



BUILDING THE FUTURE



The Housing Bank...

HDFC BANK OF SRI LANKA | ANNUAL REPORT 2013

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BUILDING THE FUTURE

Over

the years, HDFC's objective of enhancing lifestyles of the Sri Lankan people through access to housing finance, has contributed directly towards "quality of life" improvements of thousands of families across the country. Today, we are poised to augment our contributions even further, supported by a new diversified business strategy and a sustainable business philosophy that understands the social-economic value of providing shelter for families. We are proud to help build the foundation for Sri Lanka's future generations in order for them to face the world with confidence, and achieve their dreams of success.

MILESTONES

1984

Incorporated as a
Building Society

2003

Obtained the
status of a
Licensed Specialised
Bank

2000

Converted to a
Public
Corporation

2011

Achieved LKR 2,000 Mn
capital requirement

Reached LKR 20 Bn balance
sheet.

Amendments to HDFC Act
for new phase of growth

2005

Listed at the Colombo
Stock Exchange.

2013

business expansion, new product development and a new 3-year strategy for 2014-2016

2012

Initiate business diversification plans beyond housing finance

OUR ACHIEVEMENTS

2010

- **NBEA Award by NCCSL**
- **Golden MACO Award**

2011

- ACCA Sustainability Reporting Award 2010
Winner Small Scale Category
- ACCA Sustainability Reporting Award 2010
First Time Report
- National Business Excellence Award by NCCSL
Merit Award
- Annual Report Awards by The Institute of Chartered Accountants of Sri Lanka
Certificate of Compliance

2012

- National Business Excellence Awards 2012
Merit Award
- Chartered Accountants Annual Report Awards 2012
Bronze Award for Financial Institutions
- Corporate Accountability Rating by STING Consultants
SILVER

- ACCA Sustainability Reporting Award 2012
Small Scale Category

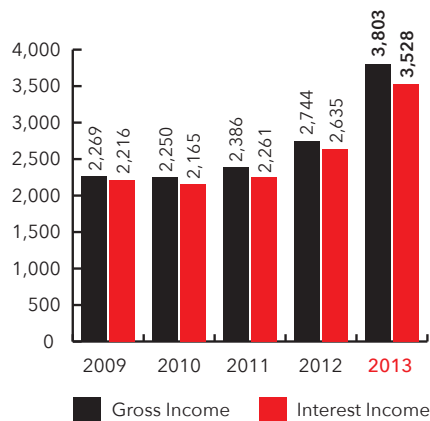
2013

- Corporate Accountability Rating by STING Consultants
SILVER
- ACCA Sustainability Reporting Award 2013
Runner-up Award Banking, Finance & Insurance sector
- Association of Development Financing Institutions in Asia and the Pacific, the Philippines (ADFIAP) Award
Best Annual Report under the Special Awards category

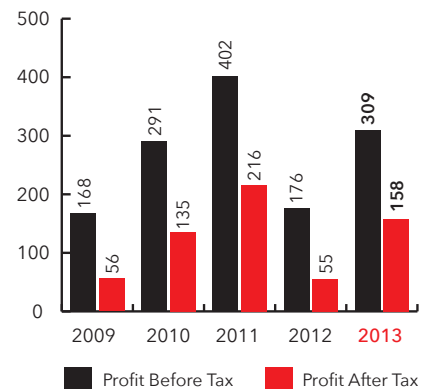
HIGHLIGHTS OF THE YEAR

- Rolled out our new business model for long term financial sustainability
- Issued HDFC's first highly successful listed debenture
- Rated BBB Stable by Ram Rating Lanka
- Introduced an exciting range of new, value added products
- Expanded our branch network with a new HDFC branch in Tissamaharama
- Expanded our ATM network access over 600 across the country
- Disbursed historically highest volume of 23,000 loans at a value of LKR 6,700 Million
- Grew our profit before tax by 76% YoY, to LKR 309 million from LKR 176 million in 2013
- Developed a new corporate plan to sustain growth

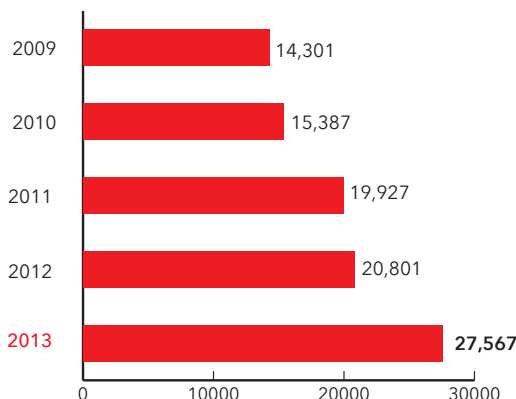
INCOME



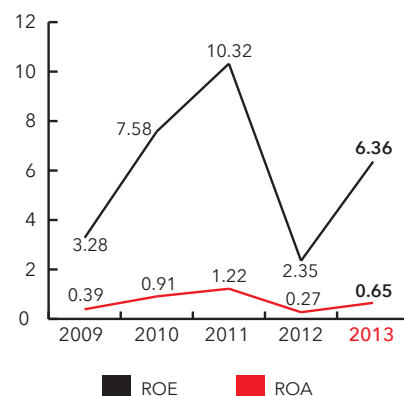
PROFIT GROWTH
LKR MN



TOTAL ASSETS

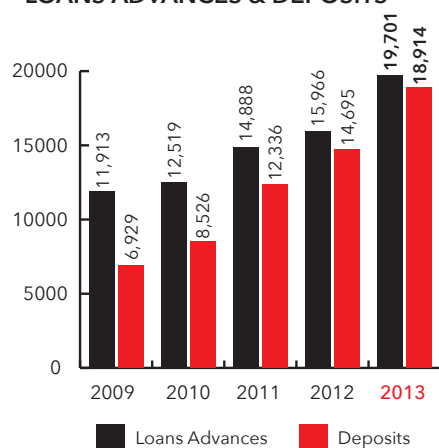


ROA & ROE



	2013 LKR. Mn	2012 LKR. Mn	Change %
Results for the year			
Income	3,803	2,744	39
Profit before Taxation	309	176	76
Provision for Taxation	151	120	26
Profit after Taxation	158	56	185
Revenue to the Governments	155	123	26
Gross Dividends			
At the year end			
Shareholders Fund	2,575	2,391	8
Deposits from Customers	18,914	14,695	29
Gross Loans & Advance to Customers	20,112	16,290	23
Total Assets	27,567	20,801	33
Information per Ordinary share			
Earnings (Basic) (Rs.)	2.44	0.86	185
Financial Ratios			
Return on Average shareholders' Fund (%)	6.36	2.35	171
Return on Average Assets (%)	0.65	0.27	140
Share Holders Equity to Total Assets (%)	9.34	11.50	(19)
Statutory Ratios			
Liquid Assets (%)	28.74	22.65	27
Capital Adequacy -			
Tier I (%) - Minimum Required 5 %	17.74%	23.75%	(25)
Tier II (%) - Minimum Required 10 %	18.29%	24.41%	(25)
Other Information			
Branches	33	32	3
Employees (No Of Staff)	488	488	-
Credit Rating - Fitch Rating/ RAM Rating	BBB Stable	BBB Stable	

LOANS ADVANCES & DEPOSITS



CHAIRPERSON'S REVIEW

"The year 2013 was one of significant development for HDFC, as the Bank expanded its portfolio and broadened its operational scope into hitherto untapped markets."



On behalf of the Board of Directors, I am pleased to present our annual report for the financial year 2013. The Board also welcomed HDFC's new General Manager/ CEO, Mr Nimal J. B. Mamaduwa, a veteran banker, who joined the Bank in January 2013 and guided the Bank successfully through a year of changes and challenges.

The year 2013 was one of significant development for HDFC, as the Bank expanded its portfolio and broadened its operational scope into hitherto untapped markets. This is consequent to the amendment to the HDFC Act, which cleared the regulatory hurdles preventing HDFC's operational expansion beyond the narrow mandate of housing finance. We believe this diversification has enabled HDFC to cater for the growth needs of the people by facilitating, not only affordable housing finance, but also other value added services for economic empowerment and the quality of life (improvements). Therefore, in 2013, under the able guidance of the Board and our new GM/CEO, HDFC began a new journey of growth by entering the leasing, micro-finance, SME and education markets. We also continued to forge forward, albeit cautiously, with our

Gold Loans. We introduced a unique gold-backed housing credit facility to the market in 2012 and despite the sudden downturn in gold prices in 2013, we have continued to experience growth in our Gold Loans, with minimum default rates. Therefore, I am confident our credit model of facilitating housing equity contribution through gold, is a sustainable scheme, provided it is implemented within the framework of prudent risk management practices. Our gold-backed loan scheme also conforms to our sustainable business model of facilitating overall social welfare, by making housing finance accessible to many marginalised groups that face difficulties in accessing formal bank credit.

OUR PERFORMANCE

Looking back at our performance in the financial year 2013, we believe the Bank's accomplishments have been commendable. We are happy to announce that the Bank's profitability increased during this first year of significant diversification, with profit before tax increasing sharply by 76% to LKR 309 and profits after tax increasing by 182% to LKR 158 million. We saw an encouraging demand for our micro finance and SME loan facilities from our existing customer base and already in the new financial year, we are seeing a growing interest in our leasing products.

noteworthy that despite the speed in which our micro-finance loans are being absorbed by the market, we have retained a clean portfolio. This same zero default rate is seen in our Janasevana Scheme, for the public sector, that we operate in collaboration with the National Housing Development Authority and the Ministry of Construction Engineering Services, Housing and Common Amenities.

The lending growth experienced by the Bank during the year is indicative of the Bank's contribution to the housing sector and the growth needs of the majority low and middle income populations in the country. Through our business model that ensures accessibility to housing finance, we have contributed directly towards quality of life improvements and social security of a significant number of persons and families. In Sri Lankan culture, where family shelter is held in high value as a source of security, social status and a family inheritance, HDFC has made it possible for thousands of families and children, to face the future with a greater sense of confidence. Our experience of over three decades of working with the financially marginalised has built an internal expertise within the Bank that gives us unique insights into the needs, values and capabilities of these communities. Therefore, we believe that associated risks can be managed by developing the correct products that are within the repayment capacities of different groups.

On another positive note, the declining interest rates of 2013, provided HDFC with some relief in managing our net interest margins that had experienced some strain due to the sharp increase in rates in 2012. Within this supportive macro environment, HDFC also launched its first listed debenture, valued at LKR 2 billion. I am delighted to record that our issue was four times oversubscribed. We believe this market response indicates the level of public and corporate confidence in HDFC as a specialised State bank. As business entities are highly sensitised towards financial sustainability and corporate governance, it is noteworthy that a majority of subscribers to the HDFC debenture were corporate entities. This is a clear indication of the level of confidence in HDFC Bank, its governance structures, and also the growth prospects of Sri Lanka's housing market. We can state with confidence that Sri Lanka's housing market will continue to appreciate in the foreseeable future and will remain a sound investment choice over the long term.

“Through our business model that ensures accessibility to housing finance, we have contributed directly towards quality of life improvements and social security of a significant number of persons and families. In Sri Lankan culture, where family shelter is held in high value as a source of security, social status and a family inheritance, HDFC has made it possible for thousands of families and children, to face the future with a greater sense of confidence.”

Chairperson's Review Contd...

CAPITAL ADEQUACY

We are pleased to announce that HDFC Bank met the new, higher, capital adequacy requirement through its own internally generated funds during the year. According to the Central Bank regulations, all specialised banks were required to build a capital base of LKR 2.5 billion by the end 2013. HDFC was able to comfortably achieve this capital required through enhanced profitability and also saw the Bank's asset base increasing by 32% to LKR 27,567 million.

CONSOLIDATION PLANS

His Excellency, the President Mahinda Rajapaksa, in his 2014 budget speech articulated the need for a stronger financial sector through bank consolidation. It was envisioned that the merger of smaller banks would create a more cohesive banking sector that would also allow smaller banks to make a greater impact through their activities. In line with this vision, HDFC will also commence consolidation preparations with the necessary approvals from the Ministry of Finance and the Central Bank. We will keep our valued shareholders informed of progress in this regard.

FUTURE OUTLOOK

HDFC Bank has now attained 10 years of experience as a bank and 30 years of experience in housing finance. It is within this span of experience that we have launched our new product range. Therefore, we are supported not only by our banking skills and qualified personnel, but also by a heritage of specialised knowledge. Our diversification is rooted in this legacy and we are confident our new product range will continue to add value to our society and the economy in the coming years.

APPRECIATIONS

I take this opportunity to express my appreciation to His Excellency the President and Minister of Finance, Mahinda Rajapaksa, for his vision for the country and the financial sector of 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 throughout the year. To my Board of Directors, and our GM/CEO, Mr Nimal Mamaduwa, I must express my appreciation for their dedication and commitment in taking the Bank forward. In this regard, I also acknowledge the dedicated services of the management and staff of the Bank, as their hard work has made the year a success. I thank the HDFC Bank Trade Union for its commitment towards the wellbeing of the Bank and HDFC employees.

My sincere thanks go out to all our customers for their support and loyalty over the years, and also to our valued shareholders, for their constant support of the Bank. I can assure our shareholders of improved returns for their loyalty over the next few years, as the Bank's new Business model becomes established.



Siromi Wickramasinghe
Chairperson

"HDFC Bank has now attained 10 years of experience as a bank and 30 years of experience in housing finance. It is within this span of experience that we have launched our new product range. Therefore, we are supported not only by our banking skills and qualified personnel, but also by a heritage of specialised knowledge."

Siromi Wickramasinghe
Chairperson

In May 2013 we initiated the process of developing a three-year Strategic Plan for the period 2014-2016... Therefore, we are now armed with a comprehensive and detailed strategy and action plan, to expedite our growth.

Nimal J. B. Mamaduwa
General Manager/ CEO

GENERAL MANAGER/ CEO'S REVIEW

"I am happy to report that during the year under review, we were able to change HDFC's traditional business model and introduce a number of new short term lending products..."



ECONOMIC OVERVIEW

Following the Central Bank's economic stabilisation package of 2012, the year 2013 was an year of many notable achievements for the Sri Lankan economy. Policy rates reduced whilst interest rates declined sharply and private sector credit picked up, credit to public corporations moderated. The banking sector remained stable, supported by strong capitalisation and liquidity conditions, and real sector credit and inflation were at satisfactory levels. Agriculture industry and services sectors showed fairly satisfactory growth and the lagging regions continued to improve their contributions to national GDP. Although the western province remained the dominant contributor to national GDP, government interventions to base broad growth showed encouraging signs of more inclusive growth in 2013, with generally higher participation from the regions. Unemployment and poverty rates continued to remain low. In this positive macroeconomic scenario a conducive environment for banking was created, with higher capacity for housing loans.

At the same time, 2013 saw greater economic turbulence in South Asia, while regional inflation remained the highest amongst developing economies. Despite this challenging global environment, the Sri Lankan economy remained resilient and recorded a GDP growth of 7.2%.

BANKING SECTOR PERFORMANCE

The banking sector expanded in terms of both business volumes and outreach in 2013, with the Banking density ranking of the Northern Province peaking from the lowest in the country, to the highest. The funding structure of the banking sector commenced a change process with the recent orientation for funding towards local debt and equity markets and foreign borrowing. The banking sector, on the strength of their balance sheets raised US\$ 1,548.3 million in 2013, compared to US\$ 973 million in 2012, through foreign borrowings. In the meantime, the sector indicators reflected continued resilience. On the regulatory side, several key policies were adopted in 2013 and a number of financial risk assessment techniques were also used to assist in micro and macro prudential policy setting.

OUR PERFORMANCE

In my message in the 2012 annual report, I clearly mentioned that your Bank's diversification strategy would present a strategic solution for long term, sustainable growth and to expect future growth. Accordingly, I am happy to report that during the year under review, we were able to change HDFC's traditional business model and introduce a number of new short term lending products that have resulted in a wider portfolio and opened up new and growing revenue streams for the Bank. These aforementioned new product segments are leasing, micro finance lending, SME loans and education loans. This range of new products has placed HDFC on a highly competitive footing with other banks, with a more resilient portfolio and a much wider field of operations. Our micro credit and SME credit lines can effectively leverage HDFC's years of experience in working with rural and urban populations and has allowed us to offer more holistic financial solutions to these communities. Our leasing facilities too are integrated into our comprehensive financial services model, providing equipment and machinery, commercial vehicles, agricultural vehicles, such as 2-wheeled and 4-wheeled tractors, and three wheelers and motor cycles, and also cars for professionals.

Therefore, HDFC is now positioned as a holistic financial services provider, able to provide a range of complementary services, together with housing finance. This new model allows us to provide greater support for quality of life improvements of rural and

urban populations by not only helping them meet their housing needs, but also their entrepreneurial and personal development needs. For instance, we have seen a very positive response towards housing loans that include a business development component, which allows the customer to also build a small business property together with the house. Since the introduction of education loans, we have experienced a strong demand for such products from both urban and rural communities, to finance the higher education of children. I believe there is high potential for such multi-purpose loans and I am confident of strong growth of HDFC's unique business model in the years to come.

With the expansion of our product portfolio, we recruited a new Senior Manager - Leasing, with the required expertise, and also invested in a rigorous training programme for staff. I am happy to report that by now, our entire staff have been trained on the new leasing, SME and microfinance products, and the new products are under the management of sector specialists. Therefore, we are now poised to expand within these markets and the results will be seen in the new financial year.

We continued to remain active, albeit low key, in the gold market and I am happy to report that our gold portfolio experienced only minimum defaults despite the sudden downturn in the gold market. However, given the current market scenario, our expansion in the gold market will be cautious and subject to stringent market monitoring.

"These afore mentioned new product segments are leasing, micro finance lending, SME loans and education loans. This range of new products has placed HDFC in a highly competitive footing with other banks, with a more resilient portfolio and a much wider field of operations. Our micro credit and SME credit lines can effectively leverage HDFC's years of experience in working with rural and urban populations, and has allowed us to offer more holistic financial solutions to these communities."

General Manager/ CEO's Review Contd...

"The Bank recorded a profit before tax of LKR 309.2 million in 2013, as against LKR 175.7 million in the year 2012. The profit after tax was LKR 158 million, as against LKR 55.5 million in the previous year, which is an increase of almost 185%."

HISTORIC DEBENTURE ISSUE

A noteworthy development in 2013 was our first and highly successful listed debenture that raised LKR 2 billion. The debenture was oversubscribed to the value of LKR 4 billion on the opening day itself, which is an affirmation of the HDFC brand equity. Our objectives for the debenture were to raise long term funds to manage our assets and liability gap and to utilise the funds for lending.

OUR FINANCIAL PERFORMANCE

Our investments in expansion and internal capacity building were reflected in our financial performance. The Bank recorded a profit before tax of LKR 309.2 million in 2013, as against LKR 175.7 million in the year 2012. The profit after tax was LKR 158 million, as against LKR 55.5 million in the previous year, which is an increase of almost 185%.

The Bank's interest income increased to LKR 3,528 million in 2013, from 2,634 million, which is an increase of LKR 34%. The Net Interest Income rose by 28%, to LKR 1,058 million from LKR 829.4 million. The Bank's loan portfolio expanded from LKR 15.9 million to LKR 19.7 million, an increase of 23.7%. The deposit base grew to LKR 18.9 million, as against LKR 14.6 million, which is an increase of 28.7%.

Our ROA stood at 0.57% during the period under review as against 0.27% in the previous year and our Return on Equity (ROE) increased from 2.35% to 6.14%.

During the year, demand for housing loans saw a sharp increase across the country, supported by the lower interest environment. On the back of this growth in demand, our housing loan portfolio increased by 23% to reach LKR 20,009 million in value.

HDFC met the capital adequacy requirements and minimum capital requirement stipulated by the Central Bank in 2013. As at December 31, 2013, Tier 1 and Tier 2 capital stood at 17.74% and 18.29%, as against the 5% and 10% regulatory requirement.

We experienced rapid deposit growth in 2013 with the overall deposit base rising by 28.7%, compared to the 5% growth in 2012. As at end December 2013, our deposits stood at LKR 18,914 million, which comprised a healthy mix of government, corporate and individual deposits. Fixed deposits increased by 28.3% while savings deposits grew at 32%.

We saw a 23.4% growth in lending, to reach LKR 19.70 billion, as against an 8% growth in 2012, mainly due to our diversification from conventional loans to other types of lending. There were encouraging requests for micro finance and business loans from the regions, mainly for income generating projects. I consider this a good sign for future growth in these markets. We also continued to maintain EPF backed loans which accounted nearly 40% of HDFC's total loan portfolio.

We continued to maintain a healthy portfolio of advances supported by a high quality credit evaluation process. As a result, our NPL for end December 2013 was 7.26 as against 7.96, in 2012, excluding the EPF category, which is guaranteed by Central Bank. Although this is marginally higher than the housing finance industry average of 5.6%, this is due to the higher risk characteristics of HDFC's main market of lower and middle income populations, which is a vulnerable sector, particularly in rural areas. However, I am convinced, that as a public

institution, we should step forward to support the public in need. Nevertheless, we do not put our financial health at risk, through our commitment to support public welfare. Instead, we try to balance our business activities to ensure maximum returns for all stakeholders.

TECHNOLOGY

We are keen to upgrade and improve our technologies to benefit from cost advantages presented through technology applications. During the current year, we finalised a proposal for a new core banking solution to meet new market realities, the implementation of which is to commence in 2014.

SUPPORTING GOVERNMENT DEVELOPMENT INITIATIVES

We continued to support Government development initiatives and in 2013, HDFC collaborated closely with the Ministry of Construction, Engineering Services, Housing and Common Amenities, to implement the Jana Sevana programme, aimed at providing housing for low and middle income populations, and government servants. The loans are provided at a concessionary rate and have a ceiling of LKR 500,000 per customer. Another such programme is the Central Bank's re-finance scheme to re-build war damaged houses in the North and East. I am happy to report that the credit line was implemented successfully through HDFC branches in Jaffna, Vavunia, Trincomalee and Batticaloa.

OUR PEOPLE

Needless to say, with our product diversification strategy, human resource became a priority in 2013, to ensure an efficient implementation of the strategy. One of the biggest challenges we faced was the need for a mindset change, as our staff were equipped only to provide housing loans. Therefore, a training calendar was mapped out for the full 12 months of the year, to expedite training needs rapidly, and equip our staff for their new roles. Our financial results are evidence of the success of our training and re-orientation programme, and I am confident the results of this investment will show in future years.

AWARDS AND RECOGNITION

Over the years HDFC has been recognised for its services to the public by many different institutions and in the current year too, we continued to set industry benchmarks. We were presented the Bronze Award for our annual report, by the Institutes of Chartered Accountants of Sri Lanka and we were recognised at the ACCA Sustainability Award as the runner up for the Banking, Finance and Insurance category. We were also recognised by the Sting Corporate Accountability Index of the LMD Magazine, which rated HDFC under the silver category. During the year we also won the prestigious ADFIAP Award for the Best Annual Report under the Special Awards category.

WAY FORWARD

A new strategic vision

In May 2013, we initiated the process of developing a three year Strategic Plan for the period 2014 – 2016. This plan was developed through extensive discussion, over a period of six months, with active participation of Corporate management, Senior management, Regional management and Branch management. Board approval has now been obtained for this new Strategic Plan, which will be executed in January 2014. Therefore, we are now armed with a comprehensive and detailed strategy and action plan, to expedite our growth.

The next important point I need to mention, is that in line with the Central Bank's strategy of banking sector consolidation, HDFC Bank too, will need to merge with another financial entity. This will enhance our current LKR 28 billion asset base to the Central Bank's target of LKR 100 billion, over the next three years. I believe a larger asset base would strengthen a smaller bank by enhancing capacity to absorb market shocks and meet market demand. With a corporate marriage in the horizon, I would like to emphasise that the integrity of HDFC's business model, of serving the middle and marginalised communities, will not be compromised, but will only be strengthened. I also take this opportunity to reassure HDFC staff that

General Manager/ CEO's Review Contd...

staff retention would be a top priority. However, the merger will no doubt result in many new challenges, including the necessity of a new organisation structure and the integration of personnel and other resources, with those of our chosen partner. Therefore, I call on all HDFC personnel to cooperate and support this process, for the most effective and beneficial outcomes, for ourselves, our customers and shareholders.

APPRECIATIONS

At the end of a successful year, I extend my sincere thanks to the Governor of the Central Bank, Mr Ajith Nivard Cabraal, and the Director Bank Supervision, and the staff of the Central Bank for their professional guidance. To the officials at the Ministry of Finance and Planning, the Ministry of Construction Engineering Services, Housing and Common Amenities, and the National Housing Development Authority, I extend my thanks for their cooperation throughout the year, as we have worked closely with them. My warmest appreciations go out to my Chairperson, Mrs Siromi Wickramasinghe and the Directors of the HDFC Board, for their unfailing support and guidance on a daily basis. My gratitude also goes out to all HDFC staff without whom we could not have achieved the results we see today. In conclusion I thank the shareholders, customers and other stakeholders for their loyalty and continued patronage.



Nimal J. B. Mamaduwa
General Manager/ CEO



OUR ORGANISATION

HDFC was incorporated by the Government of Sri Lanka with the primary objective of providing housing finance and ancillary services to the people. The Bank was originally established as a Building Society in 1984 and was converted into a Public Corporation under the provisions of the 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 were listed at the Colombo Stock Exchange(CSE) in 2005.

CORPORATE INFORMATION

NAME AND ADDRESS :

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

REGISTERED HEAD OFFICE :

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

Telephone : 2356800, 244624, 2446239, 2447354

Fax : 2446392, 2356829, 2356827

Web Site : www.hdfc.lk

E-mail : hdfc@hdfc.lk

LEGAL FORM :

A Licensed Specialised Bank under the provisions of Housing Development Finance Corporation, Act No. 07 of 1997, amended by Act No. 15 of 2003 and No. 45 of 2011.

