Mrs. K. W. P. Dayarathne was also a committee member.</i> <i>Please refer the Board Human Resource and Remuneration Committee on page 133 Report for further details.</i>
Board Nomination Committee	
3(6)(iv) The relevant responsibilities related to Board Nomination Committee, is separately defined under 3(6)(iv) of the directions.	Complied with. <i>Nomination Committee comprised of the following Directors as at 31/12/2012.</i> 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mr. W. J. L. U. Wijaya-weera <i>During the period under review, Mrs. K. W. P. Dayarathne was also a Committee member.</i> <i>Please refer the Board Nomination Committee report on page 134 of this annual report.</i>

CORPORATE GOVERNANCE CONTD.

Guideline	Compliance Status
Board Integrated Risk Management Committee	
3(6)(v) The relevant responsibilities related to Board Integrated Risk Management Committee, is separately defined under 3(6)(v) of the Directions.	Complied with. <i>The Integrated Risk Management Committee comprised of following Directors as at 31/12/2012.</i> 01. Mrs. S. N. Wickramasinghe <i>(Chairman of the Committee)</i> 02. Mrs. C. Wijayawardhana 03. Mr. L. E. S. Silva 05. GM / DGM / AGM / CIA / CM (Treasury) / Head of Credit / compliance Officer / Risk Officer <i>During the period under review, Mrs. K. W. P. Dayarathne and Mr. A. M. Chandrasagara were also committee members.</i> <i>Please refer the Risk Management report on page 136 of this Annual Report for further details.</i>
3(7) RELATED PARTY TRANSACTIONS	
3(7)(i) The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction (defined under 3(7)(ii) of the directions) of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: 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. <i>Transactions carried out with related parties in the normal course of business are disclosed in note 29.1 of the financial statement on page 159.</i>

Guideline	Compliance Status
3(7)(iii) The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business.	Complied with.
3(7)(iv) A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with.
3(7)(v) a) Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the bank, steps shall be taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with.
b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.	Not arisen yet.
c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of director and the Bank shall disclose such fact to the public.	Not arisen yet.
d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	Not arisen yet.
3(7)(vi) A Bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	Complied with.

CORPORATE GOVERNANCE CONTD.

Guideline	Compliance Status
3(7)(vii) No accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with.
3(8) DISCLOSURES	
3(8)(i) The Board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that	Complied with.
(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with.
3(8)(ii) The Board shall ensure that the minimum disclosures are made in the Annual Report: a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer Directors Responsibility Statement for Financial Reporting and is given on page 137 of the Annual Report.
b) A report by the Board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Please refer page 124 of the Annual Report
c) The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31 December 2008.	Complied with.
d) Details of Directors, including names, fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Complied with.
e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Complied with. Please refer Note 6.1 of the Financial Statements given on page 150 of the Annual Report

Guideline	Compliance Status
f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied with. Please refer Note 6.1 of the Financial Statements given on page 150 of the Annual Report
g) The external auditor's certification of the compliance with these directions in the annual corporate governance reports published after 01st January 2012.	Complied with.
h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied with. Please refer the Report of the Directors, Statement on the Board of directors' responsibility for financial reporting Board Audit Committee Report and Statement on Internal Controls published on pages 137, 131 & 132 and 124 respectively, of this Annual Report
i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the bank to address such concerns.	Not arisen yet.

SECTION TWO

Corporate Governance

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

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
A. DIRECTORS		
A.1 The Board All Directors are Non-Executive Directors and the Board consists with well qualified and, experienced professionals. They possess relevant skills, experience and knowledge to steer the Bank towards its strategic intent.		
1. Meeting	A 1.1	Complied with. Please refer status of compliance for 3(1) (iii) of CBSL Rules.
2. Board Responsibilities	A 1.2	Complied with. The Board takes following responsibilities for the best interest of the Bank. ● Formulation and implementation of a viable business strategy. ● Implementing effective systems to secure integrity of information, internal controls and risk management ● The Board ensures that; ● the Chief Executive Officer (CEO) and Management Team possess relevant skills, experience and knowledge to implement the strategy; ● adoption of an effective CEO and Senior Management succession strategy; ● compliance with laws, regulations and ethical standards; ● all stakeholder interests are considered in corporate decisions; ● Company's values and standards are set with emphasis on adopting appropriate accounting policies and in compliance with financial regulations.
3. Access to Independent Professional Advice	A 1.3	Complied with.
4. Board Secretary	A 1.4	Complied with. The Company Secretary is an Attorney-at-Law with relevant required qualifications and experience. All Directors have access, advice and services of the Company Secretary for ensuring that Board procedures are conducted properly by adopting relevant rules and regulations.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
5. Independent Judgment	A 1.5	Complied with. On issues of strategy, policy, resources and standards of conduct, the Directors exercise their independent judgment avoiding any conflicts of interest that may arise from any transaction of the bank, with a related party.
6. Dedication of adequate time and effort by the Board and Board Committee	A 1.6	Complied with.
7. Training for new Directors	A 1.7	Complied with.
A.2 Chairman & Chief Executive Officer Chairman and General Manager / Chief Executive Officer are separately defined in the HDFC Act defining clear division of responsibilities, with regard to banking operations and facilitating executive responsibility for management. This will ensure a balance of power and authority, as such that no one individual has unfettered powers of decision.		
8. Division of Responsibilities of the Chairman & GM/CEO	A 2.1	Complied with. The functions of the Chairman and GM/CEO are clearly segregated and two individuals were appointed for the said positions.
A.3 Chairman's Role The Chairman is responsible to provide leadership in preserving a good Corporate Governance culture within the bank.		
9. Role of the Chairman	A 3.1	Complied with. The Chairman is a Non-Executive Director, ensuring the following factors for the best interest of the Bank. • The effective participation of all Directors; • Effective contribution of all Directors for the benefit of HDFC Bank; • Maintaining a balance of power between all Directors. • Ascertaining the views of all the Directors on issues under consideration; • Maintaining complete control of the bank's affairs with assistance of the Board and giving due consideration to its obligations to all shareholders.
A.4 Financial Acumen Sufficient financial acumen and knowledge to offer guidance on matters on finance is available at the Bank.		
10. Availability of sufficient financial acumen and knowledge	A 4	Complied with.

CORPORATE GOVERNANCE CONTD.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
A.5 Board Balance		
Balance of Executive and Non- Executive Directors of the Board.		
11. Presence of a strong independent element on the Board	A 5.1	Complied with.
12. Independent Directors	A 5.2 A 5.3	Complied with.
13. Signed declaration of independence by the Non-executive Directors	A 5.4	Complied with. All Non-Executive Directors of the HDFC made written declarations as to the independency criteria setout by the bank.
14. Determination of independence of the Directors by the Board	A 5.5	Complied with. The Board has determined the Independency of Directors based on submission of the declarations by the Non-Executive Directors as a fair representation of independence. Please refer 3(2)(iv) of page 97 of the Annual Report.
15. Senior Independent Director	A 5.6	N/A
16. Confidential discussion with the Senior Independent Director	A 5.7	N/A
17. Meeting of Non-executive Directors	A 5.8	Complied. Chairman meets with the Non-Executive Directors without the presence of the GM/ CEO on a need basis.
18. Recording of concerns in Board Minutes	A 5.9	Complied with.
A.6 Supply of Information		
Timely information is provided to enable the Board to discharge its duties, and the HDFC.		
19. Information to the Board by the management	A 6.1	Complied with.
20. Adequate time for Board meeting	A 6.2	Complied with. Annual calendar for regular Board Meetings and Committee Meetings prepare in advance and thereafter, separate individual notices are given to each Director on time.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
A.7 Appointment to the Board It is required under the code to have formal and transparent procedure for the appointment of new Directors to the Board.		
21. Nomination Committee	A 7.1	Complied with. Nomination Committee of HDFC Bank comprised of the following Directors. 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. K. W. P. Dayarathne - (resigned from 31/10/2012) Please refer the Board Nomination Committee report on page 134 of this Annual Report, for further details.
22. Assessment of Board composition	A 7.2	Complied with. Please refer 3(2)(i) of Section one The Shareholding Directors are appointed to the Board with the recommendations of the Board Nomination Committee on the final approval of the Director Board and finally by election at a Shareholder Meeting. The Nomination Committee continually reviews of the composition of the Board. The Committee identifies evaluating and makes necessary recommendations on appointments to the Board.
23. Disclosure of details of new Directors to Shareholders	A 7.3	Complied with. Relevant details of new Directors are disclosed to the Shareholders by way of public announcements. Director profiles are published in the Annual Report. Immediately after appointment, disclosure is made to the Central Bank and the Colombo Stock Exchange.
A.8 Re-election It is required under the code, for the Directors to submit themselves for re-election at regular intervals and at least once in every three years time.		

CORPORATE GOVERNANCE CONTD.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
24. Appointment of Non-Executive Directors	A 8.1	Complied with. All new appointments to the Board of Director should be in accordance with the HDFC Act No. 07 of 1997 and amendment Act No. 15 of 2003 and Act No. 45 of 2011. Accordingly, appointment of the Ex-Officio Director and Nominated Director were made through the Ministry of Finance, complying with the provisions of the HDFC Act. Continuing Directorships of the Shareholding Directors are reviewed by the Nomination Committee, periodically. The Nomination Committee examines the facts and circumstance applicable for the relevant period and makes relevant recommendations pertaining to the new appointments, to the Board. According to the HDFC Act, each Shareholding Director retires by rotation once in every three years and required to stand for re-election by the shareholders at the Annual General Meeting. Further that Ex-Officio Directors and Nominated Directors are also appointed to the Board for a fixed term period and are also subject to re-appointment on completion of the membership period on the Director Board and subject to re-appointment in accordance with the aforesaid HDFC Act.
25. Election of Directors by the Shareholders	A 8.2	
A.9 Appraisal of Board performance The Board has to annually appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.		
26. Appraisal of Board performance	A 9.1	Complied with. The Board is evaluated by the Chairman, with the assistance of the other members of the Board. The Sub Committees, except for the Audit Committee implements a self assessment process each year to ensure efficacy and efficiency, to facilitate continuous improvement. The Audit Committee is evaluated by the Chairman of the Audit Committee who uses the assessments from Committee Members, the GM/CEO, Head of Finance, Head of Internal Audit an External Auditor as per the requirements of international best practices.
27. Annual self evaluation of the Board and its Committees	A 9.2	Complied with. Please refer comments mentioned under A 9.1, above.
28. Disclosure of the appraisal of Board and Board Sub Committee Performance	A 9.3	Complied with. Please refer comments mentioned under A 9.1, above.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
A.10 Disclosure of information in respect of Directors		
Shareholders should be kept informed of relevant details in respect of each Directors for the benefit of Shareholders.		
29. Details in respect of Directors	A 10.1	Complied with. The relevant details of the Directors are given under the Director's Profile of the Annual Report, on pages 22 to 23
A.11 Appraisal of the GM/CEO		
It is required under the code, to assess the performance of the CEO, at least annually.		
30. Financial targets for GM/CEO	A 11.1	Complied with. The financial targets for the GM / CEO are set at the commencement of each year by the Board, in line with medium and long term objectives of the bank.
31. Evaluation of the performance of the GM/CEO	A 11.2	Complied with. The GM/CEO is responsible for discharging day to day operational matters of the bank by providing leadership and guidance to achieve the financial and non-financial targets fix by the Board for the respective year. The Board has adopted on going performance evaluation process of the GM/CEO during year, against the targets set out at the commencement of financial year.
B. DIRECTORS REMUNERATION		
B. 1 Remuneration Procedures		
Establishment of a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/ her own remuneration.		
32. Remuneration / Human Resources Committee	B 1.1	Complied with. The Human Resource and Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy.
33. Composition of the Remuneration Committee	B 1.2	Complied with. Please refer the Board Human Resource and Remuneration Committee Report on page 133 of the Annual Report for details.
34. Remuneration of the Non-executive Directors	B 1.4	N/A The Board of the HDFC Bank comprises only of Non-Executive Directors and they are not entitled for any remuneration package other than participation fees for the Board Meetings / Committee Meetings / Interview Boards. The Chairman is entitled for a monthly allowance applicable to Chairmen of state sector institutions.

CORPORATE GOVERNANCE CONTD.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
35. Consultation of the Chairman and access to professional advice	B 1.5	Complied with. External professional advice is sought, on need basis.
B.2 Level and make-up of the Remuneration It is required under the code that the levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the bank successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.		
36. Level and make-up of the remuneration of both Executive and Non-Executive Directors	B 2.1	N/A Please refer comments for B 1.4.
37. Comparison of remuneration with other companies	B 2.2	N/A Please refer comments for B 1.4.
38. Comparison of remuneration with other companies in the group	B 2.3	N/A Please refer comments for B 1.4.
39. Performance related payment to Executive and Non-executive Directors	B 2.4	N/A Please refer comments for B 1.4.
40. Executive share option for Directors	B 2.5	N/A Please refer comments for B 1.4.
41. Designing the Executive Directors remuneration	B 2.6	N/A Please refer comments for B 1.4.
42. Early termination benefits of Directors	B 2.7	N/A Please refer comments for B 1.4.
43. Early termination benefits of Directors (not included in the initial contract)	B 2.8	N/A Please refer comments for B 1.4.
44. level of remuneration of the Non-Executive Directors	B 2.9	N/A Please refer comments for B 1.4.
B. 3 Disclosure of Remuneration The statement of Remuneration Policy of the bank and details of remuneration of the Board as a whole in the Annual Report.		
45. Disclosure of remuneration	B 3.1	Complied with. The details of the total remuneration / emoluments of the Directors are disclosed on page 151 of the Annual Report.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
C. RELATIONS WITH SHAREHOLDERS		
C.1 Constructive use of the Annual General Meeting and conduct of General Meetings.		
Use the AGM to communicate with shareholders and should encourage their participation.		
46. Use of proxy votes	C 1.1	Complied with. The bank has a method of recording all proxy votes and proxy votes lodged by the shareholders on each resolution.
47. Separate resolution for all separate issues	C 1.2	Complied with. HDFC propose a separate resolution at the AGM on each substantially separate issue, giving shareholders the opportunity vote on each such resolution.
48. Availability of all Board Sub Committee Chairman at the AGM	C 1.3	Complied with.
49. Adequate notice of the AGM	C 1.4	Complied with. The Annual Report including financial statements and the Notice of the Meeting are circulated to shareholders at least 15 working days prior to the date of the AGM.
50. Procedures of voting at General Meeting	C 1.5	Complied with.
C.2 Major transactions		
Further to compliance with the requirements under the Companies Act, Directors should disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter/vary the banks net assets base or in the case of a bank with subsidiaries, the consolidated group net asset base.		
51. Major transactions	C 2.1	Complied with. During 2012 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. Transactions, if any which materially affect the net assets of HDFC are factored in and disclosed in the quarterly / annual financial statements.
D. AUDIT AND ACCOUNTABILITY		
D. 1 Financial Reporting.		
It is required under the code, to present a balanced and understandable assessment of the banks, financial position, performance and prospects.		

CORPORATE GOVERNANCE CONTD.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
52. Statutory and regulatory reporting	D 1.1	Complied with. HDFC reports a balanced and fair assessment of its financial position for the year ended 31st December and at the end of each quarter of 2012. The financial statements for the year ended 31st December 2012 and for the respective quarters ended have been published in newspapers in all three languages. The external Auditor of the HDFC is the Auditor General of Sri Lanka.
53. Directors' report in the Annual Report	D 1.2	Complied with. The Directors' Report is given on pages 126 to 130 of this Annual Report.
54. Statement of Directors' responsibility for the financial statement	D 1.3	Complied with. The Statement of Directors' Responsibility for Financial Reporting is given on page 137 of the Annual Report.
55. Management discussions and analysis	D 1.4	Complied with. The Report forms a part of the GM/CEO's Review of Operations and is given on pages 12 to 16 of the Annual Report.
56. Declaration by the Board that the business as a going concern	D 1.5	Complied with. This is given on the Directors' Reports on pages 126 to 130 of the Annual Report.
57. Summoning an EGM to notify serious loss of capital	D 1.6	N/A.
D.2 Internal Control It is required under the code, to maintain a sound system of internal control to safeguard shareholders' investments and the bank's assets.		
58. Annual evaluation of the internal control system	D 2.1	Complied with. Please refer the Board's statement on Internal Control Systems published on page 124 of this Annual Report.
59. Need for internal audit function	D 2.2	Complied with. The Bank has separate Internal Audit Department to carry out relevant auditing functions, independently. The Chief internal Auditor functions as the head of the particular Department and reports and is responsible directly to the Chairman and the Board Audit Committee.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
D. 3 Audit Committee Formal and transparent arrangements for considering on how to select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the bank's external Auditors.		
60. Composition and terms & conditions of the Audit Committee	D 3.1	Complied with. The Audit Committee of the Bank comprises two Non-Executive / Independent Directors and three Non-Executive / Non Independent Directors. The Chief Internal Auditor functions as Secretary to the Audit Committee.
61. Duties of the Audit Committee	D 3.2	Complied with. HDFC's External Auditor is the Auditor General The relevant details pertaining to the above is discussed in the Audit Committee report.
62. Terms and reference of the Audit Committee	D 3.3	Complied with. For further details please refer the Report of Audit Committee, on pages 131 to 132 of this Annual Report.
63. Disclosures of the Audit Committee	D 3.4	Complied with. Please refer the Board Audit Committee report on pages 131 to 132 of this Annual Report for further details.
D. 4 Code of business conduct & ethics It is required under the code to adopt a Code of Business Conduct & Ethics for Directors and members of the Senior Management Team and must promptly disclose any waivers of the Code for Directors or others.		
64. Code of business conduct and ethics	D 4.1	There is no separate code, but the relevant areas were already covered under different policies adopted by the bank.
65. Affirmation of the code of conduct & ethics	D 4.2	As mentioned above in D 4.1.
E. INSTITUTIONAL SHAREHOLDERS		
E.1 Shareholding voting Institutional shareholders are required to make use of their votes and translate their voting intentions into practice.		
66. Institutional Shareholders	E 1.1	Complied with. Institutional shareholders are encouraged to use of their votes. Further they are encouraged to execute their votes and also seek independent advice on investing or divesting decisions

CORPORATE GOVERNANCE CONTD.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
E.2 Evaluation of Corporate Governance initiatives		
When evaluating banks' governance arrangements, particularly those relating to Board structure and composition, institutional investors are encouraged to give due weightage to all relevant factors.		
F. OTHER INVESTORS		
F.1 Investing / Divesting Decision		
Individual shareholders, investing directly in shares of companies are encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.		
F.2 Shareholder Voting		
It is required under the code that Individual shareholders to be encouraged to participate in General Meetings of companies and exercise their voting rights.		
67. Individual Shareholder Voting	F 2.1	Individual shareholders are encouraged to participate and exercise their voting rights at General Meetings.

SECTION THREE

Corporate Governance

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

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
Disclosures regarding the Board of Directors		
(i) The correct number of Non-Executive Directors	7.10.1 (a) to (c)	Complied with. HDFC confirms that, The Board of Directors of HDFC Bank comprises of the mandated number of Non-executive Directors in accordance with Rule 7.10.1 (a) of the CSE Listing rules.
(ii) The correct number of Independent Non-Executive Directors	7.10.2 (a)	Complied with. The Board of Directors of HDFC consists of the required number of Independent Non-Executive Directors in accordance with Rule 7.10.2 (a).
(iii) Directors Annual Declaration of his / her Independence or Non- Independence to the Board of Directors.	7.10.2 (b)	Complied with. All Non-Executive Directors have submitted their confirmations on Independence in accordance with the criteria set by the Bank, which is in line with the regulatory requirements. Rule 7.10.2 (b) of the CSE Listing Rules. Note : According to the HDFC Act No. 07 of 1997 amended by Act No. 15 of 2003, the Director Board comprises only with Non-Executive Directors.
(iv) Annual determination of the Board as to the Independency or Non-Independency of the Directors.	7.10.3 (a)	Complied with.
(v) The qualifications not met by the Directors	7.10.3 (b)	N/A
(vi) Brief resume of each Director	7.10.3 (c)	Complied with. Please refer Directors profiles on pages 22 to 23 of the Annual Report.
Disclosures relating Remuneration & the Remuneration Committee		
(vii) The correct number of Independent Non-Executive Directors in the Remuneration Committee	7.10.5 (a)	Complied with. HDFC Confirms that, the Remuneration Committee comprises of the correct number of Independent Non-Executive Directors in accordance with Rules 7.10.5 (a)

CORPORATE GOVERNANCE CONTD.

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
(viii) Separate Remuneration Committee	7.10.5 (a)	Complied with.
(ix) Names of the Directors in the Remuneration Committee	7.10.5 (c)	Complied with. <i>The Human Resource and Remuneration Committee comprised of the following Directors.</i> 01. Mrs. S. N. Wickramasinghe (Chairman of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mr. W. D. R. D. Goonaratne 04. Mrs. K. W. P. Dayarathne – resigned 31/10/2012 <i>Please refer the Board Human Resource and Remuneration Committee Report on page 133 for further details.</i>
(x) Functions of the Remuneration Committee	7.10.5 (b)	Complied with. The function of the Committee is to determine remuneration packages applicable to the CEO/ GM and other Corporate Management Members of HDFC.
(xi) Chairman of the Remuneration Committee	7.10.5.(a)	Complied with. Mrs. S. N. Wickramasinghe (a Non-Executive Independent Director) was appointed as the Chairman of the Committee by the Board of Directors in accordance with (Rules 7.10.5 (a))
(xii) Remuneration Policy	7.10.5 (c)	Complied with. Please refer the report of the Human Resource and Remuneration Committee on page 133 of the Annual Report.
(xiii) Aggregate Remuneration paid to the Executive and Non-Executive Directors (including cash and all non-cash benefits)	7.10.5 (c)	Complied with. Please refer the note No. 7 of the Financial Statement on page 151 of the Annual Report.
Contents under the Audit Committee Report		
(xiv) The correct number of Independent Non-Executive Directors	7.10.6 (a)	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).

Corporate Governance Principles	SCE & ICASL Code Reference	Compliance Status
(xv) Separate Audit Committee	7.10.6 (a) and 7.10.6 (c)	Complied with. A separate Audit Committee for the HDFC Bank was formed.
(xvi) Names of the Directors in the Audit Committee	7.10.6 (c)	<i>The Audit Committee of HDFC Bank comprised of the following Directors.</i> 01. Mr. L. E. S. Silva (Chairman) 02. Mrs. C. Wijayawardhane 03. Mr. W. D. R. D. Goonaratne 04. Mr. A. M. Chandrasagara – resigned 30/04/2012 05. Mr. W. D. K. Jayawardena – resigned 30/07/2012 <i>Please refer the Board Audit Committee report on page 131, 132 of this Annual Report for further details.</i>
(xvii) Functions of the Audit Committee	7.10.6 (b)	Complied with. In addition HDFC Bank, being a license specialized bank functioning under the Ministry of Finance, the Audit Committee engages in the functions mandated under Rule 3(6) of the CBSL and Finance Circular No. 1A1/ 2000/1.
(xviii) Chairman of the Audit Committee	7.10.6.(a) and 7.10.6 (c)	Complied with. Mr. L. E. S. Silva (a Non-Executive Independent Director) was appointed as the Chairman of the Committee by the Board of Directors in accordance with (Rules 7.10.6(a) and 7.10.6.(c))
(xix) Chairman's qualifications	7.10.6 (a) and 7.10.6 (c)	Complied with. Please refer Directors profiles.
(xx) Attendance of CEO and CFO for the Committee Meetings	7.10.6 (a) and 7.10.6 (c)	Complied with. The GM/CEO and DGM (Finance) attended to Committee meetings.
(xxi) External Auditors independency	7.10.6 (c)	N/A. The External Auditor of the Bank is the Auditor General of Sri Lanka.

CORPORATE GOVERNANCE CONTD.

ATTENDANCE FOR BOARD MEETINGS - 2012

Names	Directorship Status as at 31/12/2012	Number of Meetings held -2012	Number of Meetings Entitled	Number of Meetings participated
Mrs. S. N. Wickramasinghe	Non - executive / Independent Director (Chairman) ★	16	16	16
Mr. W.J.L.U.Wijayaweera	Non - executive / Independent Director	16	16	12
Mrs. C. Wijayawardhana	Non - executive / Independent Director	16	16	13
Mr. S. A. J. Samaraweera	Non – executive / Non-independent Director	16	16	09
Mr. W. D. R.D. Goonaratne	Non- executive / Non-independent Director	16	16	15
Mr. A.J. Aloysius	Non -executive /Non Independent Director	16	16	05
Mr. L. E. Susantha Silva	Non- executive / Independent Director	16	10	08
Mrs. K. W. P. Dayarathne (Resigned on October 2012)	Non - executive / Independent Director	16	14	14
Mr. A. M. Chandrasagara (Resigned on April 2012)	Non -executive / Independent Director ★	16	05	05
Mr. W.D.K. Jayawardena (Resigned on July 2012)	Non -executive /Non Independent Director	16	09	05

★ **Note:-** Mrs. S. N. Wickramasinghe and Mr. A. M. Chandrasagara were considered as Non-Independent Directors, until the voluntary liquidation of HDFC (RED) Ltd (25th July 2012), which was the fully owned subsidiary of HDFC Bank, as both of them hold Directorships in the said subsidiary.

RECOVERY SUB COMMITTEE MEETINGS – 2012

Names	Directorship Status as at 31/12/2012	Number of Meetings held -2012	Number of Meetings Entitled	Number of Meetings participated
Mrs. S. N. Wickramasinghe	Non- executive / Independent Director (Chairman)	05	05	05
Mr. W. J. L. U. Wijayaweera	Non- executive / Independent Director	05	05	05
Mr. S. A. J. Samaraweera	Non- executive / Non-independent Director	05	05	02
Mr. W.D.R.D.Goonaratne	Non- executive / Non-independent Director	05	05	03
Mrs. K. W. P. Dayarathne (Resigned on October 2012)	Non- executive / Independent Director	05	04	04

NOMINATION COMMITTEE MEETINGS -2012

Names	Directorship Status as at 31/12/2012	Number of Meetings held -2012	Number of Meetings Entitled	Number of Meetings participated
Mrs. S. N. Wickramasinghe	Non- executive / Independent Director (Chairman)	03	03	03
Mr. W. J. L. U. Wijayaweera	Non- executive / Independent Director	03	03	03
Mrs. K. W. P. Dayarathne (Resigned on October 2012)	Non - executive / Independent Director	03	03	03

CORPORATE GOVERNANCE CONTD.

HUMAN RESOURCE/REMUNERATION COMMITTEE MEETINGS – 2012

Names	Directorship Status as at 31/12/2012	Number of Meetings held -2012	Number of Meetings Entitled	Number of Meetings participated
Mrs. S.N.Wickramasinghe	Non- executive / Independent Director (Chairman)	03	03	03
Mr. W.J.L.U.Wijayaweera	Non- executive / Independent Director	03	03	03
Mr. W.D.R.D. Goonaratne	Non- executive / Non Independent Director	03	03	02
Mrs. K.W.PDayarathne (Resigned on October 2012)	Non- executive / Independent Director	03	02	02

INTEGRATED RISK MANAGEMENT COMMITTEE MEETING – 2012

Names	Directorship Status as at 31/12/2012	Number of Meetings held -2012	Number of Meetings Entitled	Number of Meetings participated
Mrs. S.N.Wickramasinghe	Non-executive / Independent Director (Chairman)	04	04	04
Mrs. C. Wijayawardhana	Non - executive / Independent Director	04	02	01
Mr. L. E. Susantha Silva	Non- executive / Independent Director	04	02	02
Mrs. K. W.PDayarathne (Resigned on October 2012)	Non-executive / Independent Director	04	03	03
Mr. A. M.Chandrasagara (Resigned on April 2012)	Non- executive / Independent Director	04	01	01

BOARD AUDIT COMMITTEE MEETING - 2012

Names	Directorship Status as at 31/12/2012	Number of Meetings held -2012	Number of Meetings Entitled	Number of Meetings participated
Mr. L. E. Susantha Silva	Non- executive / Independent Director (Chairman)	08	04	04
Mrs. C. Wijayawardhana	Non- executive / Independent Director	08	08	05
Mr. W.D.R.D. Goonaratne	Non- executive / Non- Independent Director	08	08	08
Mr. W.D.K. Jayawardena (Resigned on July 2012)	Non- executive / Non - Independent Director	08	05	04
Mr. A.M. Chandrasagara (Resigned on April 2012)	Non- executive / Independent Director	08	03	03

STATEMENT OF INTERNAL CONTROL

Responsibility

In line with the Banking Act Direction No: 12 of 2007, section 3 (8) (ii) (b), the Board of Directors (the Board) present this statement on the HDFC Bank's (the Bank's) internal control mechanism.