STOCK MARKET LISTING :

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

BOARD OF DIRECTORS :

Mrs. Siromi Wickramasinghe (Chairperson)

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. L. E. Susantha Silva (Director)

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

Mr. Prasad Galhena (Director)

Mr. Muthurajah Surendran (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's Department

CREDIT RATING :

The Bank has been assigned BBB stable (Ika) by Ram 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. W. M. A. Bandara - Chief Information Officer

Mr. D. V. Pathirana - Chief Financial 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. Gunathilake - 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 Financial Officer

T.P. 2356800, 244624, 2446239

D/L 4717864 Fax : 2356829

E-mail - cfo@hdfc.lk

OUR VISION



"Become the undisputed market leader in providing housing related finances, to realize the dream of shelter for all in Sri Lanka."

We define the term market leader in the context of market share and customer choice. Market share is measured through share of disbursements every year, and share of total portfolio. Customer choice is measured as being the preferred bank or financial services institution to work with, and through the level of service offered to customers.

OUR MISSION

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

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

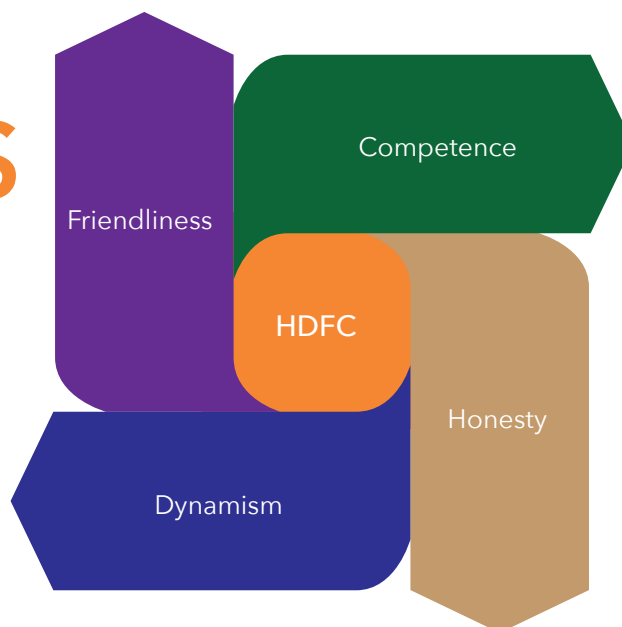
OUR VALUES

Honesty in all transactions at all times

Flexibility and ability to meet market changes

Friendly and helpful services always

Build skills, knowledge and experience to achieve our vision



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

OWNERSHIP

The Government of Sri Lanka holds approximately 51% of HDFC shares through National Housing Development Authority, the Urban Development Authority and the Condominium Management Authority.

The 5 largest shareholders hold 90.80% of HDFC Bank. These are the NHDA 49.73%, Lanka Orix Leasing Company PLC (LOLC) 15 % and Thurston

Investments Ltd 14.15%, Legalinc Trustee 5.3% and Dr. Senthilverl Thirugnanasambandar 2.13%, as at 31st December 2013. Other shareholders held 13.68% of the Bank.

We are also proud to be the first state bank in Sri Lanka to have instituted an Employee Share Ownership Programme, which divested 5.40% of the Bank's ownership to the staff, where Legalinc Trustee Services Private Ltd acted as the trustee.

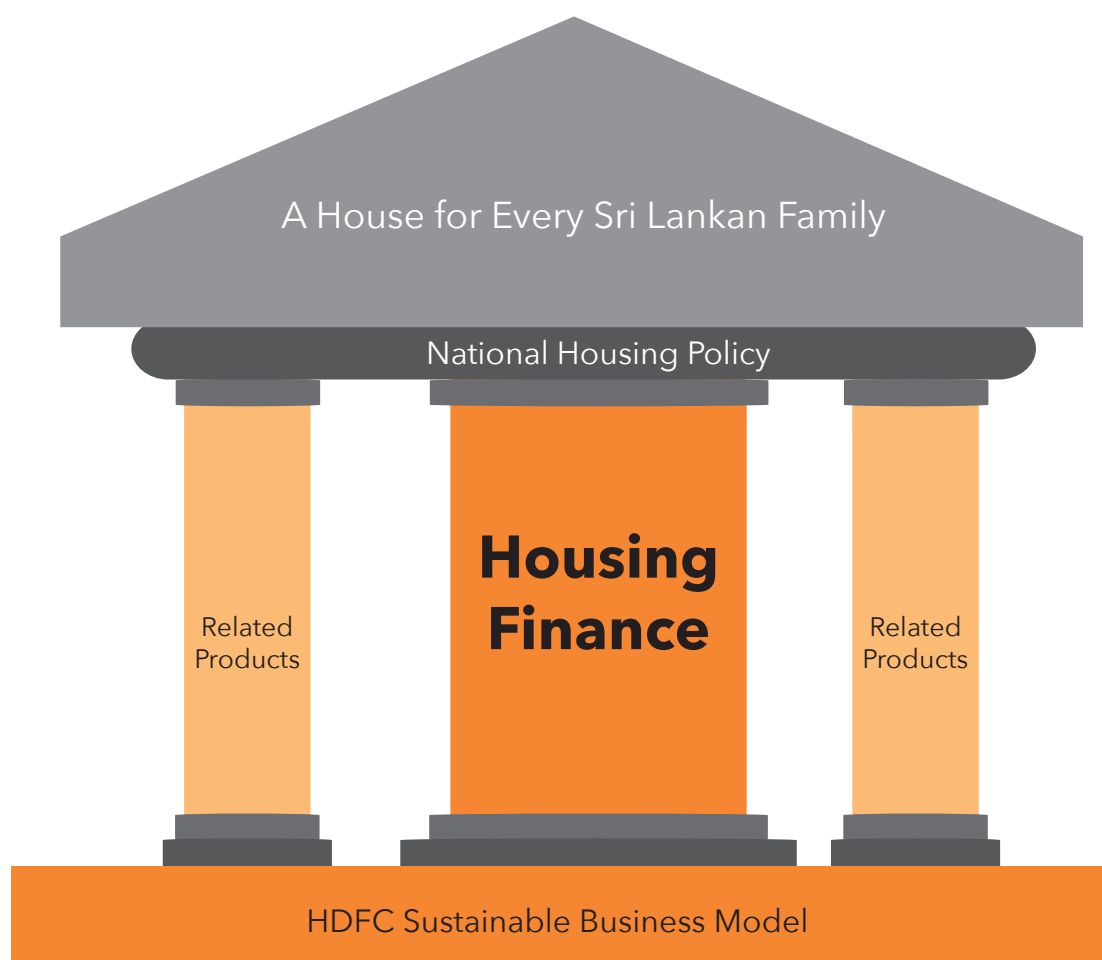
Five Largest Shareholders	2013		2012	
	No. of Shares	%	No. of Shares	%
	Nominal Value		Nominal Value	
National Housing Development Authority	32,180,000	49.73%	32,180,000	49.73%
Lanka Orix Leasing Company PLC	9,707,740	15.00%	9,707,740	15.00%
Perpetual Capital (Pvt) Ltd	-	-	9,105,425	14.07%
Thurston Investments Ltd	9,155,000	14.15%	-	-
Legalinc Trustee Services Private Ltd	3,485,520	5.39%	3,485,520	5.39%
Dr. Senthilverl Thirugnanasambandar	1,376,926	2.13%	1,376,926	2.13%
Others	8,805,334	13.60%	8,854,909	13.68%
Total	64,710,520	100%	64,710,520	100.00%

OUR BUSINESS

Our business, by virtue of majority government ownership and the objectives of its incorporation, must be understood in light of being as much a public service, as a commercial enterprise. Our primary business is the provision of housing finance to the people of Sri Lanka. This includes physical development of houses such as construction, renovation, extension, purchase of built houses and purchase of land for housing construction. Our

business is in line with the overall national housing vision of 'a house for each Sri Lankan family,' as articulated in the Mahinda Chinthana forward vision, and complies with the national housing policy.

Following amendments to the Housing Development Finance Corporation Act in 2011, HDFC is now authorised to enter new business domains and offer a greater variety of products to the market.



GOVERNANCE STRUCTURE AND RISK MANAGEMENT

We comply with all regulatory requirements applicable to the Bank and we also subscribe to internationally accepted norms and standards of good governance, wherever applicable, to enhance our governance systems and standards.

REGULATORY FRAMEWORK

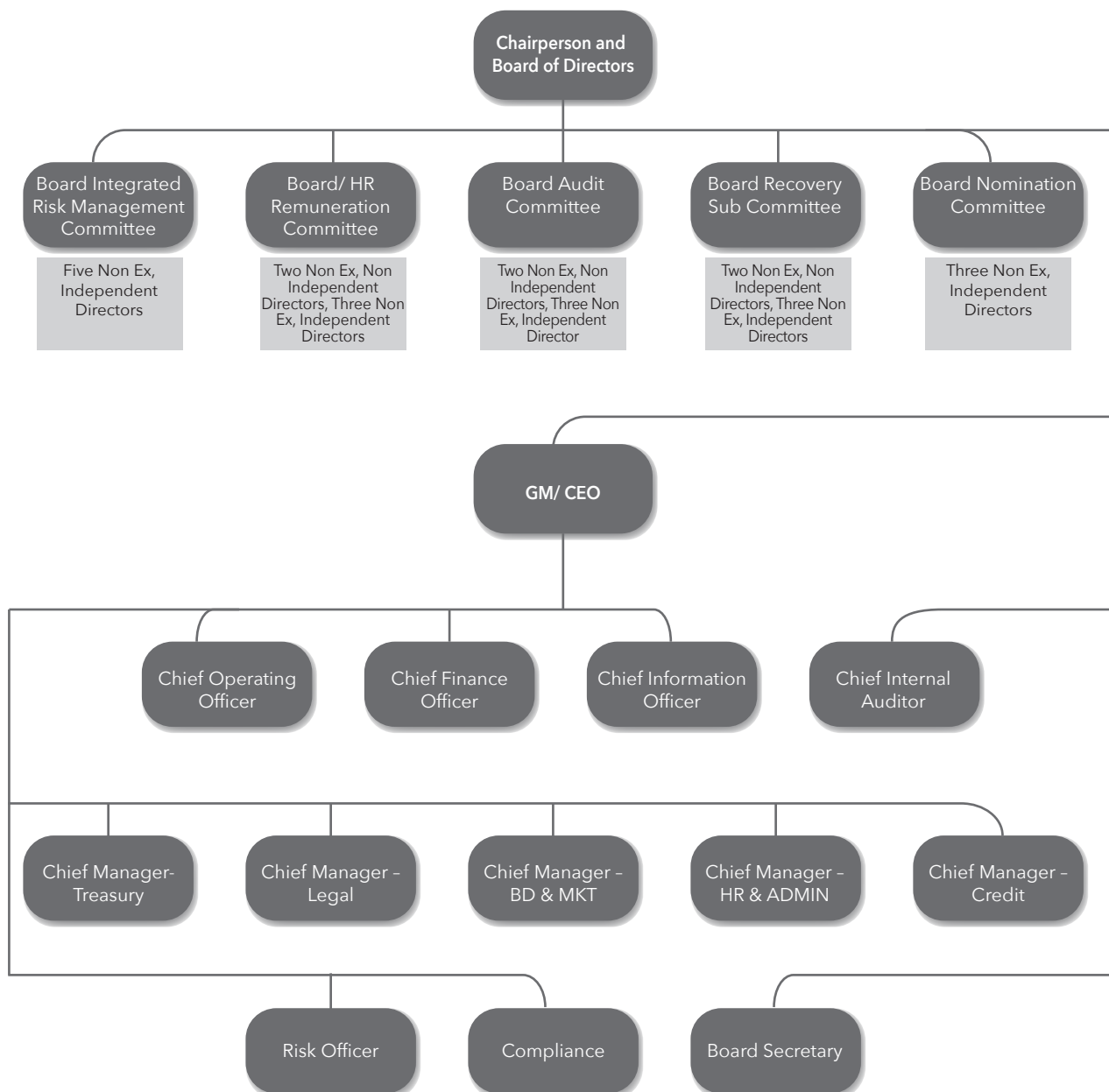
- The HDFC Act
- The Finance Act
- The Central Bank of Sri Lanka directives
- Listing rules of the Colombo Stock Exchange (CSE)
- Banking Act
- Companies Act
- SEC Act

CODES OF BEST PRACTICE

- Corporate governance of the Institute of Chartered Accountants of Sri Lanka and CSE.
- Standards and codes of conduct of the banking and housing industries
- International Accounting and Financial Reporting Standards
- The 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.

ORGANISATION STRUCTURE

Our organisation structure has been designed in line with regulatory requirements with clear reporting and monitoring paths to ensure a strong governance framework for HDFC to implement its business activities.



BOARD OF DIRECTORS



Siromi Wickramasinghe
Chairperson,
Non - Executive, Independent Director



W. J. L. U. Wijayaweera
Non - Executive,
Independent Director



G. L. S. Senadeera
Non - Executive,
Independent Director



W. D. R. D. Goonaratne
Non - Executive,
Non-Independent Director



C. Wijayawardhana
Non - Executive,
Independent Director



S. A. J. Samaraweera
Non - Executive,
Non Independent Director



L. E. Susantha Silva
Non - Executive,
Independent Director



Prasad Galhena
Non - Executive,
Independent Director



Muthurajah Surendran
Non - Executive,
Non Independent Director

BOARD OF DIRECTORS

The Board of Directors is the highest decision making body of the Bank and comprises Independent, Non-Independent and Non-Executive Directors, as mandated by the Central Bank of Sri Lanka. The Board members represent various governmental institutions

and ministries and have many years of experience in the public and private sectors. The Board is made up of nine non executive directors, out of whom three are non-Independent and six are independent directors. Two directors are women.

PROFILES OF THE BOARD OF DIRECTORS

	Siromi Wickramasinghe	W. J.L.U. Wijayaweera	C. Wijayawardhana
Position	Chairperson, Non – Executive, Independent Director	Non – Executive, Independent Director	Non – Executive, Independent Director
Date of appointment	May 2010	June 2006	June 2010
Qualification	Attorney at Law of the Supreme Court of Sri Lanka, Fellow of the Chartered Management Institute U.K.	B. Com (special) Degree from the University of Kelaniya, PGD in Public Administration from SLIDA (Sri Lanka).	Bachelor of Arts (Hons.), University of Ruhuna(1992), Master of Arts in Development Studies, Institute of Social Studies, the Netherlands (2000).
Other positions	Director of HNB Assurance PLC, Director of Agstar Fertilizers PLC, and Head of the Credit Counselling Centre.	Secretary to the Ministry of Labour and Labour Relations, Chairman of the National Institute of Occupational Safety and Health, Srama Vasana Fund and National Institute of Labour Studies	Director General of the Department of National Planning of the Ministry of Finance & Planning. Represents the Treasury on the Director Boards of National Apprenticeship and Industrial Training Authority and University of Vocational Technology.
Previous positions	35 years of Banking experience, DGM- Hatton National Bank PLC, GM /CEO- Lankaputhra Development Bank, Director- Commercial Bank of Ceylon PLC, Director-Sri Lanka Banks' Association (Guarantee) Ltd, Commission Member of the Securities and Exchange Commission of Sri Lanka (SEC), Chairperson of Ceybank Asset Management (Pvt.) Ltd, an Associate Company of the Bank of Ceylon.	Asst. Commissioner of Labour, Senior Asst. Commissioner of Labour, Deputy Commissioner of Labour, Commissioner of Labour Standards (2000) . Com. Gen. Labour (2009 – 2010), Counsellor, Sri Lankan Embassy, Kuwait (1997), Counsellor, Sri Lankan Embassy Saudi Arabia (1999), a director of the National Child protection Authority	Worked at the Department of National Planning for 11 years and at the Department of National Budget for 6 years.

Board of HDFC continued..

	S. A. J. Samaraweera	L. E. Susantha Silva	G. L. S. Senadeera
Position	Non - Executive, Non Independent Director	Non - Executive, Independent Director	Non - Executive, Independent Director
Date of appointment	June 2010	May 2012	January 2013
Qualification	Diploma in Journalism from the University of Sri Jayawardenapura, Sri Lanka	Fellow of the Institute of Chartered Accountants of Sri Lanka, Fellow of the Institute of Certified Management Accountants, Fellow of the Institute of Certified Professional Managers, B.Com (SP) Degree with a second class (upper division) from the University of Kelaniya.	Bachelor of Art (Second Lower) Degree from the University of Sri Jayewardenepura Master of Arts (Social Science), University of Kelaniya.
Other positions	Chairman of National Housing Development Authority, Board Director of Tea, Rubber & Coconut Estates Control of Fragmentation Board, and the Urban Development Authority	Managing Director of the Ceylon Petroleum Corporation, Board Member of Ceylon Petroleum Storage Terminal Limited, Council Member of the Open University of Sri Lanka.	Additional Secretary (Housing & Development) to the Ministry of Construction, Engineering Services, Housing and Common Amenities.
Previous positions	Member of Parliament from 2004 - 2010. Elected to the Western Provincial Council (1999).	Group Financial Controller, Sherman Sons Group in Sri Lanka, Director General (CEO), Campotec Lda- Angola, Regional Director for Africa, Limje Industrial Ltd- UK, General Manager, Symtec Fzco - Dubai, Member of the Board Directors, Limje Lanka - Sri Lanka and Member of the Board Director, Campotec Lda- Angola	Secretary, Urban Council Ja-ela in 1985, Assistant Divisional Secretary to the Divisional Secretariat Narammala, and Divisional Secretary to the Divisional Secretariat Rajanganaya, Cooperative Com. of the Provincial Council of Sabaragamuwa, Deputy Com. 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.

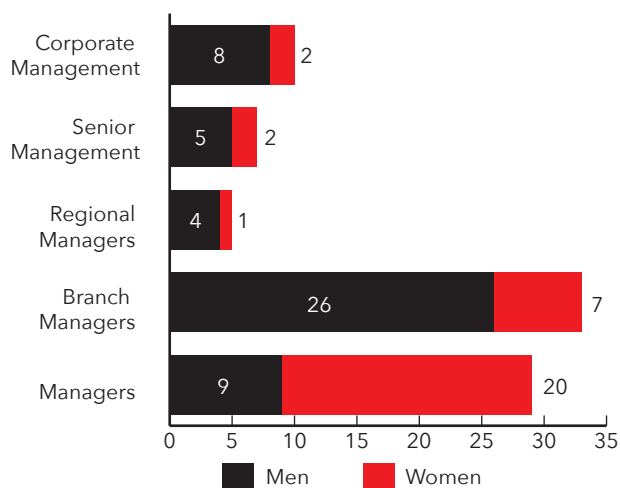
Board of HDFC continued..

	W. D. R. D. Goonaratne	Prasad Galhena	Muthurajah Surendran
Position	Non - Executive, Non-Independent Director	Non - Executive, Independent Director	Non - Executive, Non Independent Director
Date of appointment	June 2010	June 2013	June 2013
Qualification	LL.B (Hon) Colombo, LL. M (Monash) Australia, Diploma in Forensic Medicine, Attorney-at-Law of the Supreme Court of Sri Lanka.	Graduate of the University of Colombo (BBA Honors), MBA (Merit) obtained from the same University, a fellow Member of the Chartered Institute of Management Accountant (CIMA) of UK, a passed finalist of the Chartered Institute of Marketing in UK.	Diploma in Marketing and a Masters Degree in Finance from India.
Other positions	Senior Lecturer and Head of the Department of Legal Studies, Faculty of Humanities and Social Sciences, Open University of Sri Lanka, National Housing Commissioner to the Ministry of Construction, Engineering Services, Housing and Common Amenities, and Member of the Board of the National Housing Development Authority.	Chairman of the Sri Lanka Sustainable Energy Authority, Commission Member of the Public Utilities Commission of Sri Lanka.	Director, WM Mendis & Company and Prepetual Treasuries Limited, Head of Finance of the Free Lanka Group.
Previous positions		Chairman of National Gem & Jewellery Authority, Ceylon Shipping Corporation Limited and Sri Lanka Handicraft Board (Laksala). Wide overseas exposure in renewable energy, has worked in several foreign funded consultancy projects.	Investment Analyst of the Free Lanka Group

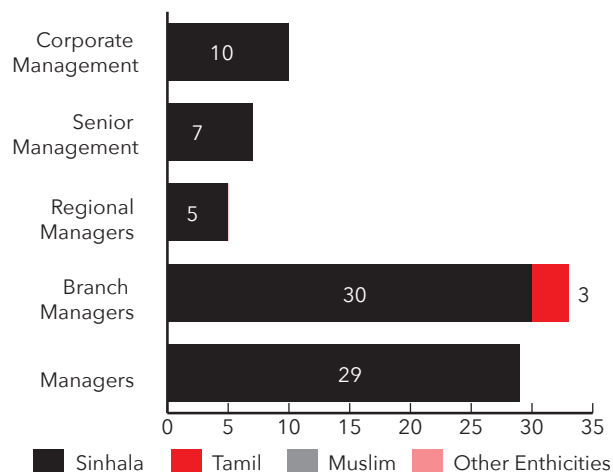
OUR MANAGEMENT TEAM

HDFC's management team comprises the Corporate Management, the Senior Management, the Regional Management and Managers of Branches. These able managers spearhead HDFC's business according to the Bank's strategy and business plan. Our management team is selected on merit, on the basis of qualifications, area of expertise and experience.

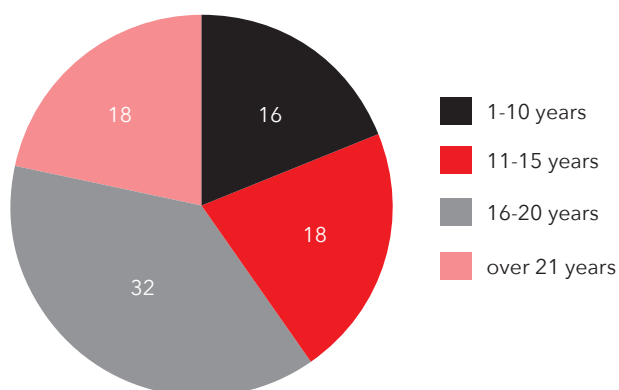
MANAGEMENT TEAM BY GENDER



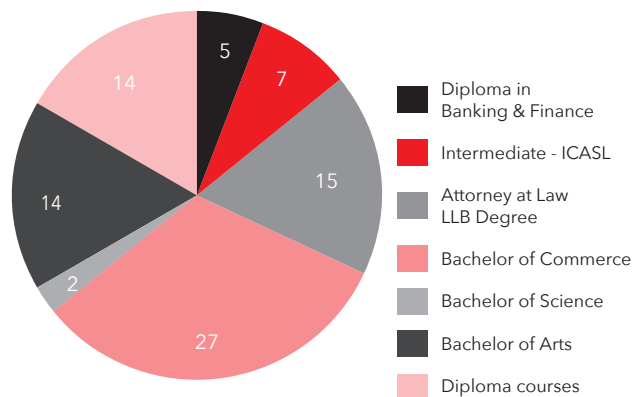
BY ETHNICITY



WORK EXPERIENCE (inclusive of work in other organizations)



BY QUALIFICATION



OUR MANAGEMENT TEAM

CORPORATE MANAGEMENT



Nimal J. B. Mamaduwa
AICM, Dip in Bank Mgt, FCMI (UK)
General Manager/ CEO



S. Dissanayake
ACA, BSc. (Management)
Chief Operating Officer



W. M. A. Bandara
PGDIP (IT), BSc
Chief Information Officer



D. V. Pathirana
MBA, FCA, FCMA, FCPM, BSc
Chief Financial Officer



A. J. Athukorala
ACMA, CISA, CISM, BSc
Chief Internal Auditor



L. Edirisinghe
AMIPM, B Sc. Business Administration
Chief Manager-HR & Administration



W. W. D. S. C. Perera
Attorney at Law & Notary Public
Chief Manager - Legal



H. S. Gunathilake
MBA, PGD Netherlands, BA (Sri Lanka)
Chief Manager - Business
Development and Marketing



C. R. P. Balasooriya
*Master in Financial and Economics,
B Com (Special), MAAT,*
Chief Manager - Treasury



D. M. D. M. K. Dissanayake
ACA
Chief Manager - Credit

CORPORATE MANAGEMENT

Our Corporate management team is made up of highly qualified and experienced personnel with many years of experience in their respective fields. The profiles of our Corporate management team is given below.