The Board is responsible for the adequacy and effectiveness of the Bank's system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and 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 as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords 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 is of the view that the system of internal controls 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 and 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 reviewing the design and effectiveness of the internal control system. The Board has put in place the system of reviewing the design and effectiveness of system of internal control periodically. The key processes, among other things include the following:

- The Board Sub – Committees namely Board Audit Committee, Integrated Risk Management Committee, Nomination Committee, Human Resources and Remuneration Committee and Recovery Committee have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations.
- The Audit Committee reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, External Auditors, Regulatory Authorities

and corrective actions taken to rectify the deficiencies observed. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.

- The Board Integrated Risk Management Committee (BIRMC) is established to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Corporate Management implements the directives advocated at the BIRMC.
- Operational Committees have also been established with appropriate empowerment to ensure effective management and supervision of the Bank's core areas of business operations. These Committees include the Assets and Liability Committee, the Credit Committee, the Investment Management Committee, and the Information Technology Steering Committee.
- Comments made by the external auditors in connection with internal control system are properly evaluated and rectified immediately.

Confirmation

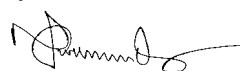
During the year internal controls over significant accounts and processes were documented and tested considering the ICASL illustrative guidance in relation to the CBSL direction.

Based on the 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 preparation of financial statements for external purposes 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 have reviewed the above Directors Statement on Internal Controls included in the Annual Report of the Bank for the year ended 31 December 2012 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

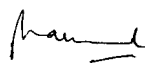
By order of the Board



Nimal J. B. Mamaduwa
General Manager/ CEO



L. E. Susantha Silva
Chairman of the Audit Committee



Mrs. Siromi Wickramasinghe
Chairperson

FINANCIAL REPORT

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REPORT OF THE BOARD OF DIRECTORS

1. GENERAL

It is our pleasure as the Board of Directors of the HDFC Bank to present the Annual Report of the bank for the financial year 2012 together with the Audited Financial Statements and Audit Report of the Housing Development Finance Corporation Bank (HDFC BANK).

The HDFC Bank is a public quoted licensed specialised bank, incorporated in Sri Lanka by the Housing Development Finance Corporation Act No. 07 of 1997(amended by Act Nos.15 of 2003 and 45 of 2011).

2. PRINCIPAL ACTIVITIES

Financing for housing and housing development projects continued to be the principal activities of the Bank and there are no any significant changes during the period under review in the nature of the principal activities of HDFC Bank.

3. REVIEW OF BUSINESS

An overall assessment of the financial position, performance, state of affairs and significant events taken place in the Bank during the corresponding period is given in the General Manager / Chief Executive Officer's Review on pages 12 to 16, and the Management Discussion contained on pages 47 to 82. These Reports form an integral part of the Directors' Report.

4. VISION, MISSION AND CORPORATE CONDUCT

Vision and Mission of the Bank at all times aligned with the Corporate Plan, and the Bank always conducted its operations effectively while ensuring the highest level of ethical standards in achieving its Vision and Mission.

5. FUTURE DEVELOPMENTS

The future strategies of the Bank will be aligned with its Act of incorporation (and amendments). Expansion of branch network and diversification of product portfolio will be the core strategies as explained in the General Manager / Chief Executive Officer's Review on pages 12 to 16 of this Annual Report.

6. FINANCIAL STATEMENTS

Duly signed, certified and approved financial Statements of the HDFC Bank for the period under review are given on pages 140 to 144 of this Annual Report.

7. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of Financial Statements during the year are given on pages 145 to 148 of the Annual Report. The impact of changes in equity is given on page no 144 of the Annual Report.

8. 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 respective financial year and the relevant Auditors Report is contained in pages 138 to 139 of the Annual Report.

9. GOING CONCERN

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

10. INCOME

The income of the Bank for the year ended 31st December 2012 was LKR. 2,691 million. An analysis of the income is given in Notes 01 and 02 to the Financial Statements.

11. PROFIT AND APPROPRIATION

The profit before income tax of the Bank for the year ended 31st December 2012 was LKR. 73 million and the profit after tax for the year ended 31st December 2012 was LKR. 2.5 million.

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

For the year ended 31st December 2012	2012 Rs. Mn	2011 Rs. Mn
Operating profit on ordinary activities before VAT	123	402
VAT on financial services	50	81.00
Provision for taxation	70	104.64
Profit on ordinary activities after tax	2.5	216
Retained profit /(accumulated losses) b/f	1,170	1,086
Profit available for appropriation	1,172	1,302
Appropriation First & Final Dividend proposed	-	32
Transfer to Reserve Funds	34	100
Retained Profit carried forward	1,138	1,170

12. RESERVES

The Bank's total Reserves as at 31st December 2012 amounted to LKR.2,391 million. The details are given on the Changes of Equity Report on page 144 of the Financial Statements.

13. DONATIONS

During the year the Bank made donations amounting to LKR. 1,225,822/-

14. STATUTORY PAYMENTS

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

15. PROVISION FOR TAXATION

Income tax for 2012 has been provided at 28% on the taxable income arising from the operations of the Bank and has been disclosed in Note 09 to the Financial Statements on pages 151 to 152 of this Annual Report.

16. DIVIDEND

In considering the Bank to meet with the mandatory Capital requirement of Rupees Two and half Billion (Rs. 2.5 Billion), the Board does not recommend any dividend (final) for financial year 2013.

17. PROPERTY, PLANT AND EQUIPMENT, FREEHOLD PROPERTY

Capital expenditure on property, plant and equipment amounts to LKR. 94 million, the details of which are given in Note 16 of the Financial Statements.

Details of freehold properties are given on Note 16 of the Financial Statements on page 154

18. MARKET VALUE OF FREEHOLD PROPERTIES

Details of the market value of freehold properties are given on Note 17 of the Financial Statements on page 155.

19. EVENTS AFTER THE BALANCE SHEET DATE

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

20. STATED CAPITAL

The stated capital of the Bank as at 31st of December 2012 was LKR 962 Million consisting of 64,710,520 ordinary shares, as given on Note 24 of the financial statements on page 157.

21. SHARE INFORMATION

Details of share related information (earnings, net assets and market value per share) are given on pages 162 to 164 of this Annual Report.

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

REPORT OF THE BOARD OF DIRECTORS CONTD.

22. ISSUE OF SHARES AND DEBENTURES

No shares or debentures were issued by the bank during the year under review.

23. EQUITABLE TREATMENT TO ALL STAKEHOLDERS

While appreciating the contribution of all stakeholders, towards the progress of HDFC Bank has made all endeavors to ensure equitable treatment to all our shareholders. Stakeholder engagements in 2012 are described in pages 47 to 82 of this Report.

24. THE BOARD OF DIRECTORS

The Director Board of the HDFC Bank consists of well qualified and, experienced professionals. They possess the relevant skills and experience to provide leadership for the Bank.

The Directors of the Bank during the period under review are as follows.

01. Mrs. S. N. Wickramasinghe (Chairman) appointed in May 2010 - Non-executive/ independent
02. Mr. W. J. L. U. Wijayaweera appointed in June 2010 - Non-executive/ independent
03. Mrs. C. Wijayawardhane appointed in June 2010 - Non-executive/ independent
04. Mr. S. A. J. Samaraweera elected in June 2010 - Non-executive/ Non-independent
05. Mr. W. D. R. D. Goonaratne elected in June 2010 - Non-executive/ Non-independent
06. Mr. A. J. Aloysius elected in May 2011 - Non-executive/ Non-independent
07. Mr. L. E. Susantha Silva elected in May 2012 - Non-executive/ independent
08. Mrs. K. W. P. Dayarathne appointed in June 2010 - Non-executive/ independent
09. Mr. W. D. K. Jayawardena elected in May 2011 - Non-executive/ Non-independent
10. Mr. A. M. Chandrasagara elected in June 2010 - Non-executive/ independent

Resignations from the Board of HDFC Bank during the period under review

01. Mrs. K. W. P. Dayarathne - with effect from October 2012
02. Mr. A. M. Chandrasagara - with effect from April 2012
03. Mr. W. D. K. Jayawardena - with effect from July 2012

Appointments to the Board

01. Mr. L. E. Susantha Silva - with effect from 31/05/2012
02. Mr. G. L. S. Senadeera - with effect from 08/01/2013

The qualifications and the experience of the Directors

The qualifications and the experience of the present Directors of the Board are given in the Board of Directors profile on pages 22 to 23 of this Annual Report.

25. BOARD SUB COMMITTEES

In complying with the corporate governance directions of CBSL five Board Sub Committees (Audit, Human Resource and Remuneration, Nomination and Integrated Risk Management and Recovery) were functioned during the corresponding period and relevant reports of those committees are given on pages 131 to 136 of the Annual Report.

26. DIRECTORS MEETINGS

During the period under review 16 Board Meetings were held and attendance schedule is given on page 120 Details of Board Sub Committee Meetings are given separately, on pages 121 to 123 of this Annual Report.

27. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of financial statements of the Bank in such manner to reflect a true and fair view of the state of affairs of the HDFC Bank. The statement of Directors' responsibility for Financial Reporting is given on page 137 which form an integral part of the Annual Report of the Board of Directors.

28. ENTRIES IN THE INTEREST REGISTER

The Interest Register of the HDFC Bank is in place, in complying with the companies Act. Relevant Directors have made declarations as required and the related entries were made in the interest register during the period under review.

29. DIRECTORS' INTEREST IN SHAREHOLDING

Directors shareholdings are as follows:

	31/12/2012	01/01/2012
Mrs. S. N. Wickramasinghe (Chairman)	Nil	Nil
Mr. W. J. L. U. Wijayaweera	3000	300
Mrs. C. Wijayawardhana	Nil	Nil
Mr. S. A. J. Samaraweera	Nil	Nil
Mr. W. D. R. D. Goonaratne	Nil	Nil
Mr. A. J. Aloysius	Nil	Nil
Mr. L. E. Susantha Silva	1000	Nil
Mr. G. L. S. Senadeera	Nil	Nil

30. DIRECTORS' INTERESTS IN CONTRACTS AND PROPOSED CONTRACTS

Directors had no direct or indirect interest in any contract or proposed contract entered by the HDFC Bank during the year ended 31st December 2012. Further information is given on page 159 of this Annual Report.

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

31. DIRECTORS' INTERESTS IN DEBENTURES

There were no debentures registered in the name of any director as at the beginning and at the end of the year.

32. RELATED PARTY TRANSACTIONS

Related party transactions were given in Note 29 of the financial statement of this Annual Report, on page 159

33. DIRECTORS' REMUNERATION

Directors' remuneration, for the financial year ended 31st December 2012 is given on Note 7 to the financial statement on page 151.

34. EMPLOYEE SHARE OPTION PLAN

The total number of 3,485,520 shares already issued to the Trustee under the Employee Share Ownership Plan and will be transferred to the beneficiaries in due course. The above mentioned Share Trust was set up by the Bank acquiring 5% of the voting ordinary shares, at the time of IPO.

35. ENVIRONMENTAL PROTECTION

The Directors, to the best of their knowledge and belief, are satisfied that the Bank has not engaged in any activities, which have caused adverse effects on the environment and has complied with the relevant environmental regulations.

36. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

While the Board Audit Committee reviews the internal control process of the Bank on a regular basis the Integrated Risk Management committee identifies, evaluates and manages the risk exposure of the HDFC Bank. Both committees forward necessary recommendations directly to the Board to ensure that the Bank has a comprehensive Internal Control and Risk control Framework, in place for the smooth functioning of its operations.

More details are given in the Board Audit Committee Report on pages 131, 132 Integrated Risk management report on page 136.

37. CORPORATE GOVERNANCE

Please refer Corporate Governance compliance statement in pages 92 to 123 of this Annual Report.

38. COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

According 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.

39. APPOINTMENT OF AUDITORS

The Auditor General continues to be the Auditor of the bank as stipulated in the HDFC Act No.07 of 1997, (amended by Act Nos. 15 of 2003 and 45 of 2011)

40. AUDITORS REMUNERATION AND INTEREST IN CONTRACT WITH THE BANK

The Auditors were paid Rs. 460,000/- for the year ended 31st of December, 2012 as audit fees by the Bank. The Auditors do not have any other relationship or interest in contracts with the Bank.

REPORT OF THE BOARD OF DIRECTORS CONTD.

41. AUDIT COMMITTEE

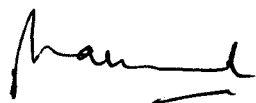
The composition of the Audit Committee and their report is given on pages 131 and 132 of this Annual Report.

42. NOTICE OF MEETING

The 28th Annual General Meeting of the Bank will be held on 28th June 2013 at 10.00 a.m at Booker Recreation (Pvt.) Ltd (Gardinia Hall) No. 10, Hedges Court, Colombo 10.

The Notice of the meeting is given on page 178 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors



Mrs. S. N. Wickramasinghe
Chairman



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

REPORT OF THE BOARD SUB COMMITTEES

Board Audit Committee Report

Composition of the Audit committee

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provisions of the Public Enterprises Guidelines for Good Governance and the Banking Act Direction No. 11 of 2007. The following non-executive Independent Directors served the Committee during the year 2012:

1. Mr. L.E. Susantha Silva – Chairman
2. Ms. Chandani Wijewardhana
3. Mr. W.D.R.D. Goonaratne

During the year under review Mr. A.M. Chandrasagara and Mr. W.D.K. Jayawardena served to the Audit Committee as Chairmen prior to the undersigned. I wish to take this opportunity to place on record Committees appreciation of the services rendered by them as Chairmen of the Audit Committee.

Meetings

During the Financial year ended 31st December 2012, eight Committee meetings were held. The Chief Internal Auditor functioned as the Secretary to the Committee. The members of the Senior Management and Branch Managers who have been invited also attended the Committee. The Superintendent of the Government Audit, as an observer attended the meetings regularly.

Role of the Committee

The main objective of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities on:

- Monitoring the integrity of the Financial Statements and reviewing of significant judgments contained in them to be compliant with Sri Lanka Accounting Standards.
- Reviewing the effectiveness of the Bank's risk management function.
- Reviewing the performances of the Bank's internal audit function.
- Independent appraisal of the Bank's overall performance in terms of profitability, efficiency and productivity.

Activities during the Year

Financial Statements

The Committee reviewed the effectiveness of the financial reporting system in place to ensure that information provided to the stakeholders is reliable and is in strict adherence and compliance to the requirement of the Sri Lanka Accounting Standards and disclosure requirements. The quarterly and annual Financial Statements of the Bank were reviewed prior to the approval of the Board. The Committee ensured that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, contents of annual financial statements and related matters.

Regulatory Compliance

The Committee reviewed policies, procedures of the Bank and reports from the internal and external auditors in order to ensure Bank complied with Companies Act, Banking Act, the CSE Listings requirements and all other applicable legislations.

Risk Management and Information Technology

The Committee considered and reviewed reports on risk management, including frauds risks and information technology risks pertaining to the financial reporting and the going concern assessment.

External Audits

By statute, the Auditor General is the External Auditor of the Bank. The Committee ensured the provision of all information and documents required by the External Auditor for the purpose of audit and;

- Obtained assurances from the external auditors that adequate accounting records were being maintained and financial statements represent a true and fair view of state affairs of the Bank.
- Obtained assurance on the compliance with corporate governance directions issued by CBSL.
- Obtained assurances on the effectiveness of the internal control mechanism respect of financial reporting system and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

REPORT OF THE BOARD SUB COMMITTEES CONTD.

Internal Audits

During the year under review, the Committee reviewed and approved the risk based annual internal audit planning methodology for risk assessment of auditable areas, reviewed the audit reports presented by internal audit division together with management responses. The Committee regularly reviewed and monitored the internal audit function and performance of the Internal Audit Division.

Taking all these into consideration the Committee formed the opinion that at the date of this report there were no material breakdowns in internal controls, including internal financial controls, resulting in any material loss to the Bank.

Reporting

The Committee reported its activities to the Board of Directors through the minutes of the meetings.

The Committee is of the view that the terms of reference of the Committee were complied with in all material aspects.

On behalf of the Board Audit Committee



L.E. Susantha Silva

Chairman

Board Audit Committee

23rd January 2013

Board Human Resource and Remuneration Committee Report

The HDFC Bank believes that Human resource is the most important strategic asset of the organisation and the Board sub Committee on Human Resource and Remuneration plays a vital role, ensuring the success of the organization by implementing best HR practices. HDFC's organisational policies, employee benefits, employee relations control mechanism helps the Bank in retaining valuable employees. Mrs. S. N. Wickramasinghe (Chairman of the committee, Non-executive, independent Director), Mr. W. J. L. U. Wijayaweera (Non-executive, independent Director), Mrs. K. W. P. Dayarathne (Non-executive, independent Director) and Mr. W. D. R. D. Goonaratne (Non-executive, Non-independent Director) were the committee members during the period under review.

With the resignation of Mrs. K. W. P. Dayarathne on 31.10.2012 and Mr. G. L. S. Senadeera was appointed in January 2013.

The Committee reports directly to the Board of Directors and the appointments to the Committee are made by the Board.

The Committee held 03 Committee Meetings, during the period under review

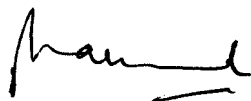
The committee always performs in a manner to accomplish the following main objectives of the Bank.

- (a) Implementation of a Remuneration policy relating to Chief Executive Officer and other key management personnel of the Bank.
- (b) Setting up goals and targets for the CEO and other key management persons.

- (c) Evaluating the performance of CEO and other key management personnel against the set targets and goals periodically and determine the basis for revising remuneration benefits and other payments of performance base incentives.

- (d) Making necessary recommendation to the Board pertaining to the salary revisions, Prerequisites, Recruitments, Cadre Determination, Promotions / Change of Designation / Creation of new Posts or positions / Placements / Cadre and Cadre Budget, Training and attending to overseas Seminars by the Staff Members of the Bank.

The General Manager / CEO attended the meetings by invitation, except in relation to matters connected to his position. The members of the Corporate Management team were invited for participation at the Committee meetings as and when required by the committee.



Mrs. S. N. Wickramasinghe
Chairman



Mrs. Dharshani De Silva
Company Secretary

REPORT OF THE BOARD SUB COMMITTEES CONTD.

Nomination Committee

The Nomination Committee assists the Board to maintain the proper balance within the Board itself by adopting a transparent process for making or renewing appointments of Directors, Chief Executive Officers and Key Management. The committee comprised of Mrs. S. N. Wickramasinghe (Chairman of the committee, Non-Executive, independent Director), Mr. W. J. L. U. Wijayaweera (Non-Executive, independent Director) and Mrs. K. W. P. Dayarathne (Non-Executive, independent Director).

With the resignation of Mrs. K. W. P. Dayarathne on 31.10.2012 and Mrs. C. Wijayawardhana was appointed in January 2013.

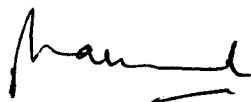
The Committee reports directly to the Board of Directors and the appointments to the Committee are made by the Board.

The Committee held 03 Committee Meetings, during the period under review

The committee always performs in a manner to accomplish the following main objectives of the Bank.

- (a) Selection / appointment of new Directors, CEO and key management personnel, keeping in line with the HDFC Act.
- (b) Making necessary recommendations for re-election of Directors, in considering the contribution of Directors towards the overall Board responsibilities.

- (c) Defining 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 positions.
- (d) Ensuring that Directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in the Central Bank directions and as set out in the relevant statutes.
- (e) Making necessary recommendations from time to time pertaining to the requirements of additional/new expertise and succession arrangements for retiring Directors and key management personnel.



Mrs. S. N. Wickramasinghe
Chairman



Mrs. Dharshani De Silva
Company Secretary

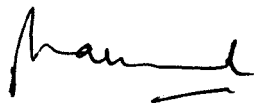
Recovery Sub Committee

The Committee is responsible for taking appropriate decisions for disposal of HDFC acquired properties. Mrs. S. N. Wickramasinghe (Chairman of the committee, non-executive, independent Director), Mr. W. J. L. U. Wijayaweera (Non-Executive, independent Director), Mrs. K. W. P. Dayaratne (Non-Executive, independent Director), Mr. S. A. J. Samaraweera (Non-Executive, non independent Director) and Mr. W. D. R. D. Goonarachne (Non-Executive, Non-Independent Director) were the committee members during the period under review.

Mrs. K. W. P. Dayaratne resigned on 31.10.2012.

The Committee reports directly to the Board of Directors and the appointments to the Committee are made by the Board.

During the year under review the Committee held 05 meetings. The General Manager / CEO, Deputy General Manager (Finance) and Assistant General Manager (Recovery) attended the meetings by invitation.



Mrs. S. N. Wickramasinghe
Chairman



Mrs. Dharshani De Silva
Company Secretary

REPORT OF THE BOARD SUB COMMITTEES CONTD.

Integrated Risk Management Committee

Risk management of the Bank is well addressed through the above Board sub Committee on regular basis, on Board level. This is in addition to the Risk management frame work set up by the Bank through the Risk Working Committee and Risk department which is headed by a competent Risk officer. Mrs. S. N. Wickramasinghe (Chairman of the Committee, Non-Executive, Independent Director), Mrs. C. Wijayawardhana (Non-Executive, Independent Director), Mr. L. E. Susantha Silva (Non-Executive, Independent Director), Mrs. K. W. P. Dayaratne (Non-Executive, Independent Director), and Mr. A. M. Chandrasagara (Non-Executive, Non Independent Director) Mr. S. Dissanayeke (Acting General Manager), Mr. D.V. Pathirana (Assistant General Manager), Mr. A. J. Athukorala (Chief Internal Auditor), Mr. D.M.D.M.K. Dissanayake (Chief Manager Credit), Mr. Balasooriya (Chief Manager Treasury), Mr. K.R.M.K. Bandara (Compliance Officer) and Mr. I. Nishantha (Risk Officer) were the committee members during the period under review.

The appointments to the above Committee are made by the Board.

With the resignation of Mrs. K. W. P. Dayarathne on 31/10/2012 and Mr. G. L. S. Senadeera was appointed in January 2013

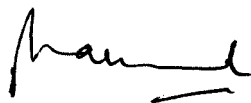
The Committee held 04 Committee Meetings, during the period under review.

The committee always performs in a manner to accomplish the following main objectives of the Bank

- (a) Assessing of Credit, Market, Liquidity, Operational and Strategic Risk through appropriate risk indicators and management information received, by the Committee, periodically.

- (b) Reviewing the adequacy and effectiveness of all management level committees.
- (c) Taking prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent level decided by the committee, on the basis of the Banks policies and regulatory and supervisory requirements.
- (d) Taking appropriate action against the officers responsible for failure to identify specific risk and take necessary corrective action as recommended by the Committee and or directed by the Director Bank Supervision of the Central Bank of Sri Lanka.
- (e) Establishing a compliance function to assess the Banks compliance on all areas of business operations by appointing a Compliance Officer who shall carryout the compliance functions and report to the Committee, periodically.

The committee confirms that, there are no regulatory or supervisory concerns on any lapses in the Banks risk management or Non - Compliance with the CBSL directions, which have been pointed out by the Director of Bank supervision and as such directed by the Monetary board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.



Mrs. S. N. Wickramasinghe
Chairman



Mrs. Dharshani De Silva
Company Secretary

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the HDFC Bank is prepared in accordance with the provisions of the Companies Act No 7 of 2007 is set out in the following statement. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the Auditors given on pages, 138 and 139 of the Annual Report.

As per the provisions of the Companies Act No 7 of 2007 the Directors are required to prepare Financial Statements for each financial year and place them before a general meeting. The Financial Statements comprise the balance sheet as at 31st December 2012, and the income statement, statement of changes in equity and cash flow for the year then ended and notes thereto.

The Financial Statements of the Bank give a true and fair view of the state of affairs of the HDFC Bank as at balance sheet date and the profit or loss of the Bank for the financial year ended on the balance sheet date.

In preparing these Financial Statements the Directors are required to ensure that, the appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained, judgments and estimates have been made which are reasonable and prudent; and all applicable Accounting Standards, as relevant, have been followed.

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.

Financial Statements prepared and presented in the Report are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards (LKAS)/ Sri Lanka Financial Reporting Standards (SLFRS), Companies Act No 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No 15 of 1995, Banking Act No 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

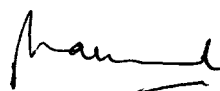
The Directors have also instituted effective and comprehensive systems of Internal Control. This comprises Internal Check, Internal Audit and the whole system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records.

Directors are required to prepare the Financial Statements and to provide the HDFC Bank's External Auditors, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

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 HDFC Bank as at the Balance Sheet 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



S.N. Wickramasinghe
Chairman

AUDIT REPORT



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
துலைவா
My No

FB/M/HD/FC/FA/2012

මගේ අංකය
உமது இல
No.

දිනය
திகதி
Date

09 May 2013

The Chairman
Housing Development Finance Corporation Bank of Sri Lanka.

Report of the Auditor General on the Financial Statements of the Housing Development Finance Corporation Bank of Sri Lanka for the year ended 31 December 2012 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971.

The audit of financial statements of the Housing Development Finance Corporation Bank of Sri Lanka for the year ended 31 December 2012 comprising the statement of financial position as at 31 December 2012 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 26(2) of the Housing Development Finance Corporation Bank of Sri Lanka Act, No. 7 of 1997 as amended by Act, No.15 of 2003 and Act, No. 45 of 2011.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

අංක 306/72 පොල්දූව පාර,
බත්තරමුල්ල, ශ්‍රී ලංකාව

දුරකථනය
தொலைபேசி } 112887028-34

இல. 306/72, பொல்துவ வீதி,
புத்தரமுல்லை இலங்கை

ෆැක්ස් අංකය
பக்ஸ் இல } 112887223
பக்ஸ் இல
Fax No.

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

ඉමේල් පොතීන් තැපැල්
#- மெயில் } oaggov@sltnet.lk
E-mail.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Housing Development Finance Corporation Bank of Sri Lanka as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other Legal and Regulatory Requirements

These financial statements present the information required by the Banking Act, No. 30 of 1988 and subsequent amendments.

2.3 Report to Parliament

My report to parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.


H.A.S. Samaraweera
Auditor General.