	Nimal J. B. Mamaduwa	S. Dissanayake	W. M. A. Bandara
Position	GM / Chief Executive Officer	Chief Operating Officer	Chief Information Officer
Date of appointment	01 st January 2013	01 st December 1995	15 th August 1997
Qualification	AICM, Dip in Bank Mgt, FCMI (UK)	ACA, BSc. (Management)	PGDIP-IT (UK), BSc
Other positions & Experience	A Senior Professional Banker with 39 years' experience in commercial and development banking. He started his banking career at HNB PLC and during his 29 years of 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 as Asst. General Manager (Credit) and was elevated to Deputy General Manager in 2005 and in June 2006 he assumed duties as Chief Executive Officer/ General Manager of Sanasa Development Bank PLC, which position he held until October 2012. He is also a Director of the Sri Lanka Banks' Association (Guarantee) Limited and the Financial Ombudsman Sri Lanka (Guarantee) Limited	He counts more than 26 years experience in the field of accounting and finance in organisations in the public and private sectors. He had been the head of the Finance Section of the state sector institutions for several years. He joined HDFC as Assistant General Manager (Finance) and was the head of Finance since assumption of the portfolio as Deputy General Manager (Finance) for over 11 years. He was appointed Chief Operations Officer with effect from 01st January 2013.	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 systems, and is specialised in configuring and maintaining Informix Databases, Network Administration and Project Management. He had also worked in the NEC Corporation in Japan for one year

	D. Vidana Pathirana	Mr. A. J. Atukorala	Mr. L. Edirisinghe
Position	Chief Financial Officer	Chief Internal Auditor	Chief Manager - HR & Administration
Date of appointment	15 th September 2004	01 st July 2009	10 th January 2011
Qualification	MBA, FCA, FCMA, FCPM, BSc	ACMA, CISA, CISM, BSc, Dip in Computer System Design (NIBM)	AMIPM, B Sc. Business Administration(Special)
Other positions & Experience	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 counts over 25 years of executive experience in the banking sector. Specialising in auditing, he has the exposure to both private and public sector banks.	He has over two decades of professional career experience in Human Resource Management and Training and Development in both public and private sectors, locally and overseas

	W. W. D. S. C. Perera	H.S. Gunathilake	C. R. P. Balasooriya	Manjula Kithsiri Dissanayake
Position	Chief Manager – Legal	Chief Manager (Business Development & Marketing)	Chief Manager – Treasury	Chief Manger – Credit
Date of appointment	16 th November 1992	20 th June 1991	22 nd March 2004.	18 th June 2012
Qualification	Attorney at Law and Notary Public	MBA, PGD in Urban Management - IHS Netherlands, BA (Sri Lanka)	Master in Financial and Economics, B Com (Special), MAAT	ACA
Other positions & Experience	She began her career at HDFC Bank as a Legal Officer 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 counts over 30 years experience in the field of housing both in the public and private sector.	He has over two decades of professional career experience in the merchant & specialised Banking sector.	He has over 15 years experience in the field of Credit and Finance. Prior to joining HDFC Bank he served as Credit Officer, Account Manager, Senior Account Manager, Accountant and Senior Manager Credit and Operations in major private sector financial institutions. He has experience in the field of Auditing, Financial Management, Taxation, Operations and Credit Management.

SENIOR MANAGEMENT



K. T. D. D. De Silva

*MBA, Attorney at Law & Notary Public,
Commissioner of Oaths, Post Attorney
Higher Diploma in Banking Finance &
Insurance, Registered Company Secretary
Bank/Board Secretary*



H. A. Anura

*BSc. (Acc)(Special) MIPA -
Australia, MAAT
Senior Manager - Finance*



W. N. D. Botheju

*BSc Admin (Special), CBA
Senior Manager -
Accounts Control*



K. R. M. A. Bandara

*B Com (Special), SAT, CBA
Compliance Officer*



A. M. Neelachandra

*BSc
Senior Manager- IT
(Application System &
Core Banking)*



T. H. K. P. De Silva

*MSc in (IT), Bsc in (MIS), MBCS, MACS
Senior Manager - IT
(Operation , Technical Support
and System Security)*



D. M. Dharmaratne

*BSc (Eng). (Hons), PG Dip in
Business Mgt
Senior Manager (Leasing)*

REGIONAL MANAGERS



R. M. Sugathapala

Uva



R. R. Gunawardena

Western



W. D. K. Senaviratne

North Western



N. C. Ranjith

Southern



H. M. Thilakerathne

Central

LIST OF MANAGERS

Name With Initials	Branch
Mr. P. S. Pitawela	Manager - Administration
Mr. Anura Dissanayake	Manager - Recovery
Mrs. L. Gunathilake	Manager - Recovery (Western Region)
Ms. L. A. S. C. Ariyaratna	Manager - Property
Mr. W. Gunasinghe	Manager (Relief)
Mrs. K. Dissanayake	Manager (Legal), Kandy Branch
Ms. M. R. S. Fernando	Manager (Legal), Head Office
Mrs. E. R. L. K. Perera	Manager (Legal), Head Office
Ms. K. D. R. Perera	Manager (Legal), Head Office
Ms. K. W. Y. Indira	Manager (Legal), Head Office
Ms. D. E. P. Nesiah	Manager (Legal), Homagama Branch
Ms. K.W. Iresha	Manager (Legal), Galle Branch
Mrs. K. L. S. Malkanthi	Manager (Legal), Chilaw Branch
Mrs. U. I. Hettiarachchi	Manager (Legal), Kegalle Branch
Mrs. D. W. W. Kodithuwakku	Manager (Legal), Gampaha Branch
Mr. I. Nishantha	Risk Officer
Mrs. M. A. H. C. Manthirathna	Manager - IT
Mrs. M. N. Sumanaratna	Manager - IT
Ms. E. D. T. T. E. Wanshanatha	Manager - Audit
Ms. C. P. K. Hewage	Manager (HR)
Ms. M. U. S. De Costa	Manager - Operations
Mr. W. M. Chandrasena	Manager - Valuation
Mrs. N. L. Wijesiri	Manager (Technical & Premises Maintenance)
Mr. T. B. Karunabandu	Officer In-Charge (Gold Loan)
Ms. L. D. S. H. Liyanage	Senior Executive - Payments
Mr. G. D. K. H. Perera	Manager - Business Development & Mobile Banking
Ms. K. H. D. Priyanka	Manager - Public Relations & Publicity

LIST OF BRANCH MANAGERS

Name With Initials	Branch
Ms. M. G. D. P. Senevirathne	Ampara
Mr. P. A. Seneviratne	Anuradhapura
Mr. U. B. G. P. Balasooriya	Avissawella
Ms. R. S. Rankothdiwela	Badulla
Mr. T. Kandiah	Batticaloa
Mr. H. M. U. Samaraweera	Chilaw
Mr. R. A. J. N. Ranasinghe	Colombo
Mr. P. Ekanayake	Embilipitiya
Ms. A. A. S. I. T. Somathilaka	Galle
Ms. T. M. D. D. K. Madatuwa	Gampaha
Mr. L. S. B. Rathnayake	Gampola
Ms. U. K. Samararachchi	Homagama
Ms. D. T. A. Jayasinghe	Horana
Mr. E. D. D. Sampath	Hyde Park
Ms. M. S. Ponweera	Ja-Ela
Mr. P. Rajarajan	Jaffna
Ms. N. A. A. N. S. Nissanka	Kandy
Mr. B. W. M. C. Kumarasiri	Kegalle
Mr. S. H. K. Gamage	Kuliapitiya
Ms. M. Malani	Kurunegala
Mr. I. K. Dawatanga	Matale
Mr. G. W. A. N. Kalinda	Matara
Mr. M. L. N. Anuradha	Monaragala
Ms. J. A. L. K. Jayalath	Nugegoda
Mr. P. G. C. Nirosh	Nuwara - Eliya
Mr. H. A. S. L. Hapangama	Peliyagoda
Mr. A. I. Kiriella	Piliyandala
Mr. S. M. S. K. Bandara	Ratnapura
Mr. W. Y. K. J. Weerasinghe	Tangalle
Mr. M. A. S. Desapriya	Tissamaharama
Mr. W. A. A. Warnapura	Trincomalee
Mr. K. Mugunthan	Vauniya
Mr. D. K. P. De Silva	Kalutara

RISK MANAGEMENT PROCESS AT HDFC

The objective of risk management is to proactively assist in delivering superior shareholder value by ensuring an optimal trade-off between risk and return.

HDFC'S RISK PROFILE

HDFC is exposed to both internal and external risks, ranging from risks arising from global economic conditions to environmental risks, to risks from national policy changes. Traditionally, HDFC's risk profile has been somewhat different to other banks, due to the regulatory framework within which the bank must operate and the diverse nature of its markets.

- Product and service diversification, as a strategy of risk management, is a challenge at HDFC as HDFC's scope of operations is restricted to the areas defined by the HDFC Act No 07 of 1997 and amended Act No 15 of 2003. However, HDFC must face market conditions, including competition from other banks, in mobilising market funds. This operational limitations have substantially been relaxed since 2011.
- As an organisation set up with the objective of facilitating housing finance for the people HDFC cannot ignore more vulnerable populations. Therefore, balancing public interest against financial sustainability is crucial in risk management at HDFC.
- Housing loans are required to be long term and reasonably priced. However, market funding is short term and high returns focused. Therefore, HDFC has to balance long term lending with short term funding.
- The long term nature of housing finance, which is mostly over 10 years, exposes the Bank to unforeseen economic, environmental and social changes that may occur in the future.
- Over 75% of HDFC's housing loans are taken by clients who are not HDFC's existing customers. Therefore, credit risk assessment is more difficult.

INTEGRATED RISK MANAGEMENT FRAMEWORK

HDFC's risk management process has been integrated from top to bottom of the organisation, from the Board of Directors, down to operational management teams, through an established framework of internal procedures and guidelines. This process allows the Bank to integrate risk management between policies and strategies, down to implementation level, and to monitor and report changes, from the ground upwards, to strategy making point. In addition to internal risk management processes, HDFC also implements regulations and other external guidelines and codes of best practice that act as safety nets.

ROLE OF REGULATIONS

The HDFC Act, Banking Act and Companies Act, provide 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 of any dividends. In accordance with 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 must conduct a sound Solvency Test, for 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 the Bank.

THE ROLE OF THE BOARD OF DIRECTORS

The Board of Directors have a crucial role in risk management. They approve policies and define the Bank's strategy and supervise risk controls. They monitor the Bank's risk management infrastructure and risk exposure and decide whether the risk management systems is adequate or should be strengthened further. This is done through a process where the managers make presentations regularly to the Board.

ROLE OF BOARD SUB COMMITTEES

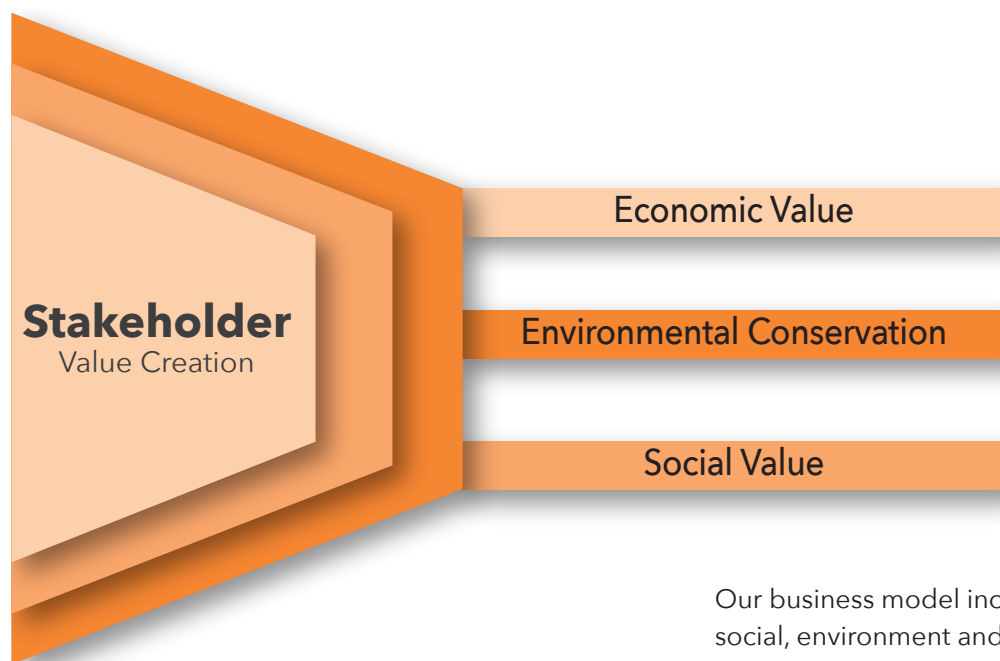
The Bank has a number of Board sub committees which are dedicated to monitor different aspects of the Bank's sustainability. These sub committees are made up of personnel with specialised skills and experience, to make assessments. Once a Board sub committee identifies a risk, the Board is informed of the recommended actions for risk mitigation. Board approval is required to proceed thereafter.

OUR BUSINESS PHILOSOPHY

HDFC Bank's mandate is to serve the public of this country. Therefore, our organisational philosophy extends beyond mere institutional growth and profits, and our business model is not simply designed to facilitate disbursement of funds. Social responsibility is at the heart of everything we do. We consider environmental responsibility a part of social responsibility, as natural resources are an integral aspect of social wealth.

Our ultimate objective is to create a secure foundation for future generations, by making a home accessible to families from different socio-economic backgrounds.

Siromi Wickramasinghe
Chairperson



Our business model incorporates the elements of social, environment and economic responsibility to create value for all our stakeholders in a sustainable manner.

OUR BUSINESS GROWTH

We have been laying a foundation for growth since 2012, following amendments to the HDFC Act in 2011, that allowed us to expand into financial services beyond housing finance. The results of our investments in expansion are seen in 2013.

Criteria	2013	2012	2011	2010	2009
Income LKR Mn	3,803	2,744	2,386	2,250	2,269
Shareholder funds LKR Mn	2,575	2,391	2,337	1,849	1,721
Assets LKR Mn	27,567	20,801	19,927	15,374	14,301
Deposits LKR Mn	18,914	14,695	12,336	8,526	6,929
Value of loans LKR Mn	6,780	3,599	4,659	3,065	1,401
Number of loans	23,414	12,404	14,224	10,739	5,977

OUR BUSINESS MODEL

During the current financial year, we consolidated our operations according to our new business strategy of product diversification, where we introduced a new product range to the market. While we continued to specialise in housing finance, we developed a new set of products that add value to our services.

Our new products have been designed to complement our housing finance mandate. Therefore, our current business model ensures value additions to our customers in many different ways. We strengthened our new business model by improving our systems, processes and skill base. In addition, we have also strengthened the Bank's Regional Management structure by giving greater decision making autonomy to Regional Managers. We believe this method will increase the flexibility and responsiveness of our business model to market changes and customer needs.

To drive this overall change process, the Bank also developed a new 3-year strategic plan in 2013, that will be effective from 2014 - 2016.

LONG TERM FINANCIAL SUSTAINABILITY

Our new business model is based on long term financial sustainability needs of the Bank. HDFC faced an unhealthy situation of a mismatch between long term lending and short term funding under the previous business model due to the Bank being restricted to housing finance. Housing credit is traditionally a long term product, at affordable interest rates. However, the Bank did not have adequate access to long term funding, and was forced to borrow short term funding at higher market rates. Therefore, we believe the diversification into different types of products would allow the Bank to address the funding and lending mismatch and will be a permanent and sustainable solution to reduce and spread operational risks.

OUR PRODUCT PORTFOLIO

We have currently diversified into investment products, deposits, lifestyle loans, education loans, leasing, SME credit, microfinance and gold loans, in addition to our traditional housing finance products. The current HDFC product portfolio is shown below.

HDFC's Diversified Product Portfolio

Deposits	HOUSING LOANS	Other products
Thilina Rekawarana: Investment plan for children Arumbu: Investment plan for Tamil speaking community HDFC Housing Fund : Pension plan Dhana Nidhana: Long term investment plan Ashcharya: Investment scheme to partner national development Prathilaba: Savings account Thilina: Minor Savings account Vishrama Udana: Fixed Deposits for senior citizens	Kedella: For low and middle income families Situ Sevana: Customised home loan with value added services for the Wider Income Group Sirisara Home Improvement Loan: Existing customers can remortgage property for home improvements Thilina Home Loan: Mortgage loan for parents/ guardians of the children's savings scheme, Thilina Shrama Udana: For EPF members Guru Sevana: For government teachers	Education loan Leasing Gold Loan Lifestyle Loan Microfinance SME Loan

OUR MARKET

Our business activities are limited to Sri Lanka.

HDFC housing finance facilities are available to all socio-economic groups in the country. Over the years HDFC has strategically distributed its loan portfolio proportionately among all income segments of the population. Over 70% of the loan portfolio has been distributed to the low and middle income populations that represent 60% to 70% of the population. As a result, HDFC's main market is the low and mid-income sectors, which includes rural and urban populations.

SERVICE DELIVERY STRATEGY

At HDFC we have developed a unique service delivery model, combining different channels of delivery, to maximise market reach, while containing operating costs and enhancing consumer convenience.

The main delivery channels include physical branches, shared ATM machines and mobile banking units. HDFC also leverages new technologies to assist in distribution. This includes the HDFC website, which allows customer to conduct a range of internet banking activities and the HDFC mobile banking officers are equipped with palmtop computers to record and transmit transactions.

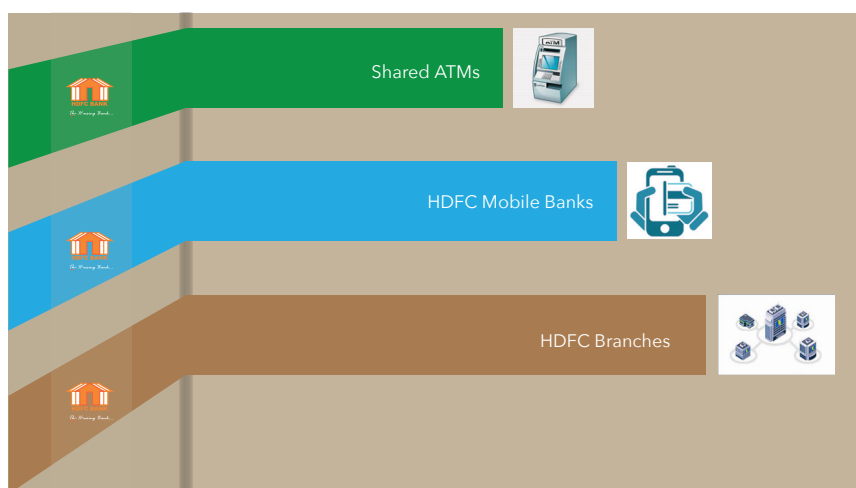
DELIVERY CHANNELS

Branch network : As at the end of the financial year 2013, HDFC had 33 dedicated branches and customer service outlets scattered throughout the country.

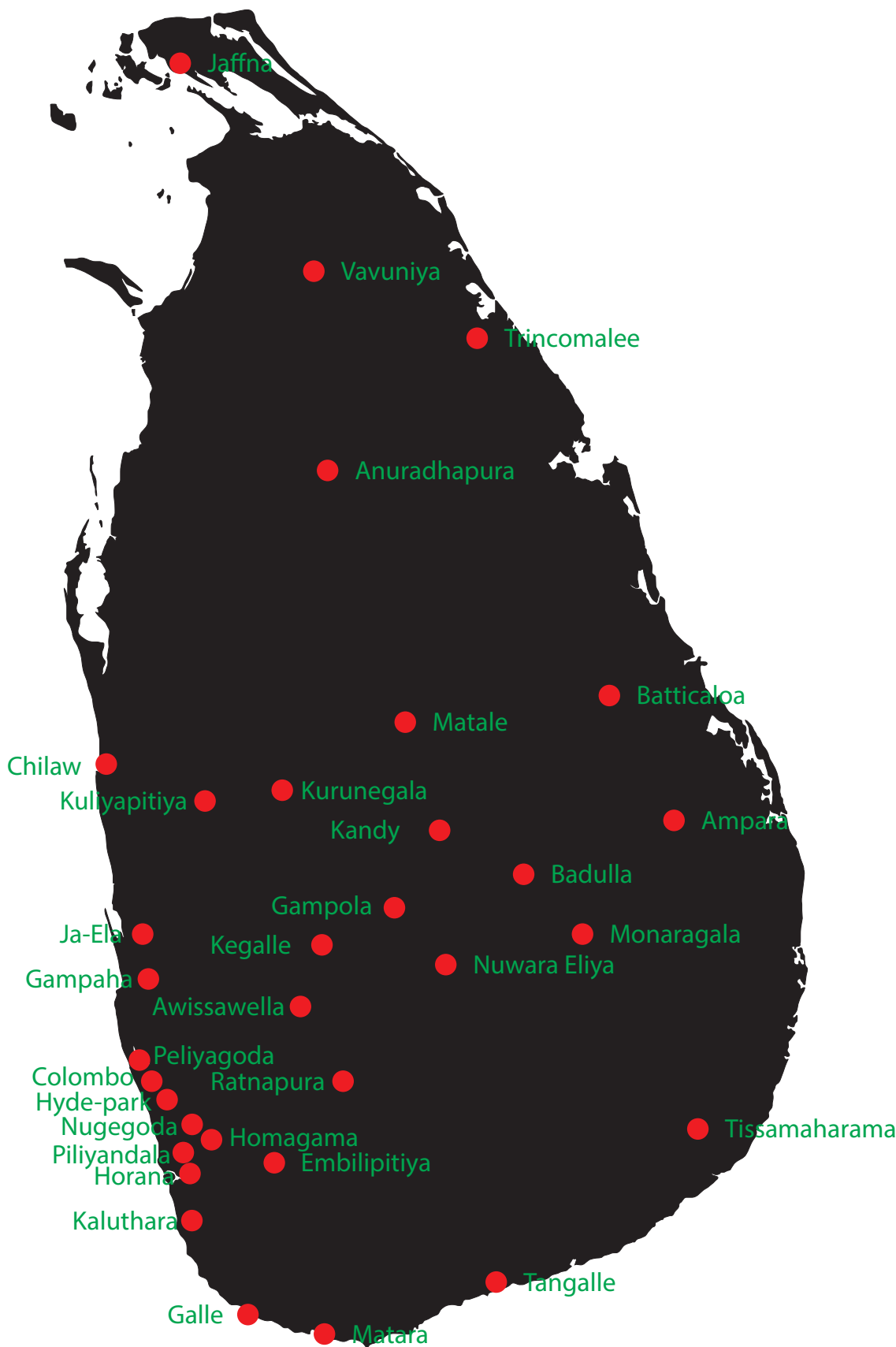
Our branch network is organised into 5 regions - Uva, North Western, Southern, Western and Central. The new structure allows the Bank to focus its growth strategy according to regional requirements and makes monitoring more efficient.

ATM network: Through ATM sharing agreements with other banks we provide the convenience of a network over 600 ATM machines across the country.

Mobile Banking: HDFC introduced a unique mobile banking concept to the country in 2008. The mobile banks have widened our operational scope far beyond the physical limits of our branch network and has enabled us to directly access thousands of customers located in the rural interior. The mobile units that are manned by Business Development Assistants target the SME and micro business sectors to deliver highly personalised value added services directly to their door step, gaining HDFC a competitive advantage. This model of service delivery has also contributed towards significantly reducing risk factors associated with vulnerable groups, due to direct contact and knowledge about customers. At the end of the financial year we had 130 Business Development Assistants who travel to customers doorsteps daily.



OUR BRANCH NETWORK



BRANCH LOCATIONS

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	No. 371, Main Street, Kegalle.
Matale	No.11, Kandy Road, Matale.
Kalutara	No.13, Gnanodaya Mawatha, Kalutara South.
Gampaha	No. 27, Sisira Building, Ranathunga Mawatha, Gampaha.
Matara	No.07, HGPM building, Kotuwegoda.
Galle	No. 4, Sri Dewamiththa Mawatha, Galle.
Batticaloa	No. 58/1. Baily Road, Batticaloa.
Trincomalee	N.C. Road, Trincomalee.
Badulla	No. 69/1/2, New Passara Road, Badulla.
Chilaw	No. 17, Fort Road, Chilaw.
Ratnapura	No. 51, Main Street, Ratnapura.
Tangalle	No. 31, Beach Road, Tangalle.
Ja-Ela	No. 170/A/1, Colombo Road, , Ja-Ela.

Branch	Addresses
Kurunegala	No. 42, Kandy Road, Kurunegala.
Anuradhapura	No. 396/14 , Court Place Bandaranayaka Mawatha, Anuradhapura.
Vavuniya	No.113, Kandy Road, Vavuniya.
Monaragala	No. 310/A, Kachcheriya Junction, Wellavaya Road, Monaragala.
Homagama	No. 99, Station Road, Homagama.
Nuwara - Eliya	No. 72, Park Road, Nuwara - Eliya
Ampara	Uhana Road Ampara.
Avissawella	No. 79, Ratnapura Road, Awissawella.
Horana	No.125, 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	No. 134, Kandy Rd, Gampola.
Kuliyapitiya	No. 22 A, Parakrama Mawatha, Kuliyapitiya.
Jaffna	No. 127, K.K.S Road, Jaffna.
Tissamaharamaya	No. 71 Main Street, Tissamaharama.

STAKEHOLDER ENGAGEMENT

We engage with many external organisations and associations in the process of conducting our daily activities. Some of these public and private entities are listed below.

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

In line with our business philosophy of creating value for all our stakeholders, we have identified key requirements of our stakeholders and have taken action to meet these requirements through our daily operations. These stakeholder requirements and HDFC's responses are listed below.

Stakeholder Group	Key requirements	HDFC engagement process
Investors/ Shareholders	• Ensure sustainable growth • Enhance shareholders' value through market capitalisation • Safeguard shareholder interests. • Ensure fairness and Transparency	• Deliver consistent growth and satisfactory returns • Implement sound risk management, good governance and internal controls • 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 releases • 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	• Contribute to economic growth by enhancing investment, consumption and savings by increasing the national housing stock • Improve quality of life of through home ownership • Support financial system stability.	• Maximising direct value creation to the economy • Assisting people to construct, own and upgrade homes, or meet ancillary needs by providing affordable housing finance with a 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 through enabling employment generation • Contributing to economic empowerment by inculcating banking habits, financial literacy and inclusion • Contributing to the government's special development initiatives by promoting housing finance and inculcating banking habits • Participating in working groups and forums.