INCOME STATEMENT

Figures in LKR

For the Year Ended 31st December

	Notes	2012	2011
INCOME		2,691,396,936	2,385,602,199
Interest Income	1	2,634,758,527	2,260,965,957
Interest Expenses	2	(1,805,319,955)	(1,354,293,472)
Net Interest Income		829,438,573	906,672,485
Fee and Commission Income	3	58,458,381	83,664,242
Fee and Commission expenses		-	-
Net fee and commission Income		58,458,381	83,664,242
Net Trading income/(expense)		-	-
Net gain/(loss) from financial instruments designated at fair value through Profit or Loss		-	-
Net gain/(loss) from financial investments		-	-
Other operating income (net)	4	(1,819,973)	40,972,000
Total Operating Income		886,076,981	1,031,308,727
Impairment Charges for Loans and Other Losses	5	1,496,477	10,063,247
Net Operating income		884,580,504	1,021,245,480
Staff Costs	6	458,115,188	360,797,118
Amortisation and impairment of intangible assets		-	-
Other Expenses	7	303,799,488	258,787,491
Operating Profit/(loss) before Value Added Tax (VAT)		122,665,827	401,660,871
Less : VAT On Financial Services	8	49,892,630	81,005,187
Operating Profit/(loss) after Value Added Tax (VAT)		72,773,197	320,655,684
Share of Profits of associates and joint ventures		-	-
Profit/(Loss) before tax		72,773,197	320,655,684
Tax expenses	9	70,321,030	104,636,709
Profit/(Loss) for the year		2,452,167	216,018,975
Profit attributable to :			
Shareholders		2,452,167	216,018,975
Non-controlling interests		-	-
		2,452,167	216,018,975
Earnings Per Share on Profits			
Basic Earning per Share		0.04	3.34
Diluted earnings per ordinary share		-	-

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31st December	Notes	2012	2011
Profit for the Year		2,452,167	216,018,975
Other Comprehensive income/(expenses)			
Changes in revaluation reserve of Property, Plant and equipment (If fair value option adopted)		-	-
Actuarial gains and losses on defined benefit plans		-	-
Gains and losses (arising from translating the financial statements of a foreign operation)		-	-
Gains and Losses on re-measuring available-for-sale financial assets		-	-
Gains and Losses on cash flow hedges/Others		-	-
Gains on Revaluation Investment Property		53,081,000	-
Less: Tax expenses /(income) relating to components of other comprehensive income		-	-
Other comprehensive income for the year, net of tax		53,081,000	-
Total Comprehensive Income for the Year		55,533,167	216,018,975
Attributable to :			
Shareholders		55,533,167	216,018,975
Non-Controlling Interest			

STATEMENT OF FINANCIAL POSITION

Figures in LKR

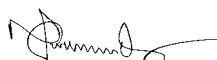
As at 31 st December

	Notes	2012	2011
Assets			
Cash and balances with central banks	11	107,856,602	91,605,426
Sri Lanka government securities	12	872,144,634	84,913,933
Balances with banks	13	411,219,276	436,471,254
Loans and Receivables from other customers	14	15,965,668,211	14,887,525,122
Financial Investments - Held-to-Maturity	15	2,287,725,326	3,346,862,949
Property, Plant and equipment	16	288,119,377	250,012,336
Investment properties	17	738,677,165	692,547,709
Deferred tax assets	18	23,128,512	17,569,657
Other assets	19	106,067,546	119,665,294
Total assets		20,800,606,649	19,927,173,679
Liabilities			
Due to banks and Other Institutes	20	3,189,297,697	3,555,867,320
Due to other customers	21	12,922,906,404	12,336,016,318
Current Tax liabilities	22	61,881,876	45,573,143
Other liabilities	23	2,235,313,589	1,653,167,621
Total liabilities		18,409,399,566	17,590,624,400
Equity			
Stated capital/Assigned capital	24	962,092,936	962,092,936
Statutory reserve fund	25	61,994,005	61,871,397
Retained earnings	26	1,138,801,032	1,169,978,442
Other reserves	27	228,319,110	142,606,504
Total shareholders' equity		2,391,207,083	2,336,549,279
Non-controlling interests			
Total equity		2,391,207,083	2,336,549,279
Total equity and liabilities		20,800,606,649	19,927,173,679
Contingent liabilities and commitments		-	-
Book Value Per Share		36.95	36.11

The Significant Accounting policies and Notes on pages 143 to 157 form an integral part of these Financial Statements. These financial statements have been prepared in accordance with the Sri Lanka accounting standards.

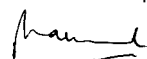


D.V. Pathirana
Chief Financial Officer



Nimal J B Mamaduwa
CEO/General Manager

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



Ms. S N Wickramasinghe
Chairman



Mrs. C. Wijeyawardhana
Director

30 April 2013
Colombo

CASH FLOW STATEMENT

Figures in LKR

For the Year Ended 31st December

	2012	2011
Cash Flows From Operating Activities		
Interest Received	2,512,109,154	2,254,935,569
Interest payments	(1,286,202,145)	(1,054,218,343)
Receipt from other operating activities	54,393,085	113,011,850
Cash payments to employees & suppliers	(513,865,159)	(423,404,161)
Payments on other operating activities	(213,331,567)	(195,781,542)
Operating profit before changes in operating assets	553,103,368	694,543,373
(Increase)/Decrease In Operating Assets:		
Funds Recovered from customers	2,705,212,439	2,676,093,783
Funds advanced to customers	(3,678,415,278)	(4,672,588,403)
Other Assets	20,456,990	(192,700,027)
	(952,745,849)	(2,189,194,647)
Increase / (Decrease) In Operating Liabilities		
Deposits from customers	586,890,086	3,809,682,607
Others	31,642,908	(42,941,518)
	618,532,994	3,766,741,089
Net cash from operating activities before income tax	218,890,512	2,272,089,816
Income Tax & Deemed Dividend Tax Paid	(42,323,040)	(84,535,283)
Net cash from operating activities	176,567,472	2,187,554,533
Cash Flows From Investing Activities		
Dividends received	17,857	15,000
(Purchase)/Sale of Investment Securities	1,060,429,214	(1,060,429,214)
Purchase of property, plant and equipments	(94,026,260)	(92,375,555)
Disposal of property,Plant and equipment	3,102,830	50,535,077
Net cash from Investing activities	969,523,641	(1,102,254,692)
Cash Flows From Financing Activities		
Issue/(Redemption) of Shares	-	-
Redemption of Contribution towards Share Capital	-	-
Repayment of Borrowings	(1,973,151,227)	(1,479,553,229)
Proceeds from Borrowings	1,606,581,604	1,406,288,106
Dividends paid	-	(32,320,460)
Net cash from financing activities	(366,569,624)	(105,585,583)
Net increase in cash & cash Equivalents	779,521,489	979,714,258
Cash & cash equivalents at beginning of the period	2,899,393,749	1,919,679,491
Cash & cash equivalents at the end of the period	3,678,915,238	2,899,393,749
Reconciliation Of Cash And Cash Equivalents		
Cash & Short Term Funds	201,373,664	199,097,283
Government of Sri Lanka Treasury Bills,Bond / Bank Placements	3,477,541,573	2,700,296,466
	3,678,915,238	2,899,393,749

STATEMENT OF CHANGES IN EQUITY

	Number of Voting Shares	Stated Capital	General Reserve	Revaluation Reserve	Statutory Reserve	Special Reserve	Investment Fund	Retained Earnings	Total	Non- controlling Interest	Total Equity
Figures in LKR *000*											
Balance as at 01-01-2011	64,710,520	962,093	19,179	35,890	46,389	3,451		781,661	1,848,663		1,848,663
Impact of adopting SLFRS as at 1st January 2011								305,098	305,098		305,098
Restated Balance as at 01-01-2011		962,093	19,179	35,890	46,389	3,451		1,086,759	2,153,761		2,153,761
Total comprehensive income for the year											
Profit/(loss) for the year								216,019	216,019		216,019
Other comprehensive income (net of tax)											
Total comprehensive income for the year								216,019	216,019		216,019
Transactions with equity holders, recognised directly in equity											
Share issue/increase of assigned capital											
Bonus issue											
Right issue											
Transfers to reserves during the period			30,965		15,483		53,997	-100,445			
Dividend paid								-32,355	-32,355		-32,355
Profit transferred to head office											
Gain/(loss) on revaluation of property, plant and Equipment (if cost method is adopted)				-875					-875		-875
Others											
Total transactions with equity holders			30,965	-875	15,483		53,997	-132,800	-33,230		-33,230
Balance as at 31-12-2011	64,710,520	962,093	50,144	35,014	61,871	3,451	53,997	1,169,978	2,336,549		2,336,549

	Number of Voting Shares	Stated Capital	General Reserve	Revaluation Reserve	Statutory Reserve	Special Reserve	Investment Fund	Retained Earnings	Total	Non- controlling Interest	Total Equity
Figures in LKR *000*											
Balance as at 01-01-2012	64,710,520	962,093	50,144	35,014	61,871	3,451	53,997	1,169,978	2,336,549		2,336,549
Total comprehensive income for the year											
Profit/(loss) for the year								2,452	2,452		2,452
Other comprehensive income (net of tax)											
Total comprehensive income for the year		962,093	50,144	88,095	61,871	3,451	53,997	1,172,431	2,392,082		2,392,082
Transactions with equity holders, recognised directly in equity											
Share issue/increase of assigned capital											
Bonus issue											
Right issue											
Transfers to reserves during the period			245		123		33,262	-33,630			
Dividend paid											
Profit transferred to head office											
Gain/(loss) on revaluation of property, plant and Equipment (if cost method is adopted)				-875					-875		-875
Others											
Total transactions with equity holders			245	-875	123		33,262	-33,630	-875		-875
Balance as at 31-12-2012	64,710,520	962,093	50,390	87,220	61,994	3,451	87,259	1,138,801	2,391,207		2,391,207

ACCOUNTING POLICIES

Corporate Information

1. Reporting Entity

HDFC Bank of Sri Lanka has been incorporated in Sri Lanka as a Building Society in 1984 under section 11 of the National Housing Act of 1956. Subsequently converted to a corporation under the Housing Development Finance Corporation of Sri Lanka Act.No.7 Of 1997 and obtained the status of a specialised bank under Housing Development Finance Corporation of Sri Lanka (Amendment) Act No 15 of 2003 and amended act No 45 of 2011 which authorised to apply the all activities of the schedule IV of Banking Act No. 30 of 1980 with amendments thereafter. HDFC bank's Head office is located at NHDA secretariat Colombo-02 Sri Lanka.

2. Principal Activities and Nature of Operations

The principal business activities of HDFC Bank during the year were granting loans and other forms of financial assistances relating to housing purposes.

3. Basis of Preparation

3.1. The Statement of Compliance

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

Sri Lanka Accounting Standards (LKAS) and the Sri Lanka Financial Regulating Standards (SLFRS) applicable from January 2012 which are introduced by the Institute of Chartered Accountants of Sri Lanka mandated for all specified business enterprises to adopt these new Accounting were used to prepare these financial statements. The comparative figures were also restated as per the above standards.

Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard (LKAS) No – 1 “Presentation of Financial Statements”

Format of Accounts and Prior year Figures

Financial statements are presented in accordance with the format of accounts prescribed by the Central Bank of Sri Lanka and The Accounting Policies adopted by the bank is consistent with those of the previous financial year as permitted by the Sri Lanka Accounting Standard No .01 “Presentation of Financial Statements” However, when the presentation or classification of items in the Financial Statements is amended, comparative amounts are also re-classified to conform with the current year in order to provide a better presentation.

4. Valuation of Assets

4.1 Loans and Advance to Customers:

Loans and Advances to customers are stated in the balance sheet net of impairment loss for possible loan losses.

4.2 Provision for 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 Accounting Standard No. 39 on “Financial Instruments : Recognition and measurement” in the Financial Statements of the Banks. The following valuation techniques were used to calculate fair value of loans as it is necessary which are as follows

1. Collective Impairment Method
2. Individual Impairment Method.

4.2.1 Collective impairment Provisions

Collective impairment provisions for possible loan losses are made in accordance with the Sri Lanka Accounting Standard No. 39 on ‘Financial Instruments: Recognition and measurement in the Financial Statements of the Bank. The Bank used to make the collective impairment provision by using rolling rate method when the individual impairment is not possible.

Mortgage & Guarantor Loans

The default rolling rate for a reasonable period is used for impairment adjustment and no provision is made for Zero defaulters.

ACCOUNTING POLICIES CONTD.

Cash Margin Loans

No Special provision was made for the loans granted against the cash deposit Balances as defaulted cash backed loans can be recovered on the banks discretion at any time.

EPF Loans

The collective impairment method is used for valuation of EPF back loans and no Provisions, made for Zero defaulters and up to 18 months arrears, the bank uses the rolling rate applicable to the range 0-3. If the default Category is greater than 18 months, the bank used Rolling rate applicable to relevant category.

Acquired Properties for Sale

Properties mortgaged to HDFC Bank are auctioned if the customers default for a reasonable time and the properties which are not disposed at such auctions are recognised as acquired properties which are presented under the loans & advances.

The valuation of such properties are as follows.

- If the Cash flow is predicted with reasonable assurance individual impairment is calculated.
- If there is no reasonable assurance for cash flows 100% impairment is made for loans against the acquired property.

Project Loans

-No impairment provision made for Zero defaulters and Individual. Impairment is made for defaulted loans with reasonable assurance for cash recoveries.

4.2.3 Treasury Bills & Bonds

Investment in treasury bills and Bonds are stated at cost plus interest receivable

4.2 Property, Plant & Equipment

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

4.3.1 Basis of Recognition

Property, Plant & Equipment are recognized, if it is probable that future economic benefits associated with the asset will flow to the bank and cost of the asset can be reliably measured.

4.3.2 Basis of Measurement

Fixed Assets are recorded at cost or at valuation together with any directly attributable cost of bringing the assets to its working condition. The property and equipments are stated at cost less accumulated depreciation, which is provided for on the basis specified in (b) below. No fresh valuations called during the year under review,

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

Class of Assets	% per Annum
Buildings	6 2/3
Office Equipment	12.50
Furniture & Fittings	10.00
Motor Vehicles & Bicycles	20.00
Plant and Machinery	25.00
Tools & Equipment	12.50
Computer Equipment & ATM	12.50
Computer software -Foreign	25.00
Computer software -Local	25.00

Total annual depreciation is provided on the assets which is purchased during the year and used for the year and no depreciation is provided for the year of disposal. Further depreciation is not provided for the freehold lands.

05. Investment Property

Investment properties are recorded at current market value and the difference between carrying value and market value is presented under other comprehensive income.