Stakeholder Group	Key requirements	HDFC engagement process
Employees	• Recognition and Rewards • Career development and job security • Work life balance. • Equal opportunities.	• Maintaining 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 by encouraging further education, conducting training and development, providing job enrichment and career progression opportunities • Maintaining diversity and providing equal opportunities • Maintaining a balance between personal and professional life by ensuring health and safety, encouraging extracurricular and recreational activities
Customers	• Cost of services. • Provide a convenient service • Improving accessibility to credit and financial inclusion • Level of customer service	• Maintaining affordability of our service to the masses with a special focus on low and middle income groups • Extending flexible and customised solutions according to customers need, level and pattern of income and available collateral • Enhancing accessibility to our services equally to all segments of 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 and making transparent decisions based on market information for qualified and registered suppliers • Ensuring and respecting suppliers' rights through timely payments and long lasting relationships
Community	Long term relationships	• Striving to improve quality of life by facilitating accessibility to clean water and healthcare by providing credit for water services through our home improvement loans • Supporting needy children in education and sports • Interacting with community organizations to improve community wellbeing • Providing assistance in the event of natural disasters • Empowering communities by inculcating banking and savings habits
Environment	• Sustaining national biodiversity by promoting sustainable housing. • Managing HDFC's carbon Footprint	• Educating customers on compliance on environmental and development regulations • Promoting sustainable housing and living through resource efficient affordable construction and maintenance • Minimising D2 emission from direct business operations and staff transport • Saving electricity, fuel and water. • Reducing paper consumption

BUILDING SOCIAL CAPITAL

Our approach to social sustainability is based on the five pillars of building human capital, improving quality of life, good governance, improving accessibility to financial services and increasing financial literacy and inclusiveness. HDFC strives to build on these pillars through its daily operations.

BUILDING HUMAN CAPITAL

We consider our investments in our employees as a contribution towards building overall human capital in the country. Human resources are a key element of HDFC's business model and employees are a direct stakeholder of the business. Therefore, we have continued to invest heavily in the development of our human capital since the conversion from a State Corporation to a Licensed Specialised Bank. We understand that our human capital base is a competitive advantage in the market and our efforts have been aimed at an attitudinal change towards a more customer centric mindset from the bureaucratic mindset. To achieve this objective we have developed a human resource development plan centred on training and skills development.

OUR HUMAN RESOURCE POLICY

Our approach to human resources is based on the UN Human rights principles, the ILO conventions and the Establishments Code on labour rights. We do not condone child labour or under age labour, and we are an equal opportunity employer.

We recognise the Ceylon Bank Employee's Union (CBEU), which comprise almost 81% of our staff across all grades. Our Collective Agreement which was renewed in 2012, for three years with effect from 2009, is available at our corporate web site www.hdfc.lk for public reference.

Minimum Notice Period

HDFC conducts discussions on significant operational changes, such as transfers, promotions and disciplinary actions etc with employees and representatives of the 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.

Governance

The highest governing body of the Bank is involved in our HR management as all material HR matters are referred to the Board HR subcommittee for approval. Procedural manuals have been developed 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. Grievance mechanism and other communications channels have been created to facilitate both top down and bottom up communications.

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. Recruitment is based on transparent, established procedures on the basis of merit and capabilities. Priority is given to internal candidates when filling vacancies. We encourage geographically diversified and multi-ethnic participation.

A staff appraisal system has been formulated to recommend annual salary increments and identify employee attitudes and training and development needs. Performance appraisals are held for all categories of employees annually. Operational targets are given to all members of the staff where appropriate. Branch-wise loan, recovery and fund mobilisation targets are reviewed periodically to monitor performance. Best annual performers are recognised at branch level.

Occupational Health and Safety

Apart from a Health Plan, a range of health and safety measures have been introduced to maintain a hazard free office environment.

- Promoting healthy housekeeping practices
- Providing cashiers and managers risk allowances and difficult area allowances.
- Implementation of a Business Continuity Plan to address emergency situations.
- Provide safe drinking water
- Implementing a standard lighting system to all branches.

SOCIAL WELFARE

We ensure our social obligations are met by integrating these obligations into our business model and service delivery systems. This process is explained below.

1. Improving quality of life

Improving quality of life of the people is our ultimate objective. Sri Lanka's low and middle income groups represent around 60% to 70% of the population. Approximately 35% of these households have difficulty of proving income when accessing housing finance, although they have the capacity and willingness to pay for low cost housing. Therefore, one aspect of HDFC's community policy is to empower these people to access formal housing finance, which would in turn improve quality of life.

Community welfare programmes

As part of improving quality of life, HDFC conducts many community welfare programmes that support underserved communities across the country. These programmes also act as a means of building community goodwill and enhancing the HDFC brand name. These community programmes focus mainly on the four areas of:

- Clean water and health
- Education and sports
- Donation and sponsorships
- Voluntarism in disaster management

Governance of CSR programmes

Our community investments that are made in the four areas listed above, are governed by the CSR Steering Committee headed by the Chief Executive Officer/ General Manager represented by COO, CFO, Chief Manager (BDM), Manager Technical, Chief 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.

2. Good governance : Managing conflict of interest and corruption

We do not support any form of corruption in public or within the Bank, which threaten the wellbeing of our wider society and wider public interests. We encourage customers to be compliant with all applicable laws and

regulations and we have taken all steps to manage conflict of interest between the Bank, employees and customers. In addition, the Bank has an active trade union that keeps a watchful eye on all transactions.

3. Improving accessibility to financial services

To ensure that low and middle income groups and rural communities have access to housing finance, HDFC has adopted innovative distribution channels such as mobile banking units. We also strive to improve our operational capacities by using new technologies to reduce operating costs, which in turn can make our products more affordable to people.

4. Promoting financial literacy and inclusiveness

We attempt to enhance financial literacy by educating our customers and through our mobile banking units. We believe this process creates social wealth by helping people make more educated financial decisions that contribute towards wealth creation.

CUSTOMER AND PRODUCT RESPONSIBILITY

The customer is at the heart of our business operations, as our prime objective is to facilitate quality of life improvements within Sri Lankan society. Therefore, HDFC views customer care as part of our wider social responsibility.

Customer Policy

HDFC Bank operates as a fair banker under a framework of internal governance policies and national regulations. Several internal Management Committees and the Board of Directors and several Board subcommittees are involved in product and service development, such as the 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), policy directives issued by the Ministry of Finance and Planning of the Government of Sri Lanka and industry codes of best practices. These policies and directives guide the Bank to carry out the business within the statutory scope of the HDFC Act.

Right to fair information and information security

We ensure the customer is well informed regarding any transaction. Our communications of the Bank's products and services are always based on principles of ethical and responsible advertising. We also take precautions to ensure confidentiality and information security of customer information, through investments in system security, internal controls, policies, procedures and training of Bank staff regarding customer confidentiality.

Flexibility and customised solutions

Given the diverse socio-economic nature of our customer base, our products and services have been developed, and are even delivered, according to customer needs and capabilities. For instance, our products are designed to be within reach of rural and urban customers, including high end, middle and low income earners. To facilitate customer convenience we have mobilised a growing mobile banking system.

Customer satisfaction

We have introduced a number of mechanisms to measure customer satisfaction. We conduct periodical customer satisfaction surveys, including customer focus groups to gain first hand understanding of customer needs and customer assessments of the Bank's service standards. We maintain suggestion boxes for customers to leave feedback and our website provides contact information for customers and other external parties to contact our top management. We also maintain a hotline for customers to contact Bank personnel.

BUILDING ECONOMIC CAPITAL

Through our work of facilitating access to housing finance we contribute towards building up the national economic capital base in many different ways. They include;

- Direct economic value creation through our services
- Promoting social and economic equity by improving accessibility to housing finance
- Assisting to minimise development disparities through equitable regional distribution of service and through our special focus on the less privileged groups.
- Contributing to financial literacy by instilling banking habits and financial inclusion.
- Contributing to the Government's special development initiatives at national and regional level.
- Generating financial returns to the Government
- Growing the national housing stock

CONSERVING ENVIRONMENTAL CAPITAL

In our sustainable business model, we consider the natural environment as a key stakeholder of the business, as the natural environment is a vital component of social wellbeing, which is a primary objective of the Bank.

ENVIRONMENTAL POLICY, GOVERNANCE AND GOALS

HDFC has been following an Environment Safeguard Policy since 2010 that looks into standards for lending operations, managing our carbon footprint, resource utilization, and supply chain management.

Accordingly the Bank conducts programmes to enhance knowledge and awareness of the staff, on environmental aspects of our business operations. Our environmental policy is built on the four pillars of:

1. Environmentally Responsible Lending

HDFC complies strictly with environmental and development regulations in extending credit for housing construction. We ensure that all plans are prepared by adequately qualified planners and approved by relevant local authorities. In a case of a purchase loan we ensure that the 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.

2. Promoting Sustainable Housing and Living

We support environmentally friendly housing construction in conformity with the relevant environmental regulations, in our lending. We also encourage employees to support staff driven voluntary programmes for promoting in-house greening and educating local communities.

3. Conservation of Biodiversity

We are mindful that housing construction causes deforestation through expansion of residential development. Therefore, we encourage customers, community, and schools to plant trees and support bio conservation projects.

4. Being sustainable in daily operations

At HDFC we have developed our own unique, in-house indices to measure our environmental impacts. The indices have helped monitor and control our carbon footprint. Fossil fuel consumption, caused by business and staff travel, consumption of electricity and water are the main contributors to our carbon footprint. Our indices monitor our consumption of these resources.



EXTERNAL ENVIRONMENT

The macro external environment in which HDFC conducted its business operations, during the financial year 2013.

SRI LANKAN ECONOMY

Following macro economic adjustments that were introduced in 2012 the economy continued to improve in 2013, with lowering interest rates and private sector credit picking up. The Quarterly Survey on Commercial Bank Loans and Advances depicted a robust growth in accommodations provided to Industry and Services sectors, facilitating the growing economic activities. Accordingly, in absolute terms, outstanding loans and advances granted to Industry and Services sectors by commercial banks recorded a growth of LKR 200 billion in 2013 compared to the increase of LKR 167 billion in the previous year. However, agriculture and consumption related pawning advances declined.

The Rupee remained stable, appreciating against the US dollar by 0.03% during the year. Gross official reserves have also remained at comfortable levels, equivalent to around 5.3 months of imports.

On a cumulative basis, earnings from exports during 2013 grew by 6.3% to US \$ 10,386 million, and expenditure on imports amounted to US\$ 17,999 million in 2013. As a result, the cumulative trade deficit contracted by a significant 19.2% to US\$ 7,613 million, during 2013 compared to 2012.

Inflation, which was contained within single digit levels for nearly five consecutive years, decelerated significantly to reach benign mid-single digit levels in December 2013. This is the longest period that inflation has remained at single digit levels, after the economy was liberalised. The year-on-year headline inflation, as measured by the Colombo Consumers' Price Index decreased to 4.7% in December 2013 compared to 9.2% in December 2012, improving business and investor confidence. It was the lowest level recorded since March 2012. Consequently, the annual average rate of inflation also decelerated further to 6.9% in December 2013, for the seventh consecutive month.

OUTLOOK FOR 2014

The Central Bank anticipates private sector credit to record a growth of around 16% in 2014, with overall broad money (M2b) growth of around 14%. Market interest rates are also expected to continue the downwards adjustment in 2014, following the compression of the Standing Rate Corridor through the reduction of the Standing Lending Facility Rate by 50 basis points in January 2014. This is also due to increased levels of liquidity in the domestic money market, due to a part of the proceeds of the Sovereign Bond issued in January, being converted to local currency by the Government.

The overall capacity of the economy has increased substantially in recent times as a result of the Government's mega infrastructure drive. Such increased capacity of the economy, in turn, has significantly amplified the investment potential and opened up new avenues to be utilised by the private sector.

FINANCIAL SECTOR CONSOLIDATION AND IMPACTS ON HDFC

One of the most significant developments for the year under review is the national policy decision to consolidate the financial sector, as proposed in the 2014 budget by His Excellency President Mahinda Rajapaksa. The Central Bank's Road Map for 2014 envisaged the creation of bigger banks through the consolidation process.

Accordingly, the Central Bank expects to create at least 5 Sri Lankan banks with assets of LKR 1 trillion or more and to reduce the number of banks through a process of mergers and consolidations. In keeping with this vision, banks are expected to submit broad plans by 31st March 2014 for possible mergers and/or

consolidation, and for the greater participation in the economy. Existing banks are expected to increase the minimum capital requirement from 1st January 2016 and migrate to the advanced approach under the Basel II Capital Adequacy Framework requirements..

In line with this long term vision of a stronger banking sector, HDFC will also consider the possibility of merging with one or more suitable financial entities. Therefore, HDFC will submit its proposals for a potential merger, to the Central Bank, by 31st March 2014 as required by the Road Map.

HOUSING MARKET IN SRI LANKA

Sri Lanka's housing market can be broadly categorised into two sectors; privately built housing and government housing. The vast majority of housing construction in Sri Lanka is done by house owners through private investments. The government plans its housing targets and strategies taking into account the population growth and the basic need of providing permanent shelter to the homeless and those living in semi-permanent houses.

Although the existing conditions in rural and estate housing have seen a quantitative and qualitative improvement, they are still at a relatively lower level in quality and sanitation facilities. The housing need of the majority of rural and estate communities, is to upgrade or renovate their existing abodes. A significant portion of the urban population is also living in underserved environments, without standard facilities. Although urban populations are somewhat better able to pay for housing in comparison to rural people, due to the inadequacy of house supply, this segment is facing difficulty in accessing housing. Houses for rent is also in short supply. Meanwhile, irregular residential developments are taking place for the upper middle class, through private investors.

Recent economic developments in the country, reflected in higher per capita incomes and greater monetary circulation beyond the capital city, has resulted in expansion of the housing market.

COMPETITIVE ENVIRONMENT

The level of competition in Sri Lanka's housing market varies according to market segment. The high end market is highly competitive and crowded, with many financial institutions fighting for a share of the market. Meanwhile, the middle and low end markets that represent the major share of Sri Lanka's population, are very much less competitive as most banks and large scale financial institutions do not find this segment attractive. However, HDFC is strong in this end of the market, where HDFC has developed specialised products to cater for the needs and capacities of this market, while also balancing the risk.

MARKET CHALLENGES

HDFC has faced challenges on maintaining profitability, where overhead cost increases have been disproportionate to income increases. The Bank has also had to accommodate a high bad debt provision.

This situation is mainly due to policy decisions, particularly with regards to interest rate changes and also due to indirect factors, such as the State increasing its share of ownership in commercial banks. Therefore, HDFC's main strategic challenge is to ensure financial sustainability over the long term, while ensuring affordable housing finance.

OUR PERFORMANCE 2013

Our performance during the financial year 2013, in line with our long term sustainable business objectives.

Although, our new 3 years strategy will only be unrolled in the new financial year 2014, we have laid the ground work in the current financial year for the new strategy to take off.

HDFC'S FIRST LISTED DEBENTURE

A noteworthy development in 2013 was HDFC's highly successful listed debenture. The LKR 1 billion, 3 - 5 year debenture was 300% over-subscribed within the opening day itself. These funds will be utilised as long term funds to expand lending activities, as a majority of our deposits are of less than six month tenure.

FINANCIAL PERFORMANCE

We believe HDFC will not face severe profitability challenges in the future due to the restructuring of our pricing policy and loan base in 2013. Previously the HDFC loan base contained lower (30%-40%) high return loans. However, with the 2013 strategic rebalancing of the books, the portfolio now contains 48% high yielding housing loans.

NET INTEREST INCOME

The net interest income increased to LKR 1,059 million, from LKR 829 million in 2012, due to better interest income margins coupled with the significant growth of 18% of our housing loan portfolio.

	2012 actual	2013 target	2013 actual	% change between target and actual for 2013
Income LKR Mn	2,744	3,605	3,803	105%
Net Interest Income LKR Mn	829	1,046	1,059	101%
Operating Profit Before Tax LKR Mn	176	220	309	140%
Profit After Tax LKR Mn	55.5	103	158	153%
Return on Equity	2.35%	4.12%	6.14%	149%
Return on Assets	0.27%	0.41%	0.57%	139%
Cost to Income Ratio	93%	93%	89%	96%
Customer Deposits (LKR Mn)	14,695	17,981	18,914	105%
Total Assets (LKR Mn)	20,800	25,337	27,567	109%
Shareholder Funds (LKR Mn)	2,391	2,508	2,575	103%

We are happy to report a strong financial performance in 2013, on the back of our diversification strategy. The financial performance against the targets for the year, is given above.

PROFITABILITY

The Bank's profitability improved with more revenue generating opportunities opening up. Our operating profit more than doubled LKR 309 million compared to LKR 176 million in 2012. Profit after tax increased by over three times to LKR 158 million compared to LKR 56 million in 2012/13.

NET INTEREST MARGINS

The net interest margin stood at 30% compared to 31% in 2012.

DISBURSEMENTS

In line with our new growth strategy all staff in branches were given higher targets in 2013. As a result of the growth push and also the higher demand for credit experienced in 2013, we achieved the historically high target of 23,000 loans for the year, compared to 12,000 approvals in 2012.

Meanwhile the value of the new loan portfolio nearly doubled to LKR 6.7 billion from LKR 3.6 billion in 2012. The major portion of loans were absorbed by the low and middle income population groups. The increasing rate of urbanisation is also fuelling demand for housing loans in the urban peripheries, which will continue to grow in future. Therefore, the achievements this year are indicative of the market potential and we believe HDFC is now poised to tap this opportunity.

OPERATING EXPENSES

Our operational expense increased during the year due to branch upgrades. In addition, over 70 members of staff were given permanent appointment with resultant salary increases. This coupled with general inflation, pushed up our costs to LKR 997 million from LKR 763 million in 2012. However, our cost to income ratio was contained at 89% is fairly high.

ASSETS

Total assets expanded by almost 32% to LKR 27.6 billion from LKR 20.8 billion in 2012. This was mainly due to investments more than doubling from LKR 2.3 billion to LKR 5.8 billion and loans and receivables rising to LKR 19.7 billion from LKR 15.9 billion in 2012.

DEPOSIT BASE

HDFC's main source of funding is customer deposits. The funding mix is a deposit and borrowing mix where deposits account for 68% of total funding.

While the deposit base increased by 27% to LKR 19 billion in the current financial year, savings deposits saw an increase to LKR 2.4 billion. However, while the market savings growth was 15%, HDFC's savings growth was 35%. This could be due to higher spending where people are cutting back on savings. This could also be due to customers shifting from savings to fixed deposits due to interest rate reductions. Fixed deposits increased to LKR 16.5 billion from LKR 12.8 billion in 2012.

CREDIT QUALITY

HDFC's credit quality

	2013	2012	2011	2010
Total NPLs (LKR Mn)	3,843	3,291	3,281	2,840
Gross NPL ratio	19.85%	20.95%	22.21%	21.98%
Gross NPL ratio excluding EPF loans	7.26%	7.96%	11.54%	12.77%

LIQUIDITY RATIOS

Capital Adequacy

HDFC's capital adequacy ratio was above the statutory requirement. While the required minimum levels for Tier 1 is 5% and Tier 11 is 10% HDFC held a Tier 1 ratio of 17.74% and Tier 11 ratio of 18.29%.

Statutory Liquid Assets Ratio (SLAR)

HDFC's SLAR was 28.74% as against the minimum statutory requirement of 20%. Liquid assets are maintained as deposits at commercial banks, treasury bills, treasury bonds and commercial papers.

CORE CAPITAL

We achieved the regulatory minimum of LKR 2,500 million core capital by the December 31, 2013 deadline.

SHARE PRICE

HDFC shares stood at LKR 29.90 per share as at December 31, 2013 compared to LKR 50.60 in 2012.

EARNINGS PER SHARE

The earning per share was LKR 2.44.

MARKET PERFORMANCE

EXPANSION OF DISTRIBUTION CHANNELS

HDFC continued to expand its market presence through physical expansion of the branch network and the addition of new ATM machines.

The latest HDFC branch in Tissamaharama increased the branch network to 33 and the ATM coverage was increased from 600 machines to 800, through partnerships with NDB, Union Bank, DFCC Bank, PABC and the Muslim Commercial Bank. This partnership approach has created a low cost and highly customer friendly service delivery system. By end of 2013, our mobile banking system comprised 130 Business Development Assistants, or HDFC mobile bankers, enabling market penetration well beyond our branch and ATM network.

During the year, three HDFC Bank branches, in Matara, Horana and Vavuniya, were relocated and the Kalutara branch was given a facelift.

BRANCH RELOCATIONS

Matara Branch: The HDFC Bank Matara branch, which was initiated in 1990, was re-located to No.07, in the HGPM building at Kotuwegoda.



Horana Branch: The HDFC Bank Horana branch, which is linked to all HDFC branches, was relocated to No.125, Panadura Road, Horana.



Vavuniya branch: The Vavuniya branch was moved to a new premises at No.113, Kandy Road, Vavuniya, a prime location in the heart of Vavuniya town.



Face lift for Kalutara branch: The Kalutara branch, which was opened 22 years ago, at No.13, Gnanodaya Mawatha, Kalutara South, was given a facelift enhancing its appearance. The branch now offers mobile banking facilities for added convenience to serve communities in Matugama, Agalawatte, Bulathsinghala, Payagala, Beruwala and Aluthgama, in addition to the Kalutara locality.



Face lift for Kalutara branch:

HDFC Bank's 33rd branch at Tissamaharama

HDFC bank opened its 33rd branch at No.71 Main Street, Tissamaharama. The Hon. Speaker Chamal Rajapaksa graced the occasion as the Chief Guest.

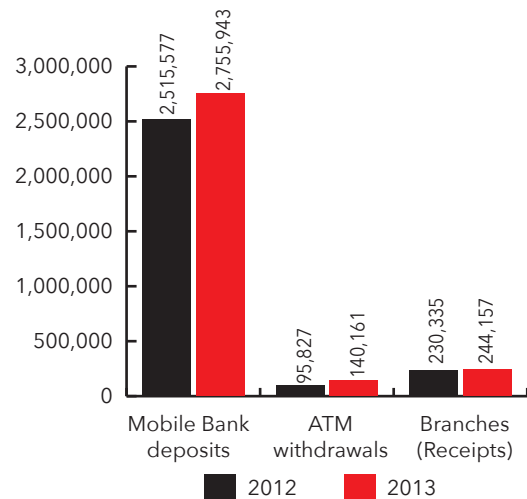


PERFORMANCE OF DISTRIBUTION CHANNELS

All three of our distribution channels recorded value and volume growth during the year. The number of mobile banking transactions (deposits) increased by 10% to 2,755,943 transactions, while ATM withdrawals increased by 46% with the expansion of our ATM access.

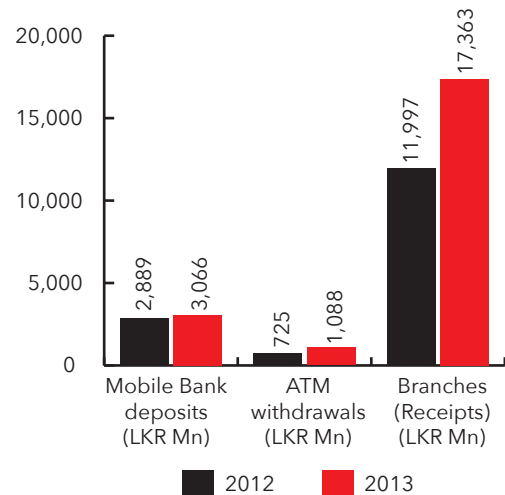
Channel	No of transactions 2012	No of transactions 2013	% change
Mobile Bank deposits	2,515,577	2,755,943	10%
ATM withdrawals	95,827	140,161	46%
Branches (Receipts)	230,335	244,157	6%

NUMBER OF TRANSACTIONS BY CHANNEL 2012 AND 2013



Channel	Value 2012	Value 2013	% change
Mobile Bank deposits (LKR Mn)	2,889.00	3,066.98	6.16%
ATM withdrawals (LKR Mn)	725.68	1,088.55	49.96%
Branches (Receipts) (LKR Mn)	11,997.33	17,363.76	44.73%

TRANSACTION VALUE BY CHANNEL 2012 AND 2013



PRODUCT DIVERSIFICATION

During the financial year 2013, we developed a range of new products to enter leasing, micro finance, SME and education markets. We also introduced bill payment facilities for a number of large utility services providers. The wider product range has created a portfolio of long term and short term products that have helped address the maturity mismatch. Our range of products can be viewed as stand-alone services or can be linked with other products, generating higher value addition for both the Bank and consumers. For instance, our housing credit can be used to develop entrepreneurial activities, through the construction of a business premise adjoining the residential premises. Housing loan customers can also apply for education loans to enhance their children's future development.

We believe such multi-purpose loans will encourage rural entrepreneurs and particularly women entrepreneurs, who would prefer to remain within their homes while engaging in their business activities and would also require support for their children's education and lifestyle improvements.

HDFC Leasing: Leasing is our most recent addition to our product portfolio. During 2013, we set up our internal systems to facilitate entry into the leasing market, including integrating the leasing system with our banking systems and training our employees. Our leasing portfolio is structured to cater for our micro and SME customer base but will also accommodate other categories such as professionals.

We hope to provide a range of vehicles including vehicles for professionals, two wheelers, three wheelers, vans, small trucks and tractors. The main target sectors would be the agriculture and small businesses. Leasing facilities can be extended to include agricultural equipment in addition to agricultural vehicles.

HDFC microfinance: In 2013, we took our microfinance credit line to the market with great success. The credit line facilitates funding between LKR 25,000 to LKR 200,000 for individuals who form small groups of mutual guarantors.

By end 2013, 17 branches had commenced active disbursements. As at December 31st, 2013, LKR 105.64 million worth of micro loans were disbursed, through a total of 1,468 separate loans. The recipients were predominantly women.



Group of HDFC micro credit recipients

Mrs. A. K. Sumedha, Mrs. Kamani Chandrakanthi and Mrs. Pasan Udani Subodini from Padukka, are three recipients of HDFC's micro credit. HDFC's six month credit line has helped upgrade their businesses to the next level. With the initial credit line approaching a successful conclusion HDFC looks forward to supporting this women's group with new cash injections in the future.

Mrs. A. K. Sumedha, who runs a day care centre says she has improved facilities for children in her day care with HDFC's LKR 50,000 credit line. She looks forward to improving her enterprise further.

Mrs. Kamani Chandrakanthi who is a widow, has taken over the operation of her husband's rice mill with her son. She says the LKR 50,000 loan from HDFC has helped develop the rice mill.



Mrs. Pasan Udani Subodini has used HDFC micro credit to expand her apparel manufacturing venture. Starting with just one domestic sewing machine, her business has now grown to include three industrial sewing machines while the quality of her products has also improved to professional standards. Mrs. Subodini notes that HDFC's micro credit comes at comparatively lower rates of interest and is supported by advisory services.



Mrs. Pasan Udani Subodini has used HDFC micro credit to expand her apparel manufacturing venture.

"When we request a loan, HDFC officials visit and check on our repayment capacity. They structure the loan to meet our capacities. This has safeguarded us from repayment difficulties. HDFC officials are also very friendly and understanding. Sometimes there is a delay in repayment but they have never been harsh to us. So we have kept their trust by somehow making our repayments," says Mrs. Subodini, who looks forward to expanding her apparel manufacturing venture in the coming months.

HDFC SME loans: This credit facility targets small and medium enterprises with funds from LKR 500,000 upwards on the guarantee of a third party, which could also be a government servant. HDFC mobile bankers, who are recruited from local areas and have a good knowledge of local businesses people, play a key role in identifying, disbursing and monitoring of SME customers. Due to this unique design of the product, our SME loans have enjoyed very high repayment rates.

HDFC Education loans: Our education loans support higher educational needs of adults and children. The loan facility is available for entrepreneurs and others seeking to acquire skills, and for parents, to facilitate the higher education of their children. During the first year of operations we disbursed loans to the value of LKR 5.2 Mn.

HDFC Lifestyle loans : Our lifestyle loans experienced strong demand from Colombo and other urban areas. The credit line can be used to enhance life styles through the purchase of products such as jewellery and household appliances, from a list of selected suppliers, who target commercial establishments for group sales at concessionary rates. The scheme requires two guarantors from the same place of work as the customer. As at end 2013, our list of authorised suppliers had been expanded to 12, from just one supplier in 2012, and included large retailers such as Abans, Dinapala Traders and Swarnamahal Jewellers and many, reliable small scale manufacturers of quality goods. As at December 31st, 2013 loans to the value of LKR 96,061 were disbursed through 2,169 individual loans.

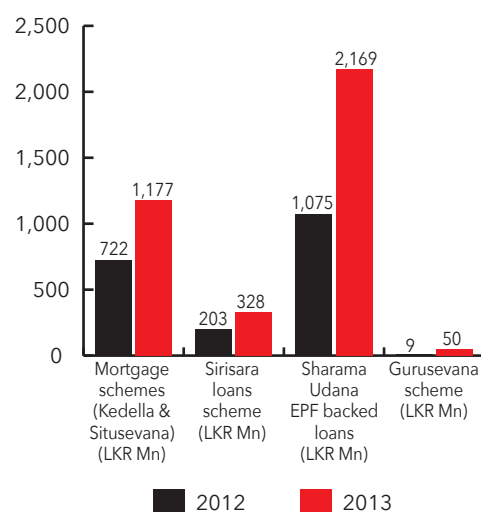
Gold loans: HDFC introduced a gold backed housing loan scheme in 2012. Despite the sudden drop in gold prices, we are happy to report a very low default rate for our gold loans. During the year we disbursed LKR 200.9 million in gold loans. Currently 21 HDFC Branches facilitate this innovative loan scheme and a special unit was opened at the Colombo Branch to facilitate gold loans.

PERFORMANCE OF OUR PRODUCT PORTFOLIO

Our housing loans showed strong growth during the year with the value of Gurusevana loans for teachers, increasing by over 400% and the EPF backed Shrama Udana loans rising by over 100%, against the value of disbursements in 2012. Our mortgage schemes Kedella, for low income groups, and Situsevana for the wider income segments, grew by 63% compared to 2012. The value of Sirisara loans for home improvements, increased by 61%.

Housing Loan	2012	2013	% change
Mortgage schemes (Kedella & Situsevana) (LKR Mn)	722	1,177	63%
Sirisara loans scheme (LKR Mn)	203	328	62%
Shrama Udana EPF backed loans (LKR Mn)	1,075	2,169	102%
Gurusevana scheme (LKR Mn)	9	50	447%

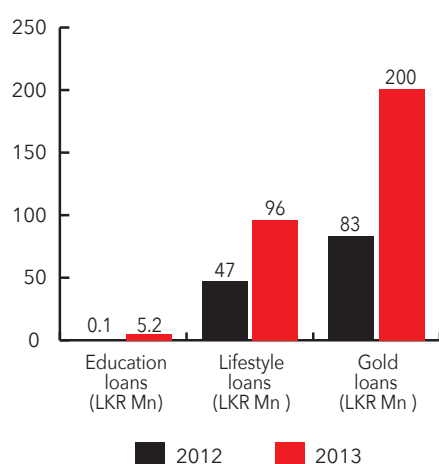
HOUSING LOANS



Our new products, HDFC Education Loans, HDFC Lifestyle Loans and HDFC Gold Loans, recorded impressive growth in 2013, with education loans surging from LKR 118,535 in 2012 to LKR 5,268.0 million in 2013.

Product	2012	2013	% change
Education loan scheme (LKR Mn)	0.1	5.2	4344.26%
Lifestyle loan scheme (LKR Mn)	47.0	96.0	104.11%
Gold Loans (LKR Mn)	83.2	200.9	141.37%

EDUCATION, LIFESTYLE AND GOLD LOANS



Our range of investment and deposit products performed fairly well during the year, with only the two investment products Dhana Nidhana and Ascharya, recording negative growth.

Product	2012	2013	% change
Thilina Rekawarana (LKR Mn)	21	27	28%
Arumbu (LKR Mn)	1	2	100%
HDFC Housing Fund Scheme (LKR Mn)	92	273	196%
Dhana Nidhana (LKR Mn)	826	87	(89%)
Ashcharya (LKR Mn)	383	11	(97%)
Prathilaba (LKR Mn)	1,250	1,535	23%
Fixed Deposits (LKR Mn)	8,794	13,115	49%
Vishrama Udana (LKR Mn)	1,119	2,283	104%

Bill payment facilities : To enhance customer convenience, in 2013 HDFC initiated agreements with a number of utility services providers to allow utility bill payments through HDFC. Currently agreements have been signed with SLT, Lanka Bell, the CEB and the National Water Supply and Drainage Board. We also entered into an agreements with HNB Assurance for insurance premium collections.

HDFC provides customers three convenient channels to make payments, directly to HDFC mobile bankers, who visit customers at home, via the HDFC website or HDFC branches.

LEVERAGING TECHNOLOGY

Leveraging technology to cut costs and enhance efficiencies has become an imperative in an increasingly competitive market. Therefore, HDFC is constantly improving internal technology solutions for optimum outcomes and developing innovative technology solutions to cater for expansion and customer needs. Our palmtop banking and web based facilities have harnessed new technologies with great success. In addition, our internal, Unibank System allows monitoring of all branches and has increased the speed of loan processing. In 2013, the successful migration to our own Disaster Recovery system, from a system that was maintained by SLT, has enhanced systemic security.

During current the year HDFC initiated negotiations with Visa and Master Card service providers to extend this facility to our customers. We are confident of adding these international facilities to our service portfolio in the near future, which will support our expansion drive.

A challenge facing the Bank at present is the inadequacy of the Bank's core banking technology. The system which was initially designed in 1993 is outdated and does not have the flexibility and capacity to support expansion. Therefore it was decided in the current year, to adopt a new core banking system as soon as possible.

SLT - HDFC PARTNERSHIP

HDFC Bank entered into an agreement with Sri Lanka Telecom (SLT) to facilitate convenient SLT bill payments at the customer's own doorstep, through HDFC Bank's Mobile Banks. The agreement was signed by Mr Nimal Mamaduwa, CEO/GM of HDFC Bank and Mr Lalith De Silva, Group Chief Officer of SLT.

LEASING SOFTWARE SOLUTIONS

HDFC Bank signed a contract with Open Arc, for the implementation of the OpenArc 'SkyLease' leasing software solution, integrating the entire branch network of HDFC. The new software will enhance delivery of HDFC's new leasing product.



AWARDS AND RECOGNITION

Our efforts at continuous improvement have been recognised many times over. This year too, HDFC made its mark in the financial sector for its commendable governance and transparency procedures.

The Sting Corporate Accountability Index of the LMD Magazine, rated HDFC under the Silver category.

In 2013 HDFC won the Bronze Award for its annual report from the Institute of Chartered Accountants of Sri Lanka.



Bronze Award for its annual report from the Institutes of Chartered Accountant of Sri Lanka.

ACCA SUSTAINABILITY REPORTING AWARD - 2013 FOR THE FOURTH CONSECUTIVE YEAR.



HDFC Bank won the Association of Chartered Certified Accountants (ACCA) Sustainability Reporting Award 2013, for the 4th consecutive year. HDFC is the first bank to receive this prestigious award, in the same category, in succession for 04 years - 2010, 2011, 2012 and 2013. HDFC Bank's first GRI compliant, integrated Annual Report showcased a clear vision of the Bank's overall performance to all stake holders.

HDFC WINS RUSSIA'S ADFIAP AWARD

HDFC Bank's 2013 Annual Report received a Recognition Award from the ADFIAP Awards Board of Moscow Russia, as the Best Annual Report, together with IDBI Bank Ltd, under the Special Awards Category.

BUILDING OUR HUMAN CAPITAL BASE

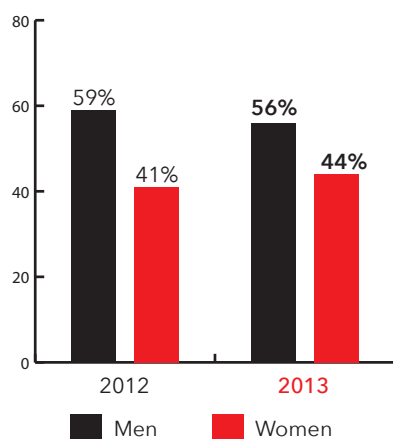
During the year, we continued to invest in our human capital base through new recruitments for specialised skill injections and intensive training, to drive our new business strategy forward as fast as possible. We also invested in future sustainability through a succession planning exercise and improvements to our recruitment policy.



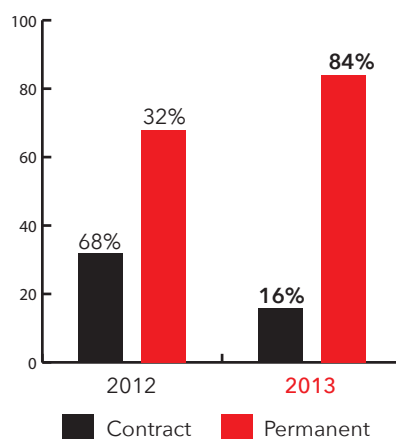
Our new CEO/GM, Mr. Nimal J. B. Mamaduwa took office in January 2013, enhancing the Bank's leadership in its new strategic direction.

OUR EMPLOYEE PROFILE

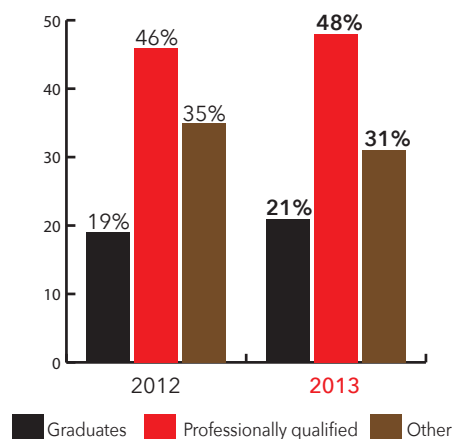
BY GENDER



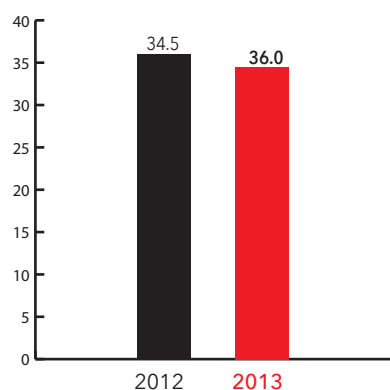
BY EMPLOYMENT CONTRACT TYPE



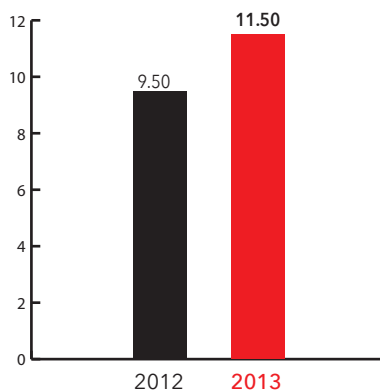
BY EDUCATIONAL QUALIFICATION



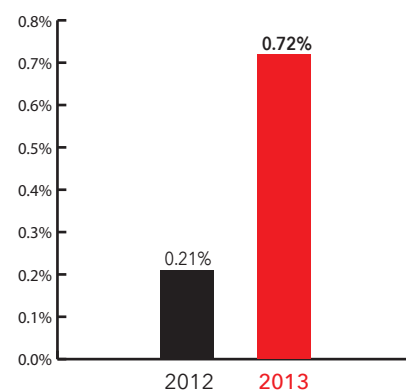
AVERAGE AGE OF WORKFORCE (YEARS)

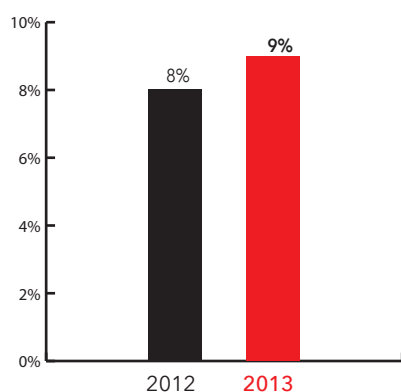
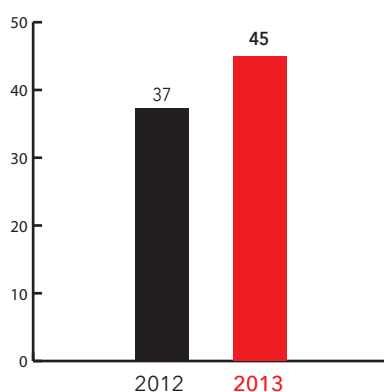
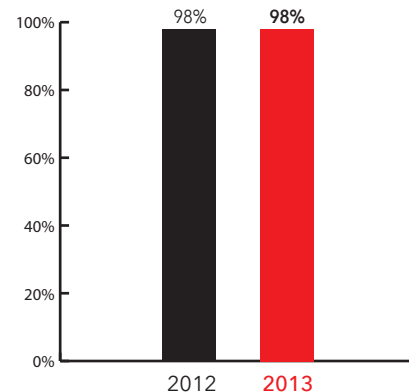
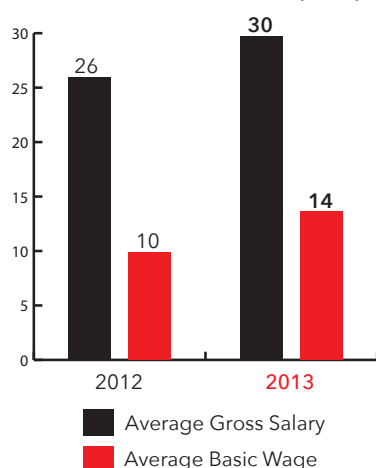
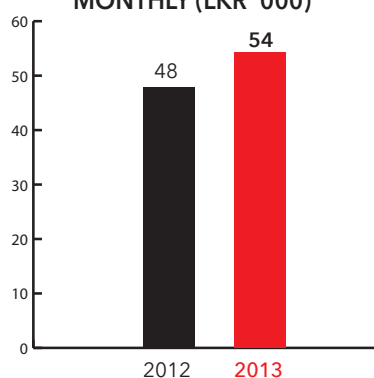


AVERAGE SERVICE PERIOD (YEARS)



AVERAGE ABSENTEEISM



TURNOVER INDEX**AVERAGE MEDICAL COSTS (LKR '000)****EMPLOYEES COVERED BY COLLECTIVE AGREEMENTS****EMPLOYEE WAGES (LKR)****AVERAGE COST PER EMPLOYEE MONTHLY (LKR '000)**

Average Gross Salary
 Average Basic Wage

EXPANSION OF WORKFORCE

We expanded our human resource base to 548 during the current year, from 541 in 2012, to meet the new specialisation and skill requirements of our diversified business model. As our employees did not have previous exposure to new markets such as leasing and microfinance, it was necessary to recruit specialists to guide our employees in navigating such markets and to recruit additional staff to handle the larger work load. In addition, we also had to recruit new staff to cater for our new branch in Tissamaharama.

STAFF TRAINING

With the expansion of our product portfolio, training and re-training became a priority in 2013. Therefore, in a large scale training exercise, all staff were exposed to a comprehensive training in microfinance, leasing and gold loans. Given the scale of the training requirement, 2013 required a large training investment. However, already our investment is giving returns with a sharp increase in loan disbursements and profitability. In the current financial year we also developed a comprehensive training calendar which includes on the job and off the job training schedules, based on training needs assessments of previous years.

Our ultimate objective is to create a learning culture that would lead to a learning organisation, where knowledge and experience are shared and passed on, among employees. This process would contribute towards a radical culture change that would position HDFC as a competitive financial institution.

IMPROVING OUR RECRUITMENT POLICY

Last year the recruitment policy for business promotion trainees was revised to allow systematic absorption into the permanent cadre. Under the new system, trainees will be subjected to periodic performance reviews for a period of 2 years and will be considered for permanent positions within the Bank, based on their performance. We believe this process will build up our skilled human capital base.

LOCAL RECRUITMENT

Out of total new recruitments, including temporary recruitments, 59 or 12.09% were from local areas. As a policy HDFC recruits Business Development Assistants or HDFC mobile bankers, from local areas. This policy has not only helped create regional employments but has been favourable for the Bank, due to the local knowledge and contact base of these local recruits.

PERFORMANCE APPRAISALS

Annual performance appraisals were conducted for all staff grades as a means of identifying employee training and development needs.

SUCCESSION PLANNING

A key human resource planning development in the current financial year, was a succession planning exercise. This was a comprehensive process that analysed the retirement age of senior Bank officials and built a pipeline of succession. This initiative will be vital in ensuring the sustainability of the Bank by facilitating a regular supply of suitable successors for the Bank's top leadership positions. The succession plan is accompanied by suitable training and development programmes to ensure an adequate selection of candidates to fill sudden vacancies.

EMPLOYEE HEALTH

From 2013 we increased the employee entitlement to medical claims. This facility is applicable to all permanent cadre.

HDFC provides a Staff Health Plan which covers 67.30% of the work force. Health facilities under the Health Plan and other benefits are covered by the collective agreement.

EMPLOYEE HEALTH AND SAFETY INDICATORS

Health and safety indicator	2013	2012
Staff covered by the health plan	458	541
Average medical claim per employee- LKR	45,005	37,269
Occupational injuries	Nil	Nil
No. of occupational diseases	Nil	Nil
No. of lost days	Nil	Nil
Absenteeism	0.87	0.87
Fatalities	Nil	Nil

EMPLOYEE SAFETY

In the face of rising crime rates, HDFC took action to increase security at 18 branches with the installation of security cameras. We will extend this initiative to the other existing branches as well in the new financial year.

Head office staff were given fire safety training by the Colombo Fire Brigade to educate employees on how to behave in the case of a fire.

A health education programme was conducted on work life balance by a doctor. The session was extremely useful to help staff deal with stress and pressure and balance their lifestyles. Over 350 employees participated in the event which was held at the HDFC head office.

EMPLOYEE RECREATIONAL ACTIVITIES

The HDFC Welfare Society organises employee events for staff to socialise and enjoy themselves. These events are also team building exercises that generate good will among staff. In 2013, over five service appreciation events were organised for retiring employees. These events gave an opportunity for employees to feel valued and appreciated for their contributions towards the Bank.

To help employees with their personal needs, the Welfare Society organised sales promotional events from retailers and other institutions for employees to conveniently purchase household requirements at concessionary rates, that included cash discounts and hire purchase schemes. Four such sales promotional events were held at the HDFC head office.

In 2013, the Bank opened a Holiday Bungalow in Kataragama for Bank staff. The resort is fitted with modern amenities for a comfortable family holiday and is available for all staff, irrespective of staff grade, at concessionary rates. The bungalow can also be hired by the general public.

VESAK BHAKTHI GEE 2013

HDFC Bank staff celebrated Vesak with a Bakthi Gee programme at the Bank Head office premises.



ECONOMIC VALUE CREATION

VALUE ADDITIONS TO THE ECONOMY

In 2013, our value additions to the economy increased to LKR 1,104 million from LKR 692 million in 2012. Out of this total value added 50.6% was distributed among our employees, 14.7% was channelled towards the government and the balance was retained within the business as retained income, depreciation and loan loss provisioning. A dividend was not declared in the current financial year.

PAYMENTS TO THE GOVERNMENT

As the Bank did not declare dividends in the current financial year, the returns to the government were mainly in the form of taxes that included income tax, value added tax and stamp duty. The total value of tax payments increased to LKR 154.8 million in the current year, compared to LKR 123 million in 2012.

CONTRIBUTION TO THE NATIONAL HOUSING STOCK

HDFC helped increase Sri Lanka's national housing stock by approximately 17,367 new houses in 2013. HDFC financed LKR 5,252 million of the construction value of these houses. The Bank also granted LKR 141 million for repairs, renovations and improvements of existing dwellings.

ENHANCING HOME OWNERSHIP

HDFC helped over 23,000 families obtain their own house, improve existing homes, acquisition of household equipments and accessories. The total value of housing related loans during the year was LKR 6.7 billion. This includes housing construction, housing purchases, redeeming of housing loans obtained at high interest rates, renovations, repairs and extensions to existing homes.

MINIMISING DEVELOPMENT DISPARITIES

Out of HDFC's facilities extended in 2013, LKR 2.2 billion, or 33% of total loans, were extended to the low and middle income groups. This included housing finance, housing related finance and other types of credit lines. A majority of loans were in the average value of LKR 300,000.

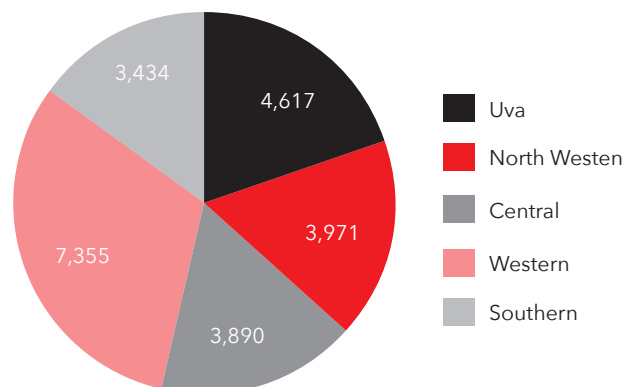
While 38% of total number of loans were disbursed in the western province 19% were granted to the middle income group, with loans for new constructions representing 66.4%, home purchases 9.3% and other housing related loans 16.8%.

PROVINCIAL DISTRIBUTION OF SERVICE

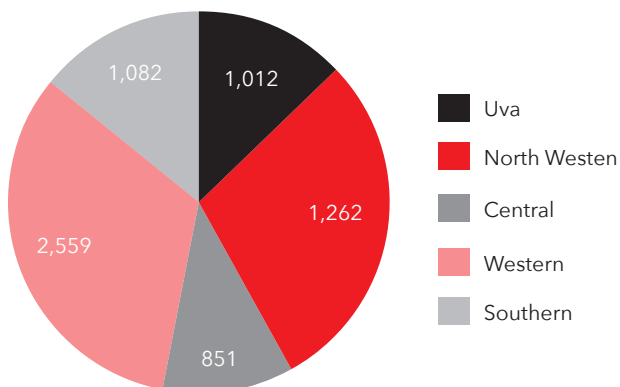
Out of the total number of loans granted, 78% was extended to the districts other than Colombo and 61% to customers outside the Western province.

HDFC has mobilised LKR 779 million to Southern Province, LKR 517 million to North Western province and LKR 136 million to the Uva province. During the year HDFC extended 23,413 loans within the Western Province representing 22% in volume and 46% in value.

PROVINCIAL DISTRIBUTION OF LOANS (NUMBER)



PROVINCIAL DISTRIBUTION OF LOANS LKR MN



IMPROVING ACCESSIBILITY TO HOUSING FINANCE

Our mobile banking unit contributed towards 3.5% of total disbursements in 2013, which is a growth of 585% compared to 2012. A majority of mobile bank customers are pavement hawkers, boutique/shop keepers, daily waged labourers, fishermen etc. whose income is not permanent.

For over 35% of these customers, the average daily deposit is less than LKR 250/- per day. This is also the first time that most of these customers were exposed to formal banking channels.

PROMOTING FINANCIAL INCLUSION AND LITERACY.

Our mobile bankers educate the low and middle income segment on the importance of saving and banking and to assist them to open accounts.



HDFC Bank holds "Thilina Denum Charika" Draw

SOCIAL VALUE CREATION

HDFC continued to support marginalised and underserved communities during the year. As a result of our efforts, today HDFC has over 1000 accounts of labourers in the Manning Market (Nattamis) and of small traders such as fruit and vegetable sellers. During the current year, we continued to reach out to people and support worthy causes.

HDFC BANK HELPS FLOOD-AFFECTED FAMILIES IN RATHTHOTA

HDFC Bank supported flood and landslide victims in Raththota, in the Matale District, by donating essential items. Staff members participated in the distribution of flood relief items in several village areas of Raththota. This assistance programme was organised by the HDFC Bank Welfare Society with HDFC staff also contributing.



HDFC BANK HOLDS "THILINA DENUM CHARIKA" DRAW

HDFC Bank held the 'Thilina Denum Charika' draw, which was organised for the first time at the Bank's head office recently. HDFC Bank Chairperson, Mrs Siromi Wickramasinghe was the Chief Guest, and HDFC Bank's CEO/GM, Mr. Nimal Mamaduwa and the Bank's Senior Management and other officers, and an independent panel of judges, attended the event.