06. Liabilities and Provisions**6.1 Due to other Customers**

These include interest bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. They are stated in the Balance Sheet at amounts payable. The interest paid/payable on these deposits is charged to the Income Statement and presented under other liabilities.

6.2 Borrowings

Borrowings include refinance borrowings, call money borrowings, and borrowings from financial institutions and are shown at the gross value of the outstanding balance. They too are stated in the Balance Sheet at amounts payable. Interest paid/payable on these borrowings are charged to the Income Statement using amortisation cost method and presented under other liabilities.

6.3 Gratuity

Provision is made in the Accounts for retirement gratuities payable under the Payment of Gratuities Act No.12 of 1983 for employees from the time of joining the bank. The item is grouped under other liabilities in the Statement of financial Position. The Special Gratuity provision as per the collective agreement with CBEU for Special employees who have completed more than 15 years staff at HDFC Bank has been provided on actual basis.

6.4 Employees' Provident Fund

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

6.5 Employees' Trust Fund

The Bank contributes at the rate of 3% of the salaries of each employee to the Employees Trust Fund managed by Employee Trust Fund Board

6.6 Other Liabilities

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

07. Revenue Recognition.

7.1 Interest Income on Loans and Advances

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

7.2 Over due Interest Income.

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

7.3 Income from Government Securities and Investment.

Discounts/premiums on Treasury Bills and Treasury Bonds are amortised over the period of investment using effective interest rate method.

7.4 Other Income

Commission income is recorded on accrual basis and other incomes are recognized on the cash basis .

08. Expenses

8.1 Interest on Deposits, Borrowings

In terms of the provisions of the Sri Lanka Accounting Standard No. 39 on "Financial Instruments: Recognition and measurement", the interest cost on deposits and borrowings are recognised on effective interest rate method and charged to the income statement.

8.2 Other Expenses

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

09. 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 recognized directly in Equity in which case it is recognised in Equity

9.1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the date of the Statement of Financial Position. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, the note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard No. 12 on 'Income Taxes.

ACCOUNTING POLICIES CONTD.

9.2 Deferred Taxation

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

9.3 Value Added Tax on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of Value Added Tax charged in determining the profit for the period is given in to the Financial Statements.

10. Cash Flow Statement

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

11. Statutory Reserve Fund

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

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.

12. Dividends on Ordinary Shares

Dividends on Ordinary Shares are recognized 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 Balance Sheet date for approval of the Shareholders at the Annual General Meeting are disclosed separately to the Financial Statements.

13. 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.

14. 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.

NOTES TO THE FINANCIAL STATEMENT

In LKR	2012	2011
01 Interest Income		
Interest Income		
Sri Lanka government securities	13,190,178	71,535,632
Balance With Banks	-	-
Derivatives	-	-
Financial assets held-for -trading	-	-
Financial assets designated at fare value through	-	-
Profit or Loss	-	-
Loans and receivables to banks	-	-
Loans and receivables to other customers	2,277,680,253	2,055,390,073
Financial investments - Held -to- maturity	343,888,096	134,040,252
Financial investments - Available-for-sale	-	-
Others	-	-
Total Interest Income	2,634,758,527	2,260,965,957
02 Interest Expenses		
Due to Banks	124,159,138	30,568,901
Derivatives	-	-
Financial liabilities at fair value through profit or loss	-	-
Due to other customers	1,561,107,148	1,085,351,720
Debt securities issued	-	-
Other Borrowings	120,053,669	238,372,851
Total interest expenses	1,805,319,955	1,354,293,472
Net interest income	829,438,573	906,672,485

In LKR	2012	Bank 2011
03 Net Fee and Commission Income		
Fee and Commission income	58,458,381	83,664,242
Fee and Commission Expenses	-	-
Net Fee and Commission Income	58,458,381	83,664,242
Comprising of Loans	48,341,506	66,197,736
Cards	-	-
Trade and remittances	-	-
Investment banking	-	-
Deposits	-	-
Guarantees	-	-
Others	10,116,875	17,466,506
Net Fee and Commission Income	58,458,381	83,664,242

NOTES TO THE FINANCIAL STATEMENT CONTD.

In LKR	2012	Bank 2011
4 Other Operating Income (net)		
Gain on sale of investment properties	-	40,972,000
Loss on sale of investment properties	(1,819,973)	
Others	-	-
Other Operating Income (net)	(1,819,973)	40,972,000
5 Impairment Charges for Loans and Other Losses		
Loans and Receivables	-	-
To banks	-	-
To Other Customers	1,496,477	10,063,247
Financial investments	-	-
Held-to-maturity	-	-
Available-for-Sale	-	-
Investment in subsidiaries	-	-
Investment in associates and Join ventures	-	-
Property, Plant and equipment	-	-
Investment Properties	-	-
Off-balance sheet exposures	-	-
Others	-	-
Total	1,496,477	10,063,247
5.1 To Other Customers		
Individual Impairment	(11,128,270)	(71,613,639)
Collective Impairment	12,624,747	81,676,886
	1,496,477	10,063,247
6 Staff Costs		
Salary and Bonus	318,911,611	264,115,904
Contributions to defined contribution plans	42,740,828	32,712,985
Contributions to defined benefit plans	41,179,693	9,441,554
Staff Loan Benefits	16,212,647	16,163,318
Staff Medical	18,138,032	16,305,476
Overtime & Officers Allowance	6,947,752	10,584,466
Encashment of Annual Leave	9,470,816	8,006,379
Incentive Payments	4,513,811	3,467,036
Total	458,115,188	360,797,118
6.1 Remuneration to key management		
Total Salary of key management	22,979,464	19,564,946
Provision for Retirement Benefits	2,267,375	2,527,971
	25,246,838	22,092,917

In LKR	2012	Bank 2011
7 Other Expenses		
Directors' emoluments	2,351,600	2,374,900
Auditors' remunerations	460,000	327,800
Professional expenses	3,416,165	777,500
Legal expenses	231,774	1,523,161
Depreciation of Property, Plant and equipment	54,260,794	45,502,793
Amortization of Leasehold property	364,642	364,642
Electricity & Water	19,389,074	14,490,009
Telephone Charges	18,881,882	17,959,332
Computer Maintenance	17,434,174	10,996,715
Rent	43,477,410	40,872,204
Repair & Maintenance	3,705,329	2,584,318
Donation	1,225,822	1,791,557
Business Dev.& Advertising	27,556,915	21,501,684
Other Office admin. and establishment expenses	111,043,907	97,720,876
Total	303,799,488	258,787,491
8 VAT On Financial Services		
Total Value Addition	424,762,043	712,347,633
Value Addition Attributable for Financial Services	415,771,911	674,959,628
Finance VAT %	12.00	12.00
VAT on Financial Services For Current year	49,892,630	80,995,155
Under (Over) Provision in Previous Years	-	10,032
	49,892,630	81,005,187
9 Tax Expenses		
Current Tax Expense		
Current Year	49,012,129	79,441,776
Prior years' Provision	26,867,756	25,858,062
Deferred Tax Expenses	(5,558,855)	(663,130)
Total	70,321,030	104,636,709
9.1 Reconciliation of tax expenses		
Accounting Profit	72,773,197	414,288,287
Add :Disallowable Expenses	176,818,351	154,289,347
Less :Allowable Expenses	74,548,230	177,238,837
Adjusted Profit Before Tax	175,043,318	391,338,797
Income tax	70,321,030	104,636,709
Effective tax rate	96.63%	25.26%

NOTES TO THE FINANCIAL STATEMENT CONTD.

In LKR	2012	Bank 2011
9.2 Relationship Between Tax Expense and Accounting Income		
Profit Before Tax as per the Income Statement	72,773,197	414,288,287
Add :Disallowable Expenses	176,818,351	154,289,347
Less :Allowable Expenses	74,548,230	177,238,837
Taxable Income	175,043,318	391,338,797
Tax @ 28% (2011 @ 20%)	49,012,129	78,267,759
Social Responsibility levy @ 1.5%	-	1,174,016
Under (Over) Provision	26,867,756	25,858,062
Less : Deferred Tax Adjustments	(5,558,855)	(663,130)
Provision for income Tax	70,321,030	104,636,709

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

In LKR	2012	Bank 2011
Deferred tax assets	19,200,733	1,696,153
Deferred tax Liabilities	(13,641,878)	(1,033,023)
Other temporary differences	-	-
Deferred tax (credit)/ Charges to income Statement	5,558,855	663,130

10 Earning Per Share

Net profit attributable to ordinary equity holders

Adjust:

Interest on preference shares	-	-
Interest on convertible bonds	-	-
Net profit attributable to ordinary equity holders	2,452,167	216,018,975
adjust for the effect of dilution	-	-
Weighted average number of ordinary shares for	64,710,520	64,710,520
basic earnings per share	-	-
Effect on dilution	-	-
Convertible bonds	-	-
Convertible preference shares	-	-
Others	-	-
Weighted average number of ordinary shares for	-	-
adjusted for the effect of dilution	-	-
Basic earning per ordinary share Diluted earnings per share	0.04	3.34

11 Cash and Balances with Central Banks

Cash in Hand	107,856,602	91,605,426
Total	107,856,602	91,605,426

In LKR	2012	Bank 2011
12 Sri Lanka Government Securities		
Held-to-maturity		
Treasury bonds/ Treasury bills	35,144,634	34,913,933
Treasury Bills Under Repurchase Agreements	837,000,000	50,000,000
Total	872,144,634	84,913,933
13 Balance With Banks		
Placements	93,517,062	107,491,857
Others	317,702,214	328,979,397
Total	411,219,276	436,471,254
14 Loans and receivables From Other Customers		
Gross loans and receivable	16,289,990,476	15,210,350,910
(less) :Individual impairment charges	(61,445,794)	(72,574,064)
Collective impairment charges	(262,876,471)	(250,251,724)
Net loans and Receivables	15,965,668,211	14,887,525,122
14 a. Analysis		
By Product		
Gold Loan	50,751,350	-
Staff Loans	416,398,468	415,382,998
Housing Loans	15,822,840,658	14,794,967,912
Gross Total	16,289,990,476	15,210,350,910
By Currency Sri Lankan Rupee	16,289,990,476	15,210,350,910
Gross Total	16,289,990,476	15,210,350,910
By industry		
Housing	16,289,990,476	15,210,350,910
Grand Total	16,289,990,476	15,210,350,910
14 b. Movements in Individual and Collective Impairment Charges during the Year		
Individual impairment charges		
Opening balance at 01-01	72,574,063	249,577,190
Charges/(Write back) to income statement	(11,128,269)	(177,003,126)
Net write-off during the year	-	-
Other movements	-	-
Closing balance 31-12	61,445,794	72,574,063
Collective impairment charges		
Opening balance at 01-01	250,251,724	168,574,838
Charges/(Write back) to income statement	12,624,746	81,676,886
Net write-off during the year	-	-
Other movements	-	-
Closing balance 31-12	262,876,471	250,251,724
Total	324,322,265	322,825,787

NOTES TO THE FINANCIAL STATEMENT CONTD.

In LKR	2012	Bank 2011
15 Financial Investments -Held-to- Maturity (Excluding Sri Lanka Government Securities)		
Equity securities	30,600	30,600
Debt Securities	-	-
Fixed Deposit	1,821,716,644	2,286,403,135
Overnight Deposit	465,978,082	-
Commercial Paper	-	1,060,429,214
(Less) Impairment charges	-	-
Net Total	2,287,725,326	3,346,862,949
Of Which : Held-To-Maturity Investments designated at fair value through profit or loss	-	-
Held-To-Maturity Investments	2,287,725,326	3,346,862,949

In LKR	Land and Buildings	Leasehold Properties	Computer Hardware & Software	Office Equipment, Furniture and Fittings	Others	Total
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**16 Property ,Plant and Equipment
2012****Cost/Fair Value**

Opening Balance at 01-01-2012	5,847,679	53,246,408	146,223,947	136,022,327	55,466,361	396,806,722
Additions	17,575,000	-	18,958,752	39,262,921	18,229,587	94,026,260
Disposals	-	875,364	-	827,466	1,400,000	3,102,830
Exchange rate Variance	-	-	-	-	-	-
Closing Balance at 31-12-2012	23,422,679	52,371,044	165,182,698	174,457,782	72,295,949	487,730,153
(less): Accumulated depreciation						
Opening Balance at 01-01-2012	997,455	3,646,418	71,368,046	42,616,827	28,165,642	146,794,388
Charge for the year	-	-	-	-	-	-
Additions	908,537	364,642	21,837,868	17,917,858	13,596,532	54,625,436
Disposals	-	-	-	409,048	1,400,000	1,809,048
Exchange rate Variance	-	-	-	-	-	-
Closing Balance at 31-12-2012	1,905,991	4,011,060	93,205,914	60,125,637	40,362,173	199,610,776
(less):Impairment charges	-	-	-	-	-	-
Net Book Value at 31-12-2012	21,516,688	48,359,985	71,976,784	114,332,145	31,933,775	288,119,377

2011**Cost/Fair Value**

Opening Balance at 01-01-2011	42,609,808	54,121,772	120,912,992	96,916,800	40,404,873	354,966,245
Additions	-	-	25,347,954	40,981,982	26,045,619	92,375,555
Disposals	36,762,129	875,364	37,000	1,876,455	10,984,130	50,535,078
Exchange rate Variance	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
Closing Balance at 31-12-2011	5,847,679	53,246,408	146,223,946	136,022,327	55,466,362	396,806,722
(less) : Accumulated depreciation						
Opening Balance at 01-01-2011	624,889	3,281,776	51,749,610	29,583,539	27,296,531	112,536,344
Charge for the year	372,566	364,642	19,643,874	14,191,113	11,295,241	45,867,436
Additions	-	-	-	-	-	-
Disposals	-	-	25438	1,157,825	10,426,130	11,609,393
Exchange rate Variance	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
Closing Balance at 31-12-2011	997,455	3,646,418	71,368,046	42,616,827	28,165,642	146,794,387
(less):Impairment charges	-	-	-	-	-	-
Net Book Value at 31-12-2011	4,850,225	49,599,991	74,855,901	93,405,500	27,300,720	250,012,336

In LKR	2012	Bank 2011
17 Investment Properties		
a. Investment Properties at Cost/fair Value		
Cost/fair value		
Opening Balance at 01-01	692,547,709	692,547,709
Additions	-	-
Disposals	6,951,545	-
Revaluation	53,081,000	-
Closing Balance at 31-12	738,677,165	692,547,709

17.1 Investment Properties details

Location	Extent (Perches)	Deed No	2012	Bank 2011
No;s 441 Sangarajah Mw,Aluthkade East	59.20	1127	207,000,000	153,919,000
No.192 Srimath Bandaranayake Mw, Kotahena Colombo 13.	123.20	1124	320,319,000	320,319,000
No.192 (Part) Sri Sangarajah Mawatha, Kotahena Colombo 13.	15.00	1126	38,999,000	38,999,000
Avissawella -Housing Project			172,359,165	179,310,709
			738,677,165	692,547,709

17.2 Revaluation of Land No 192 Srimath Bandaranayake Mw, Kotahena Deed No 1127

Name of the Valuer	P D D S MutuKumarana
Qualification of the Valuer	Fellow Member of Institute of Valuers
Valuation Date	13th September 2012

17.3 Pending Court Case Investment Property

Two lands (Deed No 1124,1126) in extent of 3 Roods and 18.2 perches was purchased by the HDFC Bank from Building Material Corporation (BMC) in the Years 2005 and 2007. Since the BMC did not handover the vacant possession of the above land to HDFC Bank, the Bank filed an ejectment case bearing No. 21514/L at the District Court of Colombo against the BMC to obtain possession of the land. The Order in the above case was delivered on 18th October 2012 in favour of the HDFC Bank. The BMC has filed an appeal against this order of the district court to Civil appeal of Colombo under reference No. WP/HCCA/COL-180/2012 F, Which is pending to date.

18 Deferred Tax Assets/Liabilities

In LKR	2012	Bank 2011
Deferred tax assets	41,731,663	22,530,929
Deferred tax Liabilities	(18,603,151)	(4,961,273)
Net Total	23,128,512	17,569,657

NOTES TO THE FINANCIAL STATEMENT CONTD.

In LKR	2012	Bank 2011
19 Other Assets		
Receivables	10,014,421	21,830,099
Deposits and Prepayments	33,290,261	35,121,577
Sundry debtors	-	-
Others	62,762,864	62,713,618
Total	106,067,546	119,665,294
20 Due to Banks and Other institutes		
Borrowings from Banks	992,254,636	1,070,804,333
Borrowings from Other Institutes	2,197,043,061	2,485,062,987
Total	3,189,297,697	3,555,867,320

20.a The book overdraft is included in the borrowing from banks and which is always above the real overdraft utilised.

In LKR	2012	Bank 2011
21 Due to Other Customers		
At amortised cost	12,922,906,404	12,336,016,318
(Less): Designated at fair value through profit or Loss	-	-
Total	12,922,906,404	12,336,016,318
a. Analysis		
By Product		
Demand deposits (current accounts)	-	-
Savings deposits	1,792,896,228	1,544,965,604
Fixed deposits	11,122,976,433	10,790,386,713
Other Deposits	7,033,743	664,000
Total	12,922,906,404	12,336,016,318
By Currency		
Sri Lankan Rupee	12,922,906,404	12,336,016,318
United State Dollar	-	-
Great Britain Pound	-	-
Others	-	-
Total	12,922,906,404	12,336,016,318
22 Provision For Taxation and Deemed Dividend Tax		
Taxation - current	71,472,617	37,915,772
VAT Payable	13,478,057	22,243,950
Debit & PAYE Tax	322,418	1,084,316
WHT Received	(23,391,216)	(15,670,895)
	61,881,876	45,573,142

In LKR	2012	Bank 2011
23 Other Liabilities		
Sundry creditors	210,507,342	157,599,808
Interest payable	1,797,000,597	1,277,882,787
Impairment charges in respect of off-balance sheet credit exposures (Note 10)		
Long Term Funds & Deposits	23,154,576	23,493,062
Charges recovered in advance	204,651,075	194,191,964
Total	2,235,313,589	1,653,167,621
24 Stated Capital /Assigned Capital		
Authorized Capital	2,000,000,000	2,000,000,000
Stated Capital	962,092,936	962,092,936
Total	962,092,936	962,092,936

24.1 Housing Development Finance Corporation of Sri Lanka Act No. 07 of 1997 and consequent amendments, (Act no 15 of 2003 and 45 of 2011) the authorised Capital of Bank shall be Rupees Two Thousand Million (Rs. 2,000 Mn) Divided into Two Hundred Million (200 Mn) shares of Rupees Ten (Rs. 10/=) each with effect from 08th march 2012. The issued shares of the Bank which amount to 6,471,052 (Ordinary Voting) shares by dividing every one share in to 10 ordinary shares without increasing the share capital of the Bank.

24.2 (64,710,520 ordinary shares of Rs. 10/- each)

24.3 Shares under employee share ownership plan (ESOP) 3,485,520 Ordinary Voting shares are being held by the Trustee of employees, Legal Link trustee Services Ltd of Colombo 10 as for which Rs. 49,842,936 is receivables.

In LKR	2012	Bank 2011
25 Statutory Reserve Fund		
Opening balance as at 01-01	61,871,397	46,388,818
Transfer During the Period	122,608	15,482,579
Closing Balance 31-12	61,994,005	61,871,397
26 Retained Earnings		
Opening balance	1,169,978,442	1,086,759,081
Profit for the year	2,452,167	216,018,975
Transfer to other reserves	33,629,578	100,444,50
Dividend	-	32,355,110
Closing Balance	1,138,801,032	1,169,978,442

NOTES TO THE FINANCIAL STATEMENT CONTD.

27 Other Reserves**a. Bank-2012**

In LKR	Opening Balance 01-01-2012	Movement/ transfers	Closing Balance as at 31-12-2012
General reserve	50,144,292	245,216	50,389,508
Revaluation Reserve	35,014,318	52,205,636	87,219,954
Investment Fund	53,996,769	33,261,753	87,258,522
Available-for-sale reserve	-	-	-
Cash flow reserve	-	-	-
Foreign currency translation reserve	-	-	-
Special Reserve	3,451,125	-	3,451,125
Total	142,606,504	85,712,605	228,319,109

a. Bank -2011

General reserve	19,179,134	30,965,158	50,144,292
Revaluation Reserve	35,889,682	(875,364)	35,014,318
Investment Fund	-	53,996,769	53,996,769
Available-for-sale reserve	-	-	-
Cash flow reserve	-	-	-
Foreign currency translation reserve	-	-	-
Special Reserve	3,451,125	-	3,451,125
Total	58,519,941	84,086,563	142,606,504

28 Maturity Analysis

An analysis of the interest bearing assets and liabilities based on the remaining period at the date of the Statement of Financial Position to the respective contractual maturity date is as follows,

As at 31st December 2012 (LKR.000')

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Assets						
Cash	107,857	-	-	-	-	107,857
Due from Banks	93,517	-	-	-	-	93,517
Investments	1,878,704	1,406,344	79,250	79,250	34,024	3,477,572
Loans & Advances	853,975	1,121,453	3,464,175	3,024,566	7,501,500	15,965,668
Fixed Assets	-	-	-	-	288,119	288,119
Other Assets	24,783	60,671	9,600	6,621	766,199	867,873
Total Assets	2,958,836	2,588,468	3,553,025	3,110,436	8,589,842	20,800,607
Percentage 31st Dec 2012	14.22	12.44	17.08	14.95	41.30	100.00
Percentage 31st Dec 2011	7.57	21.43	15.67	14.02	41.31	100.00
Liabilities						
Total Capital Fund	-	-	-	-	2,391,207	2,391,207
Deposits	6,296,293	5,887,241	209,724	88,778	440,871	12,922,906
Borrowings	202,573	373,356	891,245	745,792	976,331	3,189,298
Other Liabilities	1,555,610	470,311	59,768	22,854	188,653	2,297,195
Total Liabilities	8,054,475	6,730,908	1,160,736	857,424	3,997,063	20,800,607
Percentage 31st Dec 2012	38.72	32.36	5.58	4.12	19.22	100.00
Percentage 31st Dec 2011	22.98	34.37	18.19	5.23	19.24	100.00

29. Directors Interests in Contracts with the Bank

None of the Directors posses any material interest on any transaction or proposed contract involving HDFC Bank of Sri Lanka except for the disclosures in Note 29.1 of the accounts.

29.1 Related Party Transactions

Name	Related Party	Office Holding	Transactions	Nature of Transactions	% Regulatory Capital
Mr. S.A.J Samaraweera (Director HDFC)	National Housing Development Authority	Chairman	17Mn	Rent for Head Office Building	0.86%
Mrs. S.N Wickramasinghe (Chairman HDFC)	Chairman HDFC	Chairman	1.5Mn 0.33Mn	Fixed Deposit Savings Deposit	0.08% 0.02%
Mr. W.J.L.U Wijeweera (Director HDFC)	Director HDFC	Director	0.0091Mn 0.093Mn	Dananidana Deposit Savings deposit	0.0005% 0.0048%
Mrs. D.G.K Dilani (Spouse of Director)	Mr. W.J.L.U Wijeweera (Director HDFC)		5.9Mn	Fixed Deposit	0.31%
Mr. W.D.R.D Goonaratne	Director HDFC	Director	0.0011Mn	Savings Deposit	0.0001%
Mr. A.M Chandrasagara	Director HDFC	Director	0.0011Mn	Savings Deposit	0.0001%

30. Events Occurring After the Balance Sheet Date

There has been no material event after the balance sheet date that requires adjustments or disclosure in the financial statement.

31. Assets Pledged

The assets pledged as a security for credit facilities obtained are as follows.

Type of Facility	Amount of Facility Rs. Mn	Nature of Security	Value of Security Rs. Mn	Balance as at 31-12-2012 Rs. Mn
Overdraft (Sampath Bank)	100	Part of Portfolio	150	-
Borrowing (Term Loan) (Sampath Bank)	1000	Part of Portfolio	1250	824.86
Borrowing (Term Loan) (BOC)	1000	Part of Portfolio	1000	95.83

CAPITAL ADEQUACY

CAPITAL BASE As at 31st December	2012 (Rs.000')	2011 (Rs.000')
Core Capital (Tier 1)		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	647,105	647,105
Share Premium	314,988	314,988
Statutory Reserve Fund	62,034	61,871
Published Retained Profits/(Accumulated Losses)	838,589	958,683
General and Other Reserves	141,099	107,422
Sub Total	2,003,815	2,090,069
Deductions/Adjustments-Tier 1		
Net deferred tax assets	23,129	17,570
Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	49,843	49,839
Total Core Capital (Tier 1)	1,930,843	2,022,661
General Provisions	61,640	58,007
Total Tier 2 Capital	1,992,484	2,080,668
Total risk adjusted balances (credit risk, market risk, operational risk)	9,285,249	9,478,549
Risk adjusted capital ratios		
Tier 1 (Eligible Tier 1 capital / Total risk adjusted balances) *	20.79%	21.34%
Tier 11(Capital base / Total risk adjusted balances) **	21.46%	21.95%
* Statutory minimum 5 ** Statutory minimum 10%		

Risk Adjusted on - Balance Sheet Exposure -Rs.000'

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2012	2011		2012	2011
Exposures					
Cash- Local Currency	107,857	91,605	0%	-	-
Sri Lanka Govt Treasury Bills & Bonds	1,338,123	84,914	0%	-	-
Central Bank of Sri Lanka	317,702	328,979	0%	-	-
Claims on Public Sector Entities (PSEs)	31	31	100%	31	31
Loan & Advances					
Claims Secured by Residential Property					
Claims that qualify for regulatory capital purposes	4,428,080	4,937,042	50%	2,214,040	2,468,521
Claims that not qualify for regulatory capital purposes	2,371,713	1,750,695	100%	2,371,713	1,750,695
Housing loans against EPF	6,297,823	6,062,872	0%		
Cash Margin Loans	366,046	262,596	0%		
Retail claims that qualify for regulatory capital purposes	1,534,065	785,085	75%	1,150,549	588,814
Non Performing Assets					
Past Due Residential Mortgage Loans					
Specific provisions are more than 20%	10,266	13,653	50%	5,133	6,827
Specific provisions are less than 20%	637,898	842,422	100%	637,898	842,422
Housing loans on Guarantors & others					
Specific provisions are more than 20%	10,547	14,361	100%	10,547	14,361
Specific provisions are less than 20%	19,238	27,128	150%	28,857	40,692
Due From local Commercial Banks (AAA to BBB-)	1,752,415	1,171,517	20%	350,483	234,303
Claims on Financial Institutions/Primary Dealers/Finance Companies (A+ to BBB)-	166,727	2,219,824	50%	83,364	1,109,912
Claims on Financial Institutions/Primary Dealers/Finance Companies (BB+ to B-)		62,983	100%		62,983
Fixed Assets	284,105	763,249	100%	284,105	763,249
Other Assets	786,767	286,930	100%	786,767	286,930
Total Risk Weighted Assets	20,429,402	19,705,889		7,923,486	8,169,741
Total risk adjusted balance for operational risk				1,361,763	1,308,808
Total risk adjusted balances (credit risk, market risk, operational risk)				9,285,249	9,478,549

SHARE INFORMATION

As at 31-12-2012

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

December 31,2012 (After Share split)									
	Resident			Non Resident			Total		
Shareholders	No. of Share holders	No. of Shares	%	No. of Share holders	No. of Shares	%	No. of Share holders	No. of Shares	%
1- 1,000	1,472	1,003,877	1.55	8	4,670	0.01	1,480	1,008,547	1.56
1,001- 10,000	410	1,383,662	2.14	6	24,000	0.04	416	1,407,662	2.17
10,001-100,000	70	2,191,954	3.39	4	157,558	0.24	74	2,349,512	3.63
100,001-1,000,000	17	4,089,188	6.32	0	0	0.00	17	4,089,188	6.32
Over 1,000,000	5	55,855,611	86.32	0	0	0.00	5	55,855,611	86.32
Total	1974	64,524,292	99.71	18	186,228	0.29	1,992	64,710,520	100.00