ENVIRONMENTAL SUSTAINABILITY

WALKING THE TALK: RAISING AWARENESS ABOUT SUSTAINABLE HOUSING

HDFC Bank organised a walk from the Bank's head office to Galle Face Green, in collaboration with the UN Habitat Colombo office, on World Habitat Day, to raise public awareness about environmental impacts of housing construction. An educational booklet was distributed among the public about sustainable housing and environmentally friendly lifestyles.

ENVIRONMENTALLY RESPONSIBLE LENDING

Our policy is to approve credit facilities only if the purpose is compliant with environmental laws and development regulations. Our track record shows that we do not approve building plans unless the plans are approved by the relevant authorities including environmental authorities.

HDFC ENVIRONMENTAL INDICES

Through our daily operations we have identified that the consumption of fuel, electricity and water are the main elements that contribute towards environmental impacts. Therefore, we have developed indices to monitor our consumption of these resources.

The HDFC Fuel Consumption Index monitors the mileage per LKR1 million loans approved. The HDFC Electricity Consumption Index monitors efficiency in consumption of electricity, per employee and Sq.ft of building. The HDFC Water Consumption Index indicates the water consumption per employee. The indices have directly contributed towards meeting HDFC's environmental responsibility requirements, by providing a basis for monitoring consumption levels and by making it possible to introduce controls on consumption of precious natural resources.

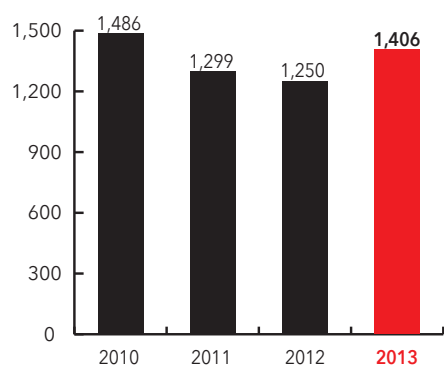
ENVIRONMENTAL CONSERVATION

	2013	2012	2011	2010	2009
% of approved plans from construction loans	100%	100%	100%	100%	100%
% of approved plans from EPF construction loans	96%	96%	97%	97%	97%
% of site plans approved from mortgage loans	100%	100%	100%	100%	100%
% of local authority complaints / total construction loans	Nil	Nil	Nil	Nil	Nil
% of environmentally disputed construction loans	Nil	Nil	Nil	Nil	Nil

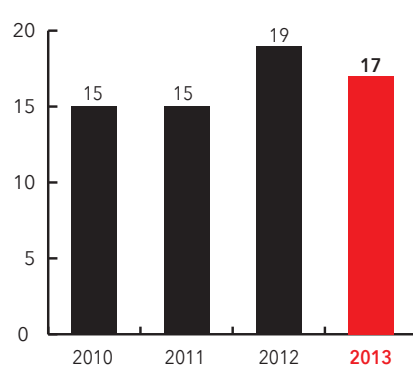
INDICATORS

Indicator	2013	2012	2011	2010
Electricity Consumption - Kwh Per Employee. Per Annum	1,406	1,250	1,299	1,486
Water Consumption Ltrs - Per Employee. Per Annum	17	19	15	15
Vehicle Mileage Per Approved Loan Value LKR 1 Mn	27	44	44	89
Fuel Ltr (Petrol & Diesel) Per LKR 1Mn Loan Approved	3	5	5	8
Fuel Ltr Per Loan Approved	1	1.4	1.6	2.4

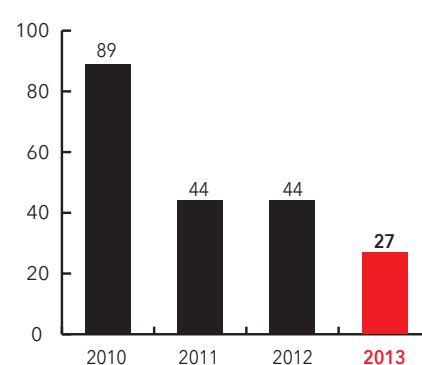
**ELECTRICITY CONSUMPTION -
Kwh Per Employee. Per Annum**



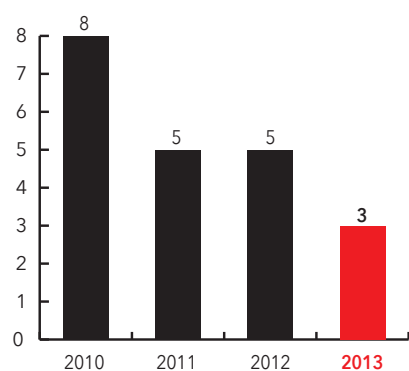
**WATER CONSUMPTION LTRS -
Per Employee. Per Annum**



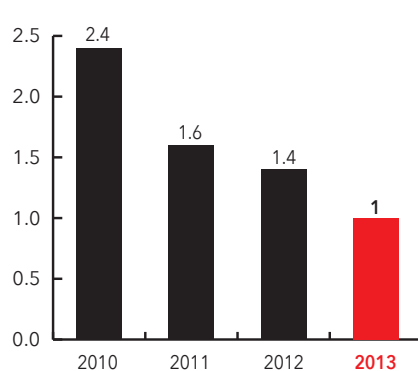
**VEHICLE MILEAGE PER APPROVED
LOAN VALUE Rs. 1 Mn**



**FUEL LTR (PETROL & DIESEL)
PER Rs.1Mn LOAN APPROVED**



FUEL LTR PER LOAN APPROVED



LOOKING TOWARDS THE FUTURE

Armed with a new 3-year strategic plan, we are ready to strengthen our financial base while helping more people achieve their dream of owning a home.

STRATEGIC DIRECTION

HDFC new Strategic Plan 2014-2016, will be supported by another debenture issue in 2014 that will boost the Bank's funding and support further expansion. We are also working on an internal capital adequacy assessment process, to meet the Central Bank deadline by June 2014. Currently HDFC is in discussion with external risk experts in this regard.

STRATEGY DEVELOPMENT PROCESS

The new 3-year strategic plan was developed through an extensive process of over a six months of consultation with the management team. This included visits to branches for intelligence gathering, and focus group discussions with customers. A comprehensive analysis of the available secondary data was carried out, using data from Central Bank reports, annual reports of competitors, reports and of rating agencies. Subsequently a series of workshops were held with head office and branch managers, followed by the corporate management, to raise awareness of the new strategy.

STRATEGIC PLAN 2014-2016



Our chosen direction over the next three years is built on the three pillars of institutional DNA, business promotional strategy and enablers and continuity

strategy. The three pillars are supported by seven sub pillars as seen in the diagram.

- Institutional DNA

Our institutional DNA is defined by our Mission, Vision and Values.

In linking our strategy with our vision of becoming the undisputed market leader in providing housing related finances, HDFC will have to launch an aggressive growth push over the next three years. This will be achieved through a dual strategy of improved product offerings and diversification of product portfolio and branch locations.

HDFC has adopted the following customer service promise to expand its operations.

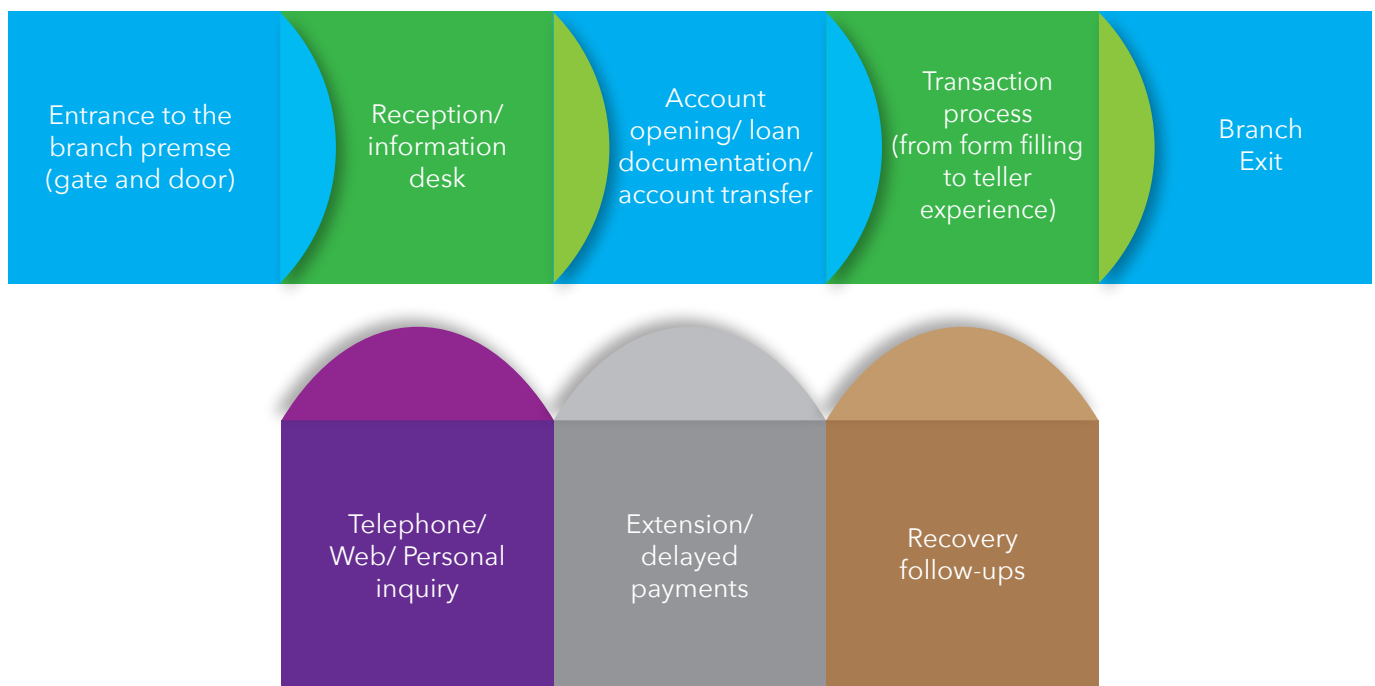
“You will be treated like a special guest who is welcome in our homes for the first time, hoping for a lifetime of continued friendship.”

The key stages of the service delivery process is outlined below;

A service quality cell will be established and expected behaviour norms from direct staff and outsourced service providers will be documented. This will be enforced via an on-going, bi-annual mystery customer programmes.

- Business Promotional Strategy

We conducted an exercise of identifying the optimum product portfolio, by matching liability and advance products. Based on its results, a prioritization exercise was carried out based on the market potential (overall size and profitability /margin) as well as HDFC’s current standing (strength and ability to compete) to determine the level of effort/investment that will be made to each of the products. For each of these products the basis of competition has been determined, including the target segment, product offer, pricing, customer communication, reach and staff, internal process alignments.



- Enablers & Continuity Strategy

To reach our organisational vision it was identified that our people need to see beyond routine operational thinking. Therefore, a number of actions will be initiated to enhance the performance of our people. These include reorganising resource allocations, addressing manpower gaps, standardising job descriptions, improving staff selection and induction, improving performance monitoring including raising awareness of KPIs, improving our training and development and streamlining our rewards and recognition system.

With our strategic direction mapped out, and the regulatory foundation in place, we are now ready to start a new stage of growth in our history. We are confident our growth will contribute directly towards the growth of the national economy and the people of this country.

GOVERNANCE AND RISK MANAGEMENT

CHAIRPERSON'S STATEMENT

During the current year, we continued to uphold our commitment to good governance by conforming to the regulatory framework of the Banking Act, CBSL Corporate Governance directives and the continuing listing requirements under section 7.10 of the listing rules issued by the Colombo Stock Exchange. We also complied with the Code of Best Practice on Corporate Governance, developed by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. Our adherence to this framework of regulations and voluntary codes ensures a strong governance structure to conduct our daily operations and contributes directly towards a sustainable business model by ensuring accountability and transparency in all our actions.

The Bank has also established a clear process for risk identification and risk monitoring, which is an ongoing process involving the management and Board. This section of our annual report lists the Bank's risk monitoring framework with the perceived risk levels identified during the financial year 2013.

The External Auditor's carried out a review of the Bank's compliance with Corporate Governance directions of CBSL and the Board of directors confirms that all the findings of the factual findings reports" of the auditors issued under **"Sri Lanka Related Services Practices Statement 4750"** have been incorporated in our Annual Corporate Governance Report.

Our compliance levels with the above mentioned regulations and codes of conduct, are tabulated as 3 separate sections.



Siromi Wickramasighe

Chairperson

Colombo Sri Lanka

HDFC's has adopted a process of identifying different types of risks relevant to the Bank and assigning risk levels, through a process of consultation between management and Board subcommittees. The risks are updated according to external environmental changes and also changes to the Bank's business activities. The Bank has also developed risk mitigation actions that are implemented according to requirements.

Risk levels are constantly monitored by the Board subcommittees for changes, in the process of conducting HDFC's business activities.

Sub committee	Mandate
Board Integrated Risk Management Committee	Chaired by the Chairperson of the Bank. Defines the framework to manage risk, reviews changes in the characteristics and risks of the Bank portfolio and decides on changes.
Board Audit Committee	Examines the adequacy and effectiveness of internal control systems, reviews the financial statements, assess compliance with regulatory requirements and considers contents of the internal audit reports.
Management Committees	Coordinates different business processes with different risk owners. These risk owners are the Internal Audit Function, the Operational Division, the Treasury Division and the Finance Division.
Risk Working Committee	Coordinates with the Board Integrated Risk Management Committee and operational level risk management. Monitors effective implementation of risk management policies, and procedures.
Assets and Liability Committee (ALCO)	Manages liquidity, maturity gap of assets and liabilities, pricing of loans and deposits, sensitivity to other market variables etc according to guidelines on a regular basis.
Credit Committee	The committee comprises the General Manager, Deputy General Manager (Finance), Assistant General Manager (Business Development & Marketing), Senior Manager (Recoveries). The committee has authority to approve credit within its limit, or make recommendations to the Board of Directors if the facilities exceed delegated authority limits. The committee also issues guidelines on credit evaluation, administration and recovery processes to mitigate credit risk.
Investment Committee	Comprises members of the corporate management team and evaluates and screens investments by the Treasury Department.
IT Steering Committee	Comprises the Assistant General manager IT and members from the corporate management. It oversees IT developments in-line with the IT Corporate Plan and industry developments.
Sustainability Committee	Oversees the process of integration of sustainability practices into the operation of the Bank and its engagement and communication.
Risk Management Division	Conducts risk identification, analysis and presents timely risk evaluation reports to the Risk Working Committee and Integrated Risk Management Committee and ensures implementation of their recommendations effectively.

Given below is the Bank's risk monitoring framework for 2013 and perceived level of risk.

Key to risk chart:

 No risk  Marginal risk  Significant risk  Critical

Type of risk	Risk level	Risk mitigation
Credit Risk		
Credit Concentration Risk		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.
Risk of Climate Change		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.
Risk of less effectiveness of credit policy and recovery		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 7. An internal credit rating system was introduced and loan review systems have been initiated.
Interest Rate and Liquidity Risk		
Liquidity Risk		1. Assets and Liability Committee (ALCO) that ensures 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.
Interest Rate Risk		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		
Processing or behaviour Risk		1. Compliance review of transactions, new products and procedures. 2. Continuous training on system and procedures. 3. Interdepartmental internal controls. 4. Business continuity plan.
System Risk		1. Structured IT division headed by an experienced and qualified AGM. 2. Regular developments in-line with regulatory compliances and market developments following a Board approved IT strategic plan. 3. IT policies.. 4. IT steering committee.
Human Resources Risk		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.

Type of risk	Risk level	Risk mitigation
Risk of inadequate risk control & management.		1. Internal Audit. 2. Review by Board Risk Management committee. 3. Middle office independent risk evaluation on Treasury Department transactions have been strengthened.
Geopolitical risk		1. Training and Development. 2. Regular engagements with stakeholders. 3. CSR and Environmental Policy. 4. Sustainability development and reporting.
Risk involves with Management Information.		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.
Health and Safety Risk.		1. Environmental Policy. 2. Labour practice and decent work. 3. Life and fire Insurance . 4. Staff health plan. 5. Business continuity Plan.
Risk of lacking Corporate Governance.		1. Governance policies and procedures. 2. Compliance and risk management functions. 3. Company Secretarial function.
Risk of Criminal and illicit act		1. Training. 2. Insurance. 3. Physical security service.
Ethics risk		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		
Reputations Risk		1. Regular training on customer care. 2. Business policies and procedures. 3. Stakeholder engagement policy. 4. Independent yearly rating from Fitch Rating Lanka Ltd.
CSR Risk		1. CSR Policy. 2. CSR and Sustainability Executive committees. 3. Compliance with GRI guidelines in sustainability reporting.
Compliance Risk		
Legal and regulatory compliance Risk		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

ATTENDANCE FOR BOARD MEETINGS - 2013

Names	Directorship Status as at 31/12/2013	Number of Meetings held - 2013	Number of Meetings Entitled	Number of Meetings participated
Mrs. Siromi Wickramasinghe	Non-executive/ Independent Director (Chairperson)	14	14	14
Mr. W. J. L. U. Wijayaweera	Non-executive/ Independent Director	14	14	09
Mrs. C. Wijayawardhana	Non-executive/ Independent Director	14	14	08
Mr. S. A. J. Samaraweera	Non-executive/ Non-independent Director	14	14	12
Mr. W. D. R.D. Goonaratne	Non-executive/ Non-independent Director	14	14	11
Mr. L. E. Susantha Silva	Non-executive/ Independent Director	14	14	13
Mr. G. L. S. Senadeera	Non-executive/ Independent Director	14	14	14
Mr. M. Surendran	Non-executive/ Non Independent Director	14	08	08
Mr. Prasad Galhena	Non-executive/ Independent Director	14	08	08
Mr. A. J. Aloysius (Resigned on April 2013)	Non-executive/ Non Independent Director	14	04	02

NOMINATION COMMITTEE MEETINGS - 2013

Names	Directorship Status as at 31/12/2013	Number of Meetings held - 2013	Number of Meetings Entitled	Number of Meetings participated
Mrs. Siromi Wickramasinghe	Non-executive/ Independent Director (Chairperson)	01	01	01
Mr. W. J. L. U. Wijayaweera	Non-executive/ Independent Director	01	01	01
Mrs. C. Wijayawardhana	Non-executive/ Independent Director	01	01	01

HUMAN RESOURCE AND REMUNERATION COMMITTEE MEETINGS - 2013

Names	Directorship Status as at 31/12/2013	Number of Meetings held - 2013	Number of Meetings Entitled	Number of Meetings participated
Mrs. Siromi Wickramasinghe	Non-executive/ Independent Director (Chairperson)	05	05	05
Mr. W. J. L. U. Wijayaweera	Non-executive/ Independent Director	05	05	05
Mr. W. D. R. D. Goonaratne	Non-executive/ Non Independent Director	05	05	04
Mr. G. L. S. Senadeera	Non-executive/ Independent Director	05	04	02
Mr. M. Surendran	Non-executive/ Non Independent Director	05	02	02

INTEGRATED RISK MANAGEMENT COMMITTEE MEETINGS - 2013

Names	Directorship Status as at 31/12/2013	Number of Meetings held - 2013	Number of Meetings Entitled	Number of Meetings participated
Mrs. Siromi Wickramasinghe	Non-executive/ Independent Director (Chairperson)	03	03	03
Mrs. C. Wijayawardhana	Non-executive/ Independent Director	03	03	02
Mr. L. E. Susantha Silva	Non-executive/ Independent Director	03	03	03
Mr. G.L.S. Senadeera	Non-executive/ Independent Director	03	03	03
Mr. Prasad Galhena	Non-executive/ Independent Director	03	02	01

BOARD AUDIT COMMITTEE MEETINGS - 2013

Names	Directorship Status as at 31/12/2013	Number of Meetings held - 2013	Number of Meetings Entitled	Number of Meetings participated
Mr. L. E. Susantha Silva	Non-executive/ Independent Director (Chairman)	07	07	07
Mrs. C. Wijayawardhana	Non-executive/ Independent Director	07	07	06
Mr. W. D. R. D. Goonaratne	Non-executive/ Non-Independent Director	07	07	05
Mr. G. L. S. Senadeera	Non-executive/ Independent Director	07	07	06
Mr. Prasad Galhena	Non-executive/ Independent Director	07	03	0
Mr. M. Surendran	Non-executive/ Non-Independent Director	07	03	03

HDFC COMPLIANCE REPORT

This section tabulates HDFC's compliance level with regulatory requirements and industry codes. The

3 applicable governance frameworks are assessed separately, in 3 sections, for the year 2013.

SECTION ONE

HDFC's compliance with Corporate Governance Directions for Licensed Specialized Banks, as per the CBSL Directives.

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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;	✓		None	
b) Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals.	✓		The Bank is in the process of modifying their risk management policy for 2014 and it will be finalized on 30/06/2014.	
c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	✓		None	
d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	✓		None	
e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	✓		None	The Board has appointed a Risk Working Committee and an Integrated Risk Management Committee. Further, there is an on-going process for identifying, evaluating, monitoring and managing significant risks that may affect business objectives.
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;	✓		None	
g) Define the areas of authority and key responsibilities for the Board of Directors themselves and for the key management personnel;	✓		None	An authority matrix was adopted for this purpose defining the areas of authority.

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
h) Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy;	✓		None	
i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	✓		None	
j) Ensure that the Bank has an appropriate succession plan for key management personnel;	✓		None	
k) Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	✓		None	
l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	✓		None	
m) Exercise due diligence in the hiring and oversight of external auditors.	✓		None	
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.	✓		None	
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.	✓		None	
3(1) (iv) That arrangements shall in place to enable all Directors to include matters and proposals in the agenda for regular Board Meetings.	✓		None	
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.	✓		None	

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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.	*		None	★ Except for, Mrs. C. Wijayawardana, who has attended only 8 out of the 14 meetings held during the year, all the other Directors had attended the required number of meetings.
3(1) (vii) Shall appoint a Company Secretary who has satisfied the provisions of section 43 of Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	✓		None	
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 followed.	✓		None	
3(1) (ix) The Company Secretary shall maintain the minutes of Board Meetings and such minutes shall be open for inspection or reasonable time on reasonable notice by any Director.	✓		None	
3(1) (x) Minutes of Board Meetings shall be recorded in sufficient details as required under the Banking Act directions on Corporate Governance.	✓		None	
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.	✓		None	

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
3(1) (xii) Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organizations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where Independent Non-Executive Directors [refer to Direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	✓		None	
3(1) (xiii) The Board shall have a formal schedule of matters specifically reserved for its decision to ensure that the direction and control of the bank is firmly under its authority.	✓		None	
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.		✓		
3(1) (xv) The Board shall, ensure that the Bank shall capitalize at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	✓		None	Please refer Page No. 157 for Capital Adequacy as at 31/12/2013.
3(1) (xvi) Shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	✓		None	
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	✓		None	

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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.	✓		None	(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) Ex-officio Directors representing the Secretary to the Treasury and Ministry of Housing. (ii) Nominated Directors, representing the Ministry of Finance, Labour and Minister of Housing. (iii) Shareholding Directors (b) Director Board was appointed as aforesaid and during the period under review there were 10 Directors in the Board as given below. 01. Mrs. Siromi 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. L. E. S. Silva 07. Mr. G. L. S. Senadeera 08. Mr. M. Surendran 09. Mr. P. Galhena 10. Mr. A. J. Aloysius (resigned - 30/04/2013)
3(2) (ii) 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	✓		None	
3(2) (iii) An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (Executive Directors)	✓		None	In complying with section 4(2)(b) of HDFC Act, the Board of the HDFC Bank comprises only with Non-Executive Directors.

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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.	✓		None	As at 31st of December 2013, the constitution of the directed Board with regard to independency of directors, were as follows. (a) Following Directors were Independent / Non-Executive Directors. 01. Mrs. Siromi Wickramasinghe (Chairperson) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. C. Wijayawardhane 04. Mr. L. E. S. Silva 05. Mr. G. L. S. Senadeera 06. Mr. P. Galhena (b) Following Directors are Non-Independent / Non-Executive Directors. 01. Mr. S. A. J. Samaraweera 02. Mr. W D. R. D. Goonaratne 03. Mr. M. Surendran 04. Mr. A. J. Aloysius (resigned - 30/04/2013) (c) The Profiles of the present Director Board is given on Page 24 to 26 of the Annual Report.
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 apply to the Independent Director.	✓		None	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.	✓		None	The relevant details are given under the Director's Profile of the Annual Report, on Page 24 to 26.

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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 01 st January 2011 onwards.	✓		None	
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.	✓		None	
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.	✓		None	(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.		✓		
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.	✓		None	
3(2) (xii) A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another Bank.	✓		None	

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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.	✓		None	
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.	✓		None	
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.	✓		None	
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.	✓		None	
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.	✓		None	
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.	✓		None	Two positions of Chairman and GM/ CEO are separately defined in HDFC Act.
3(5) (ii) The Chairman shall be a Non-Executive Director and preferably an Independent Director as well.	✓		None	The Chairman is independent Non-Executive Director, as at 31/12/2013

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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.	✓		None	No any relationship , what so ever
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.	✓		None	
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.	✓		The agenda is prepared based on the instructions of the Chairman, and it is circulated among the Directors by the Company Secretary once the Chairman's verbal approval is received.	
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.	✓		None	
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.	✓		None	
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.	✓		None	
3(5) (ix) The Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	✓		None	

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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.	✓		None	(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.	✓		None	
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.	✓		None	In complying with the directions, following Committees are functioning. (i) Board Nomination Committee (ii) Board Audit Committee (iii) Board Human Resource and Remuneration Committee (iv) Board Recovery Sub Committee (v) Board Integrated Risk Management Committee.
Board Audit Committee				
3(6) (ii) The relevant responsibilities related to Board Audit Committee, is separately defined under 3(6)(ii) of the Directions.	✓		None	The Audit Committee comprised of following Directors, as at 31/12/2013. 01. Mr. L.E. S. Silva (Chairman of the Committee) 02. Mrs. C. Wijayawardhane 03. Mr. W.D. R. D. Goonaratne 04. Mr. G. L. S. Senadeera 05. Mr. P. Galhena 06. Mr. M. Surendran Please refer the Board Audit Committee report on Page 117 of this Annual Report for further details.

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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.	✓		None	The Human Resource and Remuneration Committee comprised of following Directors, as at 31/12/2013. 01. Mrs.Siromi Wickramasinghe (Chairperson of the Committee) 02. Mr. W.J. L. U. Wijayaweera 03. Mr. W.D. R. D. Goonaratne 04. Mr. G. L. S. Senadeera 05. Mr. M. Surendran Please refer the Board Human Resource and Remuneration Committee on Page 118 Report for further details.
Board Nomination Committee				
3(6) (iv) The relevant responsibilities related to Board Nomination Committee, is separately defined under 3(6)(iv) of the directions.	✓		None	Nomination Committee comprised of the following Directors as at 31/12/2013. 01. Mrs. Siromi Wickramasinghe (Chairperson of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. C. Wijayawardhane Please refer the Board Nomination Committee report on Page 119 of this annual report.
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.	✓		None	The Integrated Risk Management Committee comprised of following Directors as at 31/12/2013. 01. Mrs. Siromi Wickramasinghe (Chairperson of the Committee) 02. Mrs. C. Wijayawardhane 03. Mr. L. E. S. Silva 04. Mr. G. L. S. Senadeera 05. Mr. P. Galhena 06. GM/ DGM/ AGM/ CIA/ CM (Treasury)/ Head of Credi / compliance Officer/ Risk Officer Please refer the Risk Management report on Page 120 of this Annual Report for further details.

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
3(7) Related Party Transactions				
3(7) (i) and 3(7) (ii) 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.	✓		None	Transactions carried out with related parties in the normal course of business are disclosed in note 30 and 30.1 of the financial statement on Page 156.
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.	✓		None	
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.		✓		

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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.		✓		
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.		✓		
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.		✓		
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.		✓		
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.		✓		

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
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.		✓		
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	✓		None	
(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	✓		None	
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.	✓		None	Please refer Directors Responsibility Statement for Financial Reporting and is given on Page 126 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.	✓		None	Please refer Page 123-124 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.	✓		None	

Guideline	Complied Status	Not applicable	Factual Findings of Auditor	Description
d) Details of Directors, including names, fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	✓		None	
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.		✓		
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.	✓		None	Please refer Note 6.1 of the Financial Statements given on Page 143 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 2013.	✓		None	
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.	✓		None	Please refer the Report of the Directors, Statement on the Board of director's responsibility for financial reporting and statement on internal controls published on Pages 112 to 116, 126 and 123-124 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.		✓		

Remarks

✓ - Complied with

X - Non Compliance

SECTION TWO

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

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
A. Directors					
A.1 The Board	✓				All Directors are Non-Executive Directors and consists with well qualified and, experienced professionals. They possess relevant skills, experience and knowledge to steer the Bank towards its strategic intent.
A 1.1 1. Meeting	✓				Please refer status of compliance for 3(1)(iii) of CBSL Rules
A 1.2 2. Board Responsibilities	✓				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.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
A 1.3 3. Access to Independent Professional Advice	✓				
A 1.4 4. Board Secretary	✓				The Company Secretary is an Attorney-at-Law with relevant required qualifications and experience All Directors have access, to advice and services of the Company Secretary for ensuring that Board procedures are conducted properly by adopting relevant rules and regulations.
A 1.5 5. Independent Judgment	✓				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.
A 1.6 6. Dedication of adequate time and effort by the Board and Board Committee	✓				
A 1.7 7. Training for new Directors	✓				
A.2 Chairman & Chief Executive Officer					
A 2.1 8. Division of Responsibilities of the Chairman & GM/CEO	✓				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.
A.3 Chairman's Role					
A 3.1 9. Role of the Chairman	✓				The Chairman is responsible to provide leadership in preserving a good Corporate Governance culture within the bank.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
A 4 Financial Acumen					
A 4 10. Availability of sufficient financial acumen and knowledge	✓				Sufficient financial acumen and knowledge to offer guidance on matters on finance is available at the Bank
A 5 Board Balance					
A 5.1 11. Presence of a strong independent element on the Board	✓				Balance of Executive and Non-Executive Directors of the Board.
A 5.2 A 5.3 12. Independent Directors	✓				
A 5.4 13. Signed declaration of independence by the Non-executive Directors	✓				All Non-Executive Directors of the HDFC made written declarations as to the independency criteria setout by the bank.
A 5.5 14. Determination of independence of the Directors by the Board	✓				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. The Independent Non-Executive Directors of the Board are as follows. 01. Mrs. Siromi Wickramasinghe (Chairperson) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. C. Wijayawardhana 04. Mr. L. E. S. Silva 05. Mr. G. L. S. Senadeera 06. Mr. P. Galhena
A 5.6 15. Senior Independent Director				✓	
A 5.7 16. Confidential discussion with the Senior Independent Director				✓	

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
A 5.8 17. Meeting of Non-executive Directors	✓				Chairman meets with the Non-Executive Directors without the presence of the GM/ CEO on a need basis.
A 5.9 18. Recording of concerns in Board Minutes	✓				
A 6 Supply of Information					
A 6.1 19. Information to the Board by the management	✓				Timely information is provided to enable the Board to discharge its duties, and the HDFC.
A 6.2 20. Adequate time for Board meeting	✓				Annual calendar for regular Board Meetings and Committee Meetings prepared in advance and thereafter, separate individual notices are given to each Director on time.
Appointment to the Board					
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.
A 7.1 21. Nomination Committee	✓				Nomination Committee of HDFC Bank comprised of the following Directors. 01. Mrs. Siromi Wickramasinghe (Chairperson of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mrs. C. Wijayawardhane Please refer the Board Nomination Committee report on Page 119 of this Annual Report, for further details.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
A 7.2 22. Assessment of Board composition	✓				The Director Board of the HDFC Bank consists of only Non-Executive Directors, including Ex-Officio Directors, Nominated Directors and Shareholding Directors. The representatives of relevant ministries defined in the HDFC Act and the representative of the Minister of Housing are appointed to the Board as Ex-Officio Directors and Nominated Directors. The Shareholding Directors are appointed to the Board with the recommendations of the Board Nomination Committee on the final approval of the Director Board and finally by election at a Shareholder Meeting. The Nomination Committee continually reviews the composition of the Board. The Committee identifies evaluating and makes necessary recommendations on appointments to the Board.
A 7.3 23. Disclosure of details of new Directors to Shareholders	✓				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, disclosures are made to the Central Bank and the Colombo Stock Exchange.
Re-election					
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.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
A 8.1 24. Appointment of Non- Executive Directors	✓				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 Directors 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.
A 8.2 25. Election of Directors by the Shareholders	✓				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, 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.
Appraisal of Board performance					
A 9 Appraisal of Board performance	✓				The Board to annually appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
A 9.1 26. Appraisal of Board performance	✓				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.
A 9.2 27. Annual self evaluation of the Board and its Committees	✓				Please refer comments mentioned under A 9.1, above.
A 9.3 28. Disclosure of the appraisal of Board and Board Sub Committee Performance	✓				Please refer comments mentioned under A 9.1, above.
Disclosure of information in respect of Directors					
A 10 Disclosure of information in respect of Directors	✓				Shareholders should be kept informed of relevant details in respect of each Director for the benefit of Shareholders.
A 10.1 29. Details in respect of Directors	✓				The relevant details of the Directors are given under the Director's Profile of the Annual Report, on Page 24 to 26.
Appraisal of the GM/CEO					
A.11 Appraisal of the GM/CEO	✓				It is required under the code, to assess the performance of the CEO, at least annually.
A 11.1 30. Financial targets for GM/ CEO	✓				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.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
A 11.2 31. Evaluation of the performance of the GM/CEO	✓				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.
B 1.1 32. Remuneration / Human Resources Committee	✓				The Human Resource and Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy.
B 1.2 33. Composition of the Remuneration Committee	✓				Please refer the Board Human Resource and Remuneration Committee on Page 118 of the Annual Report for details.
B 1.4 34. Remuneration of the Non-executive Directors				✓	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.
B 1.5 35. Consultation of the Chairman and access to professional advice	✓				External professional advice is sought, on need basis.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
Level and make-up of the Remuneration					
B 2 Level and make-up of the Remuneration				✓	Please refer comments for B 1.4.
B 2.1 36. Level and make-up of the remuneration of both Executive and Non-Executive Directors				✓	Please refer comments for B 1.4.
B 2.2 37. Comparison of remuneration with other companies				✓	Please refer comments for B 1.4.
B 2.3 38. Comparison of remuneration with other companies in the group				✓	Please refer comments for B 1.4.
B 2.4 39. Performance related payment to Executive and Non-executive Directors				✓	Please refer comments for B 1.4.
B 2.5 40. Executive share option for Directors				✓	Please refer comments for B 1.4.
B 2.6 41. Designing the Executive Directors remuneration				✓	Please refer comments for B 1.4.
B 2.7 42. Early termination benefits of Directors				✓	Please refer comments for B 1.4.
B 2.8] 43. Early termination benefits of Directors (not included in the initial contract)				✓	Please refer comments for B 1.4.
B 2.9 44. Level of remuneration of the Non-Executive Directors				✓	Please refer comments for B 1.4.
B 3 Disclosure of Remuneration					
B 3.1 45. Disclosure of remuneration	✓				Please refer comments for B 1.4.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
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.
C 1.1 46. Use of proxy votes	✓				The bank has a method of recording all proxy votes and proxy votes lodged by the shareholders on each resolution.
C 1.2 47. Separate resolution for all separate issues	✓				HDFC propose a separate resolution at the AGM on each substantially separate issue, giving shareholders the opportunity vote on each such resolution.
C 1.3 48. Availability of all Board Sub Committee Chairman at the AGM	✓				
C 1.4 49. Adequate notice of the AGM	✓				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.
C 1.5 50. Procedures of voting at General Meeting	✓				
Major transactions					
C 2 Major transactions	✓				Further to compliance with the requirements under the Companies Act, Directors should disclose to shareholders all proposed corporate transactions, which is entered into, would materially alter/vary the bank's net assets base or in the case of a bank with subsidiaries, the consolidated group net asset base.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
C 2.1 51. Major transactions	✓				During 2013 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.
D 1.1 52. Statutory and regulatory reporting	✓				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 2013. The financial statements for the year ended 31st December 2013 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.
D 1.2 53. Directors' report in the Annual Report	✓				The Director's Report is given on Page 112 to 116 of this Annual Report.
D 1.3 54. Statement of Directors' responsibility for the financial statement	✓				The Statement of Directors' Responsibility for Financial Reporting is given on Page 126 of the Annual Report.
D 1.4 55. Management discussions and analysis	✓				The Report forms a part of the GM/ CEO's Review of Operations and is given on Page 10 to 14 of the Annual Report.
D 1.5 56. Declaration by the Board that the business as a going concern	✓				This is given on the Directors' Reports on Page 112 to 116 of the Annual Report.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
D 1.6 57. Summoning an EGM to notify serious loss of capital				✓	
Internal Control					
D.2 Internal Control					It is the required under the code, to maintain a sound system of internal control to safeguard shareholders' investments and the bank's assets.
D 2.1 58. Annual evaluation of the internal control system	✓				The Board is responsible for establishing and maintaining a sound system of internal control, while monitoring and reviewing their effectiveness continuously. Through such and effective internal control system HDFC manages business risks expose to the industry and ensure the reliability of the financial information on which business decisions are made. The Board of Directors of the bank are satisfied with the effectiveness of internal control systems. Please refer the Board's statement on Internal Control Systems published on Page 123-124 of this Annual Report.
D 2.2 59. Need for internal audit function	✓				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 responsible directly to the Chairman and the Board Audit Committee.
Audit Committee					
D 3 Audit Committee	✓				Formal and transparent arrangements for considering on how to select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the bank's external Auditors.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
D 3.1 60. Composition and terms & conditions of the Audit Committee	✓				The Audit Committee of the Bank comprises four Non-Executive / Independent Directors and two Non-Executive / Non Independent Directors. The Chief Internal Auditor functions as Secretary to the Audit Committee.
D 3.2 61. Duties of the Audit Committee	✓				HDFC's External Auditor is the Auditor General and bound by law to display independence, objectivity and efficacy in ensuring the audit process takes into account all relevant regulatory requirements. The relevant details pertaining to the above is discussed in the Audit Committee report.
D 3.3 62. Terms and reference of the Audit Committee	✓				The Audit Committee has a Audit charter including relevant terms of reference of the said Committee. The Chief Internal Auditor functions as the head of the Internal Audit Department and submits relevant necessary reports to the Audit Committee as mandated under the Audit charter. For further details please refer the Report of Audit Committee, on Page 117 of this Annual Report.
D 3.4 63. Disclosures of the Audit Committee	✓				The Audit Committee of the HDFC Bank comprised of the following 04 Non-Executive Independent Directors and 02 Non- Executive Non Independent Directors. 01. Mr. L. E. S. Silva (Chairman of the Committee) 02. Mrs. C. Wijayawardhane 03. Mr. W. D. R. D. Goonaratne 04. Mr. G. L. S. Senadeera 05. Mr. P. Galhena 06. Mr. M. Surendran Please refer the Board Audit Committee report on Page 117 of this Annual Report for further details.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
Code of business conduct & ethics					
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.
D 4.1 64. Code of business conduct and ethics					There is no separate code, but the relevant areas were already covered under different policies adopted by the bank.
D 4.2 65. Affirmation of the code of conduct & ethics				✓	As mentioned above in D 4.1.
E Institutional Shareholders					
E1 Shareholding voting	✓				Institutional shareholders are required to make use of their votes and translate their voting intentions into practice.
E 1.1 66. Institutional Shareholders	✓				Institutional shareholders are encouraged to use their votes. Further they are encouraged to execute their votes and also seek independent advice on investing or divesting decisions
E 2 Evaluation of Corporate Governance initiatives	✓				When evaluating bank's 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					
F1 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.

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable	Description
F 2.1 67. Individual Shareholder Voting	✓				Individual shareholders are encouraged to participate and exercise their voting rights at General Meetings.

SECTION THREE

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

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable	Description
7.10.1 (a) to (c) (i) The correct number of Non-Executive Directors	✓				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.
7.10.2 (a) (ii) The correct number of Independent Non-Executive Directors	✓				The Board of Directors of HDFC consists of the required number of Independent Non-Executive Directors in accordance with Rule 7.10.2 (a).
7.10.2 (b) (iii) Directors Annual Declaration of his / her Independence or Non- Independence to the Board of Directors.	✓				All Non-Executive Directors have submitted their confirmations on Independence in accordance with the criteria set by the Bank, which is in line with the regulatory requirements. Rule 7.10.2 (b) of the CSE Listing Rules. Note: According to the HDFC Act No. 07 of 1997 amended by Act No. 15 of 2003, the Director Board comprises only with Non-Executive Directors.

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable	Description
7.10.3 (a) (iv) Annual determination of the Board as to the Independency or Non-Independency of the Directors.	✓				
7.10.3 (b) (v) The qualifications not met by the Directors				✓	
7.10.3 (c) (vi) Brief resume of each Director	✓				Please refer Directors profiles on Pages 24 to 26 of the Annual Report.
Disclosures relating Remuneration & the Remuneration Committee					
7.10.5 (a) (vii) The correct number of Independent Non- Executive Directors in the Remuneration Committee	✓				HDFC Confirms that, the Remuneration Committee comprises of the correct number of Independent Non-Executive Directors in accordance with Rules 7.10.5 (a)
7.10.5 (a) (viii) Separate Remuneration Committee	✓				
7.10.5 (c) (ix) Names of the Directors in the Remuneration Committee	✓				The Human Resource and Remuneration Committee comprised of the following Directors. 01. Mrs. Siromi Wickramasinghe (Chairperson of the Committee) 02. Mr. W. J. L. U. Wijayaweera 03. Mr. W. D. R. D. Goonaratne 04. Mr. G. L. S. Senadeera 05. Mr. M. Surendran Please refer the Board Human Resource and Remuneration Committee on Page 118 Report for further details.
7.10.5 (b) (x) Functions of the Remuneration Committee	✓				The function of the Committee is to determine remuneration packages applicable to the CEO/ GM and other Corporate Management Members of HDFC

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable	Description
7.10.5.(a) (xi) Chairman of the Remuneration Committee	✓				Mrs. Siromi 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))
7.10.5 (c) (xii) Remuneration Policy	✓				Please refer the report of the Human Resource and Remuneration Committee on Page 118 of the Annual Report.
7.10.5 (c) (xiii) Aggregate Remuneration paid to the Executive and Non-Executive Directors (including cash and all non-cash benefits)	✓				Please refer the note No. 07 of the Financial Statement on Page 143 of the Annual Report.
Contents under the Audit Committee Report					
7.10.6 (a) (xiv) The correct number of Independent Non-Executive Directors	✓				HDFC confirms that, Audit Committee comprises of the required number of Independent Non-Executive Directors in accordance with Rule 7.10.6(a).
7.10.6 (a) and 7.10.6 (c) (xv) Separate Audit Committee	✓				A separate Audit Committee for the HDFC Bank was formed.
7.10.6 (c) (xvi) Names of the Directors in the Audit Committee	✓				The Audit Committee of HDFC Bank comprised of the following Directors. 01. Mr. L. E. S. Silva (Chairman) 02. Mrs. C. Wijayawardhane 03. Mr. W. D. R. D. Goonaratne 04. Mr. G. L. S. Senadeera 05. Mr. P. Galhena 06. Mr. M. Surendran Please refer the Board Audit Committee report on Page 117 of this Annual Report for further details.
7.10.6 (b) (xvii) Functions of the Audit Committee	✓				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.

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable	Description
7.10.6.(a) and 7.10.6 (c) (xviii) Chairman of the Audit Committee	✓				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))
7.10.6 (a) and 7.10.6 (c) (xix) Chairman's qualifications	✓				Please refer Directors profiles.
7.10.6 (a) and 7.10.6 (c) (xx) Attendance of CEO and CFO for the Committee Meetings	✓				The GM/ CEO and CFO attended to Committee meetings.
7.10.6 (c) (xxi) External Auditors independency				✓	The External Auditor of the Bank is the Auditor General of Sri Lanka.

ONGOING LITIGATION

CASE NO : SC SPL LA 43/2013

An employee of the Bank had made an application to the Labour Tribunal, Colombo, challenging a vacation of post decision by the Bank. An order was given to reinstate the employee and to pay back wages. This order was upheld by the Provincial High Court of the Western Province. The Bank has made an application to the Supreme Court and the Case is still pending.

CASE NO: HCALT 05/2012

An employee has made an application to the Labour Tribunal challenging her termination during the probation period. An order was given in favour of the Bank and the employee has made an appeal against this order to the Provincial High Court of Western Province. The Case is still pending.

CASE NO.2795/M - ACCIDENT CASE

A former driver of the Bank was alleged for committing a road accident in year 2005. The wife of the deceased had filed a case claiming damages. The District Court has awarded LKR 1,200,000/- as damages. The aggrieved party has made an application to the Court of Appeal to enhance the amount. The Insurance Corporation is appearing for the Bank. The date of hearing has not been fixed to date.

CASES FILED BY THE BANK

Ejectment Case 21514/L

Three lands, of 03 Roods & 18.2 Perches were purchased by the Bank from the Building Materials Corporation in the year 2005 and 2007. Since the BMC did not handover vacant possession to the Bank, the Bank filed an Ejectment Case bearing No.21514/L at the District Court of Colombo against the BMC. The order was delivered in favour of the Bank. The Bank has received Notice of Appeal from the BMC.

THE REPORT OF THE 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 2013 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 specialized 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 10 to 14, Report on the highlights of the year and performance report 2013 contained on Pages 4 to 5 and 50 to 67. 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), as explained in the General Manager/ Chief Executive Officer's Review on Pages 10 to 14 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 129 to 133 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 134 to 138 of the Annual Report. The impact of changes in equity is given on Page no 133 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 Page 127 to 128 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 2013 was LKR. 3,803million. An analysis of the income is given in Notes 01, 03 and 04 to the Financial Statements.

11. PROFIT AND APPROPRIATION

The profit before income tax of the Bank for the year ended 31st December 2013 was LKR. 231 million and the profit after tax for the year ended 31st December 2013 was LKR. 158 million.

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

For the year ended 31st December 2013	2013 Rs. Mn	2012 Rs. Mn
Operating profit on ordinary activities before VAT	309	176
VAT on financial services	78	50
Provision for taxation	73	70
Profit on ordinary activities after tax	158	56
Retained profit /(accumulated losses) b/f	1,192	1,170
Profit available for appropriation	1,349	1,226
Appropriation First & Final Dividend proposed	16	-
Transfer to Reserve Funds	81	34
Retained Profit carried forward	1,253	1,192

12. RESERVES

The Bank's total Reserves as at 31st December 2013 amounted to LKR 2,575 million. The details are given on the statement of Changes in Equity on Page 133 of the Financial Statements.

13. DONATIONS

During the year the Bank made donations amounting to LKR. 1,197,460/-

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 2013 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 144 of this Annual Report.

16. DIVIDEND

The Directors recommended a dividend payment (final) of Cents Twenty Five (Rupees 0.25) per share for the year 2013

The Board of Directors was satisfied that the Bank would meet the solvency test as per the provisions of the Companies Act No. 07 of 2007, immediately after the payment of the proposed final dividend with the approval of the shareholders at the AGM. The Board provided the statement of solvency to the Auditor General and obtained the certificate of solvency, in respect of final dividend payment confirming to the statutory provision.

17. PROPERTY, PLANT AND EQUIPMENT, FREEHOLD PROPERTY

Capital expenditure on property, plant and equipment amounts to LKR 66 million, the details of which are given in Note 16 of the Financial Statements.

Details of freehold properties are given on Note 16.2 of the Financial Statements on Page 149.

18. MARKET VALUE OF FREEHOLD PROPERTIES

Details of the market value (Fire value) of freehold properties are given on Note 16 of the Financial Statements on Page 148.

19. EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

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

20. STATED CAPITAL

The stated capital of the Bank as at 31st of December 2013 was LKR.962 Million consisting of 64,710,520 ordinary shares.

21. SHARE INFORMATION

Details of share related information (earnings, dividends, net assets and market value per share) are given on Pages 159 to 161 of this Annual Report.

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

22. ISSUE OF LISTED SECURED REDEEMABLE DEBENTURES

The Bank had issued listed secured redeemable debentures face value amounting to LKR 2,000 million as at 31st December 2013. The proceeds of these debentures were utilized to bridge the maturity gaps, strengthen the financial position of the Bank. The Bank had listed these debentures on the main board of Colombo Stock Exchange (CSE). The details of debentures outstanding as at the date of statement of financial position are given in Note 22 of the Financial Statements on Pages of 152 and 162 in debenture on page.

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 2013 are described in Pages 41-42 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. Siromi Wickramasinghe (Chairperson) re-appointed in May 2013 - Non-executive/ independent
02. Mr. W. J. L. U. Wijayaweera re-appointed in June 2010 - Non-executive/ independent
03. Mrs. C. Wijayawardhane appointed in June 2010 - Non-executive/ independent

04. Mr. S. A. J. Samaraweera re-elected in June 2013 - Non-executive/ Non-independent

05. Mr. W. D. R. D. Goonaratne re-elected in June 2013 - 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. Mr. G. L. S. Senadeera appointed in January 2013 - Non-executive/ independent

09. Mr. Prasad Galhena elected in June 2013 - Non-executive/ independent

10. Mr. M. Surendran elected in June 2013 - Non-executive/ Non-independent

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

01. Mr. A. J. Aloysius - with effect from April 2013

New appointments to the Board of HDFC Bank during the period under review

01. Mr. G. L. S. Senadeera- with effect from 08/01/2013
02. Mr. Prasad Galhena - with effect from 31/06/2013
03. Mr. M. Surendran - with effect from 31/06/2013

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 24 to 26 of this Annual Report.

25. BOARD SUB COMMITTEES

In complying with the corporate governance directions of CBSL four Board Sub Committees (Audit , Human Resource and Remuneration , Nomination and Integrated Risk Management) functioned during the corresponding period and relevant reports of those committees are given on Pages 117 to 120 of the Annual Report.

26. DIRECTORS MEETINGS

During the period under review 14 Board Meetings were held and attendance schedule is given on Page 76.

Details of Board Sub Committee Meetings attendance are given on Pages 76 to 78 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 126 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:

	31/12/2013	01/01/2013
Mrs. Siromi Wickramasinghe (Chairperson)	Nil	Nil
Mr. W. J. L. U. Wijayaweera	3000	3000
Mrs. C. Wijayawardhana	Nil	Nil
Mr. S. A. J. Samaraweera	Nil	Nil
Mr. W. D. R. D. Goonaratne	Nil	Nil
Mr. L. E. Susantha Silva	1000	1000
Mr. G. L. S. Senadeera	Nil	Nil
Mr. Prasad Galhena	1000	Nil
Mr. M. Surendran	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 2013. Further information is given on Page 156 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

Individual debenture holding of Directors were as follows:

As at December 31,	2013	
	No. of Debentures	Value (Rs.)
1. Mrs. Siromi Wickramasinghe (Chairperson)*	20,000	2,000,000
1. Mr. W. J. L. U. Wijayaweera	Nil	Nil
3. Mrs. C. Wijayawardhana	Nil	Nil
4. Mr. S. A. J. Samaraweera	Nil	Nil
5. Mr. W. D. R. D. Goonaratne	Nil	Nil
6. Mr. L. E. Susantha Silva	Nil	Nil
7. Mr. G. L. S. Senadeera	Nil	Nil
8. Mr. Prasad Galhena	Nil	Nil
9. Mr. M. Surendran	Nil	Nil
10. Mr. Nimal J. B. Mamaduwa (CEO/ GM)	Nil	Nil
Total	20,000	2,000,000

* Chairperson subscribed 20,000 numbers of Debentures [5 Years - Option 3 Fixed Interest rate of 15.50% p.a. payable annually (AER 15.50%)]

32. RELATED PARTY TRANSACTIONS

Related party transactions were given in Note 30 of the financial statement of this Annual Report on Page 156.

33. DIRECTORS' REMUNERATION

Directors' remuneration, for the financial year ended 31st December 2013 is given on Note 07 to the financial statement on Page 143

34. EMPLOYEE SHARE OPTION PLAN

The total number of 3,485,520 shares already issued to the Trustee (Legalinc Trustee Services (Pvt.) Ltd) under the Employee Share Ownership Plan will be transferred to the beneficiaries with effect from 2014 April and will be completed before the end of December 2016. 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 smooth functioning of its operations.

More details are given in Board Audit Committee Report on Page 117, Integrated Risk management report on Page 120.

37. CORPORATE GOVERNANCE

Please refer Corporate Governance compliance statement in Pages 72 to 111 of this Annual Report.

38. COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

According to the best 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.

40. AUDITORS REMUNERATION AND INTEREST IN CONTRACT WITH THE BANK

The Auditors were paid Rs. 864,727 /- for the year ended 31st of December, 2013 as audit fees by the Bank. The Auditors do not have any other relationship or interest in contracts with the Bank.

41. AUDIT COMMITTEE

The composition of the Audit Committee and their report is given on Page 117 of this Annual Report.

42. NOTICE OF MEETING

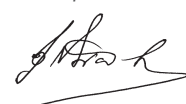
The 29th Annual General Meeting of the Bank will be held on Friday 30th May 2014 at 10.00 a.m at Booker Recreation (pvt) Ltd, (Gardenia Hall), 1st Floor, No. 10, Off Deans Road, Hedges Court, Colombo 10.

The Notice of the meeting is given on Page 165 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors



Siromi Wickramasinghe
Chairperson



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

25th April 2014
Colombo

AUDIT COMMITTEE REPORT

The audit committee presents its report for the financial year ended 31 December 2013 as required by Central Bank of Sri Lanka guidelines on corporate governance and the listing requirements of Colombo Stock Exchange. The audit committee has been constituted in accordance with applicable legislation and regulations.

PURPOSE OF THE AUDIT COMMITTEE

The main purpose of the audit committee is to assist the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reports and statements in compliance with all legal requirements and accounting standards.

MEMBERSHIP AND ATTENDANCE

The audit committee consists of six members who are all non-executive directors. The committee met seven times during year 2013.

The names of the members and attendance at meetings are recorded in the corporate governance section of the annual report.

FUNCTIONS OF THE AUDIT COMMITTEE

The audit committee has approved the audit committee charter and has discharged the functions in terms of the charter which included:

- Reviewing external audit reports;
- Evaluating the role, independence and effectiveness of the internal audit function;
- Approving the appointment or dismissal of the head of internal audit;
- Approving the internal audit charter and internal audit plan;
- Reviewing the effectiveness of internal controls and safeguard of assets
- Reviewing the accounting policies adopted by the bank and all proposed changes in accounting policies and practices;
- Reviewing the quarterly and annual financial statements to confirm the financial statements are prepared in accordance with Sri Lanka Financial Reporting Standards, the Companies Act and the listings requirements of the Colombo Stock Exchange;
- Reviewing the bank compliance plan and assessing the procedures for identifying the regulatory risks;

ATTENDANCE BY AUDITORS AND EXECUTIVE MANAGEMENT

The internal and external auditors attended and reported at all meetings of the audit committee. The executive management also attended meetings by invitation.

INTERNAL FINANCIAL CONTROLS, ACCOUNTING PRACTICES AND BANK ANNUAL FINANCIAL STATEMENTS

Based on the work of the Bank's assurance providers, nothing has come to the attention of the committee which indicates that the Bank's system of internal financial controls and accounting practices, in all material respects, provide a basis for unreliable annual financial statements.

The committee is satisfied that the Bank annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and Sri Lanka Accounting Standards, and recommended the financial statements for approval by the board.



L. E. Susantha Silva

Chairman: Board Audit Committee

25th April 2014
Colombo

BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE REPORT

The HDFC Bank believes that Human Resource is the most important strategic asset of the organization 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 organizational policies, employee benefits, employee relations, and control mechanism helps the Bank in retaining employees. Mrs. Siromi Wickramasinghe (Chairperson of the committee, non-executive, independent Director), Mr. W. J. L. U. Wijayaweera (non-executive, independent Director), Mr. W. D. R. D Goonaratne (non-executive, non- independent Director), Mr. G. L. S. Senadeera (non-executive, independent Director) and Mr. M. Surendran (appointed w.e.f. June 2013) (non-executive, non- independent Director) were the committee members during the period under review.

The Committee which is appointed by the Board also reports directly to the Board of Directors, and has held 05 Committee Meetings during the period under review

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



Siromi Wickramasinghe
Chairperson



Dharshani De Silva
Company Secretary

25th April 2014
Colombo

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. Siromi Wickramasinghe (Chairperson of the committee, non-executive, independent Director), Mr. W. J. L. U. Wijayaweera (non-executive, independent Director) and Mrs. C. Wijayawardhana (non-executive, independent Director).

The Committee which is appointed by the Board reports directly to the Board of Directors and has held 01 Committee Meeting, during the period under review

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

- (a) Selection and 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.



Siromi Wickramasinghe
Chairperson



Dharshani De Silva
Company Secretary

25th April 2014
Colombo

INTEGRATED RISK MANAGEMENT COMMITTEE

Risk management of the Bank is well addressed through the above Board sub Committee on regular basis. 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. Siromi Wickramasinghe (Chairperson of the Committee, non-executive, independent Director), Mrs. C. Wijayawardhana (non-executive, independent Director), Mr. L. E. Susantha Silva (non-executive, independent Director) , Mr. G.L.S. Senadeera (non-executive, independent Director) and Mr. Prasad Galhena (appointed w.e.f. June 2013) (non-executive, independent Director) attend as Board members Mr. Nimal J.B. Mamaduwa (General Manager/ CEO) Mr. S. Dissanayeke (Chief Operations Officer), Mr. D.V. Pathirana (Chief Financial Officer), 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) are the committee members for the period under review.

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

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

The committee 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.
- (b) Reviewing the adequacy and effectiveness of all management level committees.
- (c) Taking prompt corrective action to mitigate the specific risk which are at levels beyond the prudent level decided by the committee, on the basis of the Bank's 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 Bank's compliance on all areas of business operations by appointing a Compliance Officer who shall carryout such functions.

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



Siromi Wickramasinghe
Chairperson



Dharshani De Silva
Company Secretary

25th April 2014
Colombo



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මගේ අංකය
எனது இல. } FB/F/HDFC/IC/2013
My No.

ඔබේ අංකය
உமது இல. }
Your No.

දිනය
திகதி } // April 2014
Date

The Chairperson,
Housing Development Finance Corporation Bank of Sri Lanka

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

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of Housing Development Finance Corporation Bank of Sri Lanka included in the annual report for the year ended 31 December 2013. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in Public practice.

Management's Responsibility

Management is responsible for the preparation and presentation of the statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3(8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibility and Compliance with SLSAE 3050

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

Summary of Work Performed

My engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the Director have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures.

- Enquire from the management to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the statement made by the directors in the annual report.





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கணக்காளர் துறை அறியத் துறைகளை
Auditor General's Department

- Reviewed the documentation prepared by or for the directors to support their Statement intended to be made.
- Reviewed the minutes of the meeting of the Board of Directors, relevant board committees and management committees.
- Considered whether the Directors' statement of internal controls covers the year under review and that adequate process are in place to identify any significant matters arising.
- Obtained written representation from directors on matters material to the statement on internal control where other sufficient appropriate audit evidence cannot reasonable be expected to exist.

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

SLSAE 3050 does not require me to consider whether the Statement covers all risk and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspect of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Conclusion

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

H.A.S. Samaraweera
Auditor General

DIRECTORS' STATEMENT OF INTERNAL CONTROL

INTRODUCTION

The system of internal control is a critical component of HDFC Bank's management process and the foundation for safe operations. A sound internal control system is established with the intention of ensuring that the goals and objectives of the Bank will be met, long-term profitability targets will be achieved and reliable financial and managerial reporting will be maintained while ensuring compliance with laws and regulations as well as internal policies and procedures.

RESPONSIBILITY

In line with the Banking Act Direction No: 12 of 2007, section 3 (8) (ii) (b), the Board of Directors (the Board) presents 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 those risks.

KEY FEATURES OF THE PROCESS ADOPTED IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM

The Board has put in place a system of reviewing the design and effectiveness of internal controls 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 representative of the Auditor General 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.

- Whistle Blowing

Whistle Blowing Policy is intended to serve as a channel of corporate fraud risk management. The policy will allow any team member who has a legitimate concern on an existing or potential "wrong doing", done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority.

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 2013 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. Their report to the Board is disclosed on Page 121-122 to this Annual Report.

By order of the Board



Nimal J. B. Mamaduwa

General Manager/ CEO



Siromi Wickramasinghe

Chairperson



L. E. Susantha Silva

Chairman of the Audit Committee

25th April 2014

Colombo



FINANCIAL INFORMATION

We comply with all regulatory and industry standards on financial reporting, to present a true picture of our financial position during the year under review.

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 Page 127-128 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 Statement of Financial Position as at 31st December 2013, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

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

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 date of Statement of Financial Position 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



Siromi Wickramasinghe
Chairperson

25th April 2014
Colombo



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

FB/F/HDFC/FA/2013

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

17 April 2014

The Chairperson

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 2013 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 2013 comprising the Statement of Financial Position as at 31 December 2013 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.

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.

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 consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.





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கணக்காய்வாளர் துறை அமைச்சு
Auditor General's Department

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.

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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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.

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	2013	Restated 2012
INCOME			3,802,864,578	2,744,477,936
Interest Income	1		3,528,217,218	2,634,758,527
Interest Expenses	2		(2,469,268,259)	(1,805,321,967)
Net Interest Income			1,058,948,959	829,436,561
Fee and Commission Income	3		189,946,905	58,458,381
Fee and Commission expenses			-	-
Net fee and commission Income			189,946,905	58,458,381
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		84,700,454	51,261,027
Total Operating Income			1,333,596,318	939,155,969
Less - Impairment Charges for Loans and Other Losses	5		86,608,211	1,496,477
Net Operating income			1,246,988,107	937,659,492
Staff Costs	6		586,159,242	458,115,188
Amortization and impairment of intangible assets			-	-
Other Expenses	7		351,536,588	303,799,488
Operating Profit/ (loss) before Value Added Tax (VAT)			309,292,277	175,744,815
Less : VAT On Financial Services	8		77,917,978	49,892,630
Operating Profit/ (loss) after Value Added Tax (VAT)			231,374,299	125,852,185
Share of Profits of associates and joint ventures			-	-
Profit/ (Loss) before tax			231,374,299	125,852,185
Tax expenses	9		73,366,108	70,321,030
Profit/ (Loss) for the year			158,008,190	55,531,155
Profit attributable to :				
Shareholders			158,008,190	55,531,155
Non-controlling interests			-	-
			158,008,190	55,531,155
Earnings Per Share on Profits				
Basic Earning per Share	10		2.44	0.86
Diluted earnings per ordinary share			-	-

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER	2013	Restated 2012
Profit for the Year	158,008,190	55,531,155
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	26,881,713	-
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	-	-
Less: Tax expenses / (income) relating to components of other comprehensive income	-	-
Other comprehensive income for the year, net of tax	26,881,713	-
Total Comprehensive Income for the Year	184,889,903	55,531,155
Attributable to :		
Shareholders	184,889,903	55,531,155
Non-Controlling Interest	-	-

STATEMENT OF FINANCIAL POSITION

Figures in LKR As at 31st December 2013	Notes	2013	Restated 2012
Assets			
Cash and balances with Central Banks	11	101,866,952	107,856,602
Sri Lanka Government securities	12	275,283,764	872,144,634
Balances with banks	13	382,847,152	411,219,276
Loans and Receivables from other customers	14	19,701,338,734	15,965,668,211
Financial Investments - Held-to-Maturity	15	5,841,394,243	2,287,725,326
Property, Plant and equipment	16	289,536,996	288,119,377
Investment properties	17	807,755,000	738,677,165
Deferred tax assets	18	12,521,930	23,128,512
Other assets	19	154,935,939	106,067,546
Total assets		27,567,480,711	20,800,606,649
Liabilities			
Due to banks and Other Institutes	20	3,269,330,502	3,213,784,432
Due to other customers	21	18,913,646,260	14,695,420,265
Debt securities issued	22	1,982,358,158	-
Current Tax liabilities	23	63,916,888	61,881,876
Other liabilities	24	763,007,280	438,312,992
Total liabilities		24,992,259,088	18,409,399,566
Equity			
Stated capital	25	962,092,936	962,092,936
Statutory reserve fund	26	71,238,500	61,994,005
Retained earnings	27	1,268,966,705	1,191,882,032
Other reserves	28	272,923,481	175,238,110
Total shareholders' equity		2,575,221,623	2,391,207,083
Non-controlling interests		-	-
Total equity		2,575,221,623	2,391,207,083
Total equity and liabilities		27,567,480,711	20,800,606,649
Contingent liabilities and commitments		-	-
Book Value Per Share		39.80	36.95

The significant accounting policies and notes on pages 134 to 156 form an integral part of these financial statements. These financial statements have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS).


D. V. Pathirana
 Chief Financial Officer


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,


Siromi Wickramasinghe
 Chairperson


L. E. Susantha Silva
 Director

11 April 2014
 Colombo

STATEMENT OF CASH FLOWS

Figures in LKR

For the Year Ended 31st December

	2013	2012
Cash Flows From Operating Activities		
Interest Received	3,320,032,832	2,512,109,154
Interest payments	(3,187,649,403)	(1,286,202,145)
Receipt from other operating activities	129,679,162	54,393,085
Cash payments to employees & suppliers	(615,537,693)	(513,865,159)
Payments on other operating activities	(278,761,236)	(213,331,567)
Operating profit before changes in operating assets	(632,236,337)	553,103,368
(Increase)/Decrease In Operating Assets :		
Funds Recovered from customers	3,171,099,579	2,705,212,439
Funds advanced to customers	(6,818,831,356)	(3,678,415,278)
Other Assets	26,876,730	20,456,990
	(3,620,855,047)	(952,745,849)
Increase / (Decrease) In Operating Liabilities		
Deposits from customers	4,935,916,914	586,890,086
Others	300,788,095	31,642,908
	5,236,705,009	618,532,994
Net cash from operating activities before income tax	983,613,624	218,890,512
Income Tax & Deemed Dividend Tax Paid	(34,590,653)	(42,323,040)
Net cash from operating activities	949,022,972	176,567,472
Cash Flows From Investing Activities		
Dividends received	17,857	17,857
(Purchase)/Sale of Investment Securities	(2,855,729,677)	283,184,107
Purchase of property, plant and equipments	(65,989,823)	(94,026,260)
Disposal of property, Plant and equipment	800,815	3,102,830
Net cash from Investing activities	(2,920,900,827)	192,278,534
Cash Flows From Financing Activities		
Issue/(Redemption) of Shares	-	-
Redemption of Contribution towards Share Capital	-	-
Repayment of Borrowings	(2,492,491,361)	(1,973,151,227)
Proceeds from Borrowings	4,531,085,814	1,606,581,604
Dividends paid	-	-
Net cash from financing activities	2,038,594,453	(366,569,624)
Net increase in cash & cash Equivalents	66,716,597	2,276,382
Cash & cash equivalents at beginning of the period	201,373,664	199,097,283
Cash & cash equivalents at the end of the period	268,090,261	201,373,664
Reconciliation Of Cash and Cash Equivalents		
Cash In Hand	101,866,952	107,856,602
Bank at Bank	166,223,309	93,517,062
	268,090,261	201,373,664

ACCOUNTING POLICIES

Corporate Information

1. REPORTING ENTITY

HDFC Bank of Sri Lanka has been incorporated in Sri Lanka as a Building Society in 1984 under section 11 of the National Housing Act of 1956. Subsequently converted to a corporation under the Housing Development Finance Corporation of Sri Lanka Act.No.7 Of 1997 and obtained the status of a specialized Bank under Housing Development Finance Corporation of Sri Lanka (Amendment) Act No 15 of 2003 and amended act No 45 of 2011 which authorized to apply all activities of the schedule iv of Banking Act No 30 of 1988 with amendments thereafter. HDFC bank's Head office is located at NHDA Secretariat Colombo-02, Sri Lanka.

2. PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The principal business activities of HDFC Bank during the year were granting loans and accepting deposits with other forms of financial assistances for development of the economy.

3. BASIS OF PREPARATION

3.1. The Statement of Compliance

The Statement of Financial position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows are drawn up in conformity with 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 Reporting Standards (SLFRS) which are introduced by the Institute of Chartered Accountants of Sri Lanka mandated for all specified business enterprises were used to prepare these financial statements. The comparative figures were also restated as per 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 (LKAS) 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 Advances to Customers:

Loans and Advances to customers are stated in the Statement of Financial Position 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 (LKAS) 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 (LKAS) No-39

on 'Financial Instruments : Recognition and measurement in the Financial Statements of the Bank. The Bank used to make the collective impairment provision at rolling rate method where the individual impairment is not 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.

Cash Margin Loans

No provisions made for the loans granted against the cash deposit Balances as cash backed loans can be recovered on bank's discretion.

EPF Loans

The collective impairment method is used for valuation of EPF back loans and no provisions made for Zero defaulters. The bank uses the rolling rate applicable to the range 0-3 to 3-18 month arrears loans. 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 of at such auctions are recognized as acquired properties which are presented under the loans & advances.

The valuations 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 Financial Investments

Investment in treasury bills, Bonds and Held-to-maturity investments 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 (LKAS) No-16 Property, Plant and Equipment.

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 as 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 are 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.

5. INVESTMENT PROPERTY

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

6. 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 Statement of Financial Position at amounts payable. The interest payable on these deposits is charged to the Income Statement on amortized cost basis and presented under respective liabilities.

6.2 Borrowings

Borrowings which include refinance borrowings, call money borrowings, and borrowings from financial institutions are shown at the gross value of the outstanding balance. They are stated in the Statement of Financial Position at amounts payable. Interests payable on these borrowings are charged to the Income Statement using amortized cost method.

6.3 Retirement Benefits -Defined benefit plans

Provision is made in the Accounts for retirement gratuities payable under the payment of Gratuities Act No.12 of 1983 for employees from the time of joining the bank and provision for special gratuity as per CBEU collective agreement for special employees who have completed more than 15 years using Actuarial valuation. The item is grouped under other liabilities in the Statement of Financial Position.

6.4 Retirement Benefits -Defined Contribution plans

6.4.1 Employee provident fund

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

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

7. REVENUE RECOGNITION

7.1 Interest Income on Loans and Advances

Interest income is recognized 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 recognized on a cash basis for the loans except EPF Loans.

7.3 Income from Government Securities and Investments.

Discounts/premiums on Treasury Bills and Treasury Bonds are amortized over the period of investment.

7.4 Other Income

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

8. EXPENSES

8.1 Interest on Deposits, Borrowings

In terms of the provisions of the Sri Lanka Accounting Standard (LKAS) No-39 on 'Financial Instruments: Recognition and measurement, the interest cost on deposits and borrowings are recognized on effective interest rate method and charge 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 Income statement in arriving at the profit or loss for the year are recognized on accrual basis.

9. TAXATION

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

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 Statement of Financial Position date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and 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 (LKAS) No-12 on 'Income Taxes

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. THE STATEMENT OF CASH FLOWS

The Statement of Cash Flows has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 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 Statement of Financial Position 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 from 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.

15. NEW ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

The following Sri Lanka Accounting Standards were issued by The Institute of Chartered Accountants of Sri Lanka and is effective for the periods commencing on or after 1st January 2014.

(i) SLFRS 9 – Financial Instruments

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Effective date of this standard has been deferred until notice.

(ii) SLFRS 10 – Consolidated Financial Statements

The objective of this SLFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. Effective date of this standard is annual periods beginning on or after 1st January 2014.

(iii) SLFRS 11 – Joint Arrangements

The objective of this SLFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

Effective date of this standard is annual periods beginning on or after 1st January 2014.

(iv) SLFRS 12 – Disclosure of Interests in Other Entities

The objective of this SLFRS is to require an entity to disclose information that enables users of its financial statements to evaluate:

- (a) the nature of, and risks associated with, its interests in other entities; and
- (b) the effects of those interests on its financial position, financial performance and cash flows.

Effective date of this standard is annual periods beginning on or after 1st January 2014.

(v) SLFRS 13 – Fair Value Measurement

This standard Provides guidance on how to measure fair value under SLFRS when fair value is required or permitted and requires disclosures about fair value measurements. Effective date of this standard is annual periods beginning on or after 1st January 2014.

MEASUREMENT OF FINANCIAL INSTRUMENTS

Bank Current year -2013

Figures in LKR

	HFT	Designated at FVTPL	HTM	L&R	AFS	Others	Total
Assets							
Cash and balances with Central Banks						101,866,952	101,866,952
Sri Lanka Government securities			275,283,764				275,283,764
Balances with banks			382,847,152				382,847,152
Derivatives							-
Financial assets held-for-trading							-
Financial assets designated at fair value							-
through profit or Loss							-
Loans and receivable to the Banks							-
Loans and Receivables to other customers				19,701,338,734			19,701,338,734
Financial Investments			5,841,394,243				5,841,394,243
Other assets							-
Total Financial Assets	-	-	6,499,525,159	19,701,338,734	-	101,866,952	26,302,730,845
Other Assets						1,264,749,866	1,264,749,866
Total Assets	-	-	6,499,525,159	19,701,338,734	-	1,366,616,818	27,567,480,711
Figures in LKR							
	HFT	Designated at FVTPL	HTM	L&R	AFS	Others	Total
Liabilities							
Due to banks			3,269,330,502				3,269,330,502
Derivatives							-
Financial liabilities designated at fair							-
value through profit or loss							-
Due to other customers			18,913,646,260				18,913,646,260
Debt securities issued			1,982,358,158				1,982,358,158
Other Liabilities							-
Total financial Liabilities	-	-	24,165,334,921	-	-	-	24,165,334,921
Other Liabilities						3,402,145,790	3,402,145,790
Total Liabilities	-	-	24,165,334,921	-	-	3,402,145,790	27,567,480,711

Bank-Previous year -2012

Figures in LKR

	HFT	Designated at FVTPL	HTM	L&R	AFS	Others	Total
Assets							
Cash and balances with Central Banks						107,856,602	107,856,602
Sri Lanka Government securities			872,144,634				872,144,634
Balances with banks			411,219,276				411,219,276
Derivatives							-
Financial assets held-for-trading							-
Financial assets designated at fair value through profit or Loss							-
Loans and receivable to the Banks							-
Loans and Receivables to other customers				15,965,668,211			15,965,668,211
Financial Investments			2,287,725,326				2,287,725,326
Other assets							-
Total Financial Assets	-	-	3,571,089,236	15,965,668,211	-	107,856,602	19,644,614,049
Other Assets						1,155,992,600	1,155,992,600
Total Assets	-	-	3,571,089,236	15,965,668,211	-	1,263,849,202	20,800,606,649
Figures in LKR							
	HFT	Designated at FVTPL	HTM	L&R	AFS	Others	Total
Liabilities							
Due to banks & Other Financial Institutions			3,213,784,432				3,213,784,432
Derivatives							-
Financial liabilities designated at fair value through profit or loss							-
Due to other customers			14,695,420,265				14,695,420,265
Debt securities issued							-
Other Liabilities							-
Total financial Liabilities	-	-	17,909,204,697	-	-	-	17,909,204,697
Other Liabilities						2,891,401,951	2,891,401,951
Total Liabilities	-	-	17,909,204,697	-	-	2,891,401,951	20,800,606,649

1. INTEREST INCOME

In Rupees	2013	Bank 2012
Interest Income		
Sri Lanka government securities	28,416,192	13,190,178
Balance With Banks	-	-
Derivatives	-	-
Financial assets held-for -trading	-	-
Financial assets designated at fair value through Profit or Loss	-	-
Loans and receivables to banks	-	-
Loans and receivables to other customers	2,922,126,138	2,277,680,253
Financial investments - Held -to- maturity	577,674,889	343,888,096
Financial investments - Available-for-sale	-	-
Others	-	-
Total Interest Income	3,528,217,218	2,634,758,527

2. INTEREST EXPENSES

In Rupees	2013	Bank 2012
Due to Banks	144,780,900	124,159,138
Derivatives	-	-
Financial liabilities at fair value through profit or loss	-	-
Due to other customers	2,160,642,968	1,561,107,148
Debt securities issued	58,466,955	-
Other Borrowings	105,377,437	120,053,669
Total interest expenses	2,469,268,259	1,805,321,967

3. FEE AND COMMISSION INCOME

In Rupees	2013	Bank 2012
Fee and Commission income	189,946,905	58,458,381
Others	-	-
Fee and Commission Income	189,946,905	58,458,381
Comprising		
Loans	165,739,838	48,341,506
Cards	-	-
Trade and remittances	-	-
Investment banking	-	-
Deposits	-	-
Guarantees	-	-
Others	24,207,067	10,116,875
Fee and Commission Income	189,946,905	58,458,381

4. OTHER OPERATING INCOME (NET)

In Rupees	2013	Bank 2012
Revaluation gain Investment Property	95,413,312	53,081,000
Revaluation (loss) Investment Property	-	-
Loss on sale of investment properties	(10,712,858)	(1,819,973)
Others	-	-
Other Operating Income (net)	84,700,454	51,261,027

The Revaluation gain on Investment