December 31,2011									
	Resident			Non Resident			Total		
Shareholders	No. of Share holders	No. of Shares	%	No. of Share holders	No. of Shares	%	No. of Share holders	No. of Shares	%
1- 1,000	1,513	216,601	3.35	12	2701	0.04	1525	219,302	3.39
1,001- 10,000	65	208,473	3.22	1	5500	0.08	66	213,973	3.30
10,001- 00,000	19	471,151	7.28	0	0	0.00	19	471,151	7.28
100,001-1,000,000	4	2,348,626	36.29	0	0	0.00	4	2,348,626	36.29
Over 1,000,000	1	3,218,000	49.73	0	0	0.00	1	3,218,000	49.73
Total	1,602	6,462,851	99.88	13	8,201	0.12	1,615	6,471,052	100.00

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

	December 31,2012 (After Share Split)				December 31,2011			
	No. of Share holders	%	No. of Shares	%	No. of Share holders	%	No. of Shares	%
Individuals	1,894	95.08	6,845,097	10.58	1,519	94.06	595,114	9.20
Institutions	98	4.92	57,865,423	89.42	96	5.94	5,875,938	90.80
Total	1,992	100.00	64,710,520	100.00	1,615	100.00	6,471,052	100.00

Twenty Largest Shareholders (As per rule No. 7.6(III) of the Colombo Stock Exchange) After Share Split

	Name of Shareholder	No. of Shares 2012 (After Share Split)	Percentage (%) 2012 (After Share Split)	No. of Shares 2011	Percentage (%) 2011
1	National Housing Development Authority	32,180,000	49.73	3,218,000	49.73
2	Lanka ORIX Leasing Company PLC	9,707,740	15.00	970,774	15.00
3	Perpetual Capital (Pvt.) Limited	9,105,425	14.07	908,000	14.03
4	Legalinc Trustee Services (Pvt.) Ltd.	3,485,520	5.39	348,552	5.39
5	Dr. T. Senthilvel	1,376,926	2.13	121,300	1.87
6	DFCC Vardhana Bank Ltd./Mr. Chandaka Haren Ranil De Soysa	668,958	1.03	75,400	1.17
7	Mr. D. G. Wijemanne	395,010	0.61	39,501	0.61
8	Mr. C. H. R. De Soysa	368,358	0.57	46,850	0.72
9	Dr. R.R. De Silva	302,128	0.47	-	-
10	Urban Development Authority	300,000	0.46	30,000	0.40
11	Condominium Management Authority	300,000	0.46	30,000	0.40
12	DFCC Vardena Bank Ltd/A, Sithampalam	258,054	0.40	39,000	0.60
13	Union Commodities (Pvt.) Ltd.	200,000	0.31	20,000	0.31
14	Finco Holding (Pvt.) Ltd.	185,000	0.29	18,500	0.29
15	The Associated Newspapers of Ceylon Ltd.	180,000	0.28	18,000	0.28
16	Mr. D. A. De Soysa	170,000	0.26	17,000	0.26
17	Mr. H. A. Pieris	144,680	0.22	-	-
18	Mr. V. S. Gunasekara	142,000	0.22	14,200	0.22
19	National Water Supply & Drainage Board	120,000	0.19	12,000	0.19
20	State Engineering Corporation	120,000	0.19	12,000	0.19
	Total	59,709,799	92.27	5,939,077	91.66

SHARE INFORMATION CONTD.

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

	2012 Rs.	2011 Rs.
Highest	1,699.00	1,900.00
Lowest	44.00 (After Share Split)	546.00
Year end	50.60 (After Share Split)	1,400.30

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

	2012	2011
Net Assets value per share (Rs.)	36.95	36.11
Earning per Share (Rs.)	0.04	3.34

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

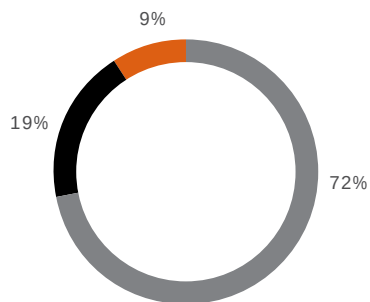
Name	2012 (After Share Split)	2011
Mrs. S. N. Wickramasinghe (Chairman)	Nil	Nil
Mr. W. J. L. U. Wijayaweera	3,000	300
Mrs. K. W. P. Dayarathna	Nil	Nil
Mrs. C. Wijayawardhana	Nil	Nil
Mr. W. D. R. D.Goonaratne	Nil	Nil
Mr. S. A. J. Samaraweera	Nil	Nil
Mr. W. D. K. Jayawardena	Nil	Nil
Mr. A. J. Aloysius	Nil	Nil
Mr. L. E. Susantha Silva	1,000	-
Mr. S. Dissanayake GM/CEO (Actg.) through the spouse	1,000	100

The percentage of public holding as at December 31, 2012 was 21.19% (21.22% as at December 31, 2011)

VALUE ADDED STATEMENT

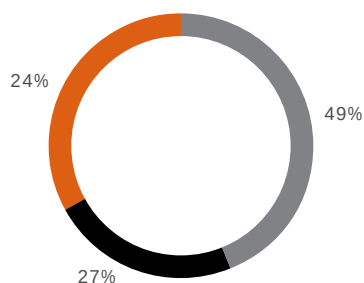
For the period ended 31st December
Figures in LKR

	%	2012	%	Bank 2011
Interest Income		2,634,758,527		2,260,965,957
Other Income		56,638,408		124,636,242
Gross Income		2,691,396,936		2,385,602,199
Cost of Service		2,051,998,891		1,564,326,430
Total Value Additions		639,398,044		821,275,769
Value Distributed				
To Employees (Remuneration & Benefits)	71.6	458,115,188	43.9	360,797,118
To Government				
Income Tax	11.0	70,321,030	12.7	104,636,709
Value Added Tax	7.8	49,892,630	9.9	81,005,187
Stamp Duty	0.4	2,859,758	0.4	3,131,517
Debit Tax	-	-	0.0	120,223
	19.2		23.0	
To Share Holders (Dividend)	-		-	
Retained in the Business				
Retained Income	0.4	2,452,167	26.3	216,018,975
Depreciation	8.5	54,260,794	5.5	45,502,793
Loan Loss Provision	0.2	1,496,477	1.2	10,063,247
Total Value Distributions	100.0	639,398,044	100.0	821,275,769



■ To Employees
■ To Government
■ Retained Profit

2012



■ To Employees
■ To Government
■ Retained Profit

2011

TEN YEAR STATISTICAL SUMMARY

Year ended 31st December (LKR. Mn)

	2003	2004	2005	2006	2007	2008	2009	2010	2011***	2012***
OPERATING RESULTS										
Income	830	947	1,056	1,286	1,741	1,974	2,269	2,250	2,386	2,691
Interest income	797	908	1,024	1,203	1,696	1,941	2,216	2,165	2,261	2,635
Interest expense	401	444	568	699	1,247	1,602	1,582	1,339	1,354	1,805
Other income	33	39	32	82	46	33	52	85	82	57
Operating expenses	168	197	253	272	359	385	439	513	620	762
Provision for loss	7	14	17	5	43	54	79	107	10	1
Profit before tax	254	291	217	309	93	(67)	168	291	402	123
Income Tax & Finance VAT	56	109	101	136	72	25	112	156	186	120
Profit after taxation	198	183	117	172	21	(92)	56	135	216	2
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer deposits	312	1,140	1,537	2,501	4,960	5,777	6,929	8,526	12,336	12,923
Borrowings	4,107	4,314	4,966	5,783	6,067	5,840	4,336	3,629	3,556	3,189
Other liabilities	783	909	688	621	666	867	1,315	1,383	1,699	2,297
Shareholders' funds	885	1,013	1,643	1,800	1,789	1,697	1,721	1,849	2,337	2,391
Total	6,087	7,376	8,834	10,705	13,482	14,181	14,301	15,387	19,927	20,801
ASSETS										
Loans and advances	5,826	7,119	8,100	10,134	11,869	12,149	11,913	12,519	14,888	15,966
Cash, short term funds and statutory	85	173	561	352	1280	1091	1410	1,920	3,960	3,679
Property, plant and equipment	33	42	85	85	111	671	721	756	250	288
Other assets	143	42	88	134	222	270	257	192	830	868
Total	6,087	7,376	8,834	10,705	13,482	14,181	14,301	15,387	19,927	20,801
RATIOS										
Return on average shareholders funds (%)	23.5	19.3	8.8	10.0	1.2	(5.3)	3.3	7.6	10.3	0.10
Income growth (%)	31.5	14.1	11.5	21.8	35.4	13.4	14.9	(0.8)	6.0	12.8
Return on average assets(%)	3.6	2.7	1.4	1.8	0.2	(0.7)	0.4	0.9	1.2	0.01
Advance to deposits and borrowings (%)	75.8	76.6	80.3	81.7	92.9	95.6	94.6	97.1	106.7	100.9
Shareholders funds (%)	3.7	4.1	5.2	4.7	6.2	39.5	41.9	40.9	10.7	12.0
Total assets to shareholders funds (times)	6.88	7.28	5.38	5.95	7.54	8.36	8.31	8.32	8.53	8.70
SHARE INFORMATION										
Market Value per Share (Rs)								After Sub Division		
High (Rs)	175.00	195.00	401.00	235.25	192.00	135.00	191.75	600.00	1,900.00	119
Lower (Rs)	-	-	165.00	153.00	125.75	54.00	49.5	135.00	546.00	44
Close (Rs)	-	-	191.00	174.75	128.00	56.00	147.75	550.00	1,400.30	51
Earnings per Share (Rs)	4.80	4.44	2.67	2.74	0.33	(0.39)	1.69	2.63	3.34	0.04
Net Assets per Share(Rs) **	21.47	24.57	26.82	27.82	27.64	26.23	26.60	28.56	36.11	36.95
PROFILE										
Ownership - Government %	-	-	56	51	51	51	51	51	51	51
- Private %	-	-	44	49	49	49	49	49	49	49
No. of employees	278	276	290	300	286	289	364	425	505	488
No. of branches	20	20	20	20	21	21	26	28	31	32
No. of ATM (Access)*	-	-	-	-	-	4	10	225	255	360

* Including Network Linked ATM Machines with Sampath Bank, PABC, DFCC.

**Net Assets per share has been computed for the total number of shares issued as at 31 December 2012 (After Subdivision to Rs.10/-).

*** AS Per SLFRS & LKAS

GRI INDEX

GLOBAL REPORTING INITIATIVE (GRI) INDEX

The Global Reporting Initiative (GRI) G3 reporting framework, has been used as a guide in preparation of this Integrated Annual Report of HDFC Bank for the Financial year 2012. This index provides a comprehensive listing of the GRI Indicators reported by HDFC Bank, including the financial service sector supplement on social and environmental performance.

On the basis of the reported indicators and disclosure of approaches on sustainable business practices, HDFC Bank assessed its Sustainability Report 2012 as a B level report.

		C	C+	B	B+	A	A+
Mandatory	Self declared			V			
Optional	Third party checked.						
	GRI checked						

GRI Index – 2012

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NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty Eight (28th) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka is convened on Friday the Twenty Eight (28th) day of June 2013 at Booker Recreation (Pvt.) Ltd (Gardinia Hall) No. 10, Hedges Court, Colombo 10 (off Deans Road) at 10.00 a.m. and the following Ordinary Business will be transacted.

Ordinary Business

1. To read the notice convening the meeting.
2. To receive, consider and adopt the Annual Report of the Bank and the Audited Accounts of the Bank for the year ended 31st December 2012 together with the Report of the Auditor thereon.
3. To appoint 04 Shareholding Directors.
4. To re-appoint the Auditor General of Sri Lanka, as Auditor of the HDFC Bank and authorize the Board of Directors to determine and approve their remuneration.
5. To transact any other business of which due notice shall be given.

By order of the Board



Dharshani De Silva
Company Secretary
HDFC Bank
Colombo

31st May 2013

FORM OF PROXY

I/We.....

of.....

Being a member / members of Housing Development Finance Corporation Bank of Sri Lanka hereby appoint.

1. Mr. /Ms. of whom failing

2. Mr./Ms. of whom failing

3. Mr./Ms. of whom failing

4. Mr./Ms. of whom failing

5. Mr./Ms. of whom failing

As my/our proxy to vote for me /us on my / our behalf at the Annual General Meeting of the Bank to be held on 28th of June 2013 at 10.00 a.m. and at any adjournment thereof, and at every poll which any be taken in consequence thereof

Signed this day of 2013.

.....
Signature

Note:

1. A shareholder entitled to attend, or attend and vote at the meeting is entitled to appoint a proxy holder to attend, or attend and vote as the case may be, in his / her stead and a shareholder who is entitled only to attend and speak at the meeting is entitled to appoint a proxy holder to attend and speak on his / her behalf
2. A proxy holder need not be a shareholder of the Bank.
3. The form of proxy should be returned to The Secretary, Housing Development Finance Corporation Bank, P. O. Box 2085, Sir Chittampalam A Gardiner Mawatha, Colombo 02 not less than 48 hours before the time appointed for holding the meeting.

Instructions for completion

01. To be valid this form must be filled, signed and deposited with the Secretary, HDFC Bank, P.O. Box 2085, Sir Chittampalam A. Gardiner Mawatha, Colombo 02, not less than 48 hours before the time appointed for holding the meeting.
02. The form of proxy must be signed by the appointer or by Attorney duly authorised in writing.
03. In the case of a company or corporation or an incorporated body the form of proxy must be either under its common seal or under the hand of an officer or Attorney duly authorised.
04. In the case of joint holder, only one needs sign. The Votes of the senior holder who renders a vote will only be counted.
05. If you wish to appoint any person other than the chairman as your proxy, please insert the relevant details at 1 to 5.

www.hdfc.lk

HDFC Bank of Sri Lanka

P.O. Box 2085,

Sir Chittampalam A Gardiner Mawatha, Colombo 02.

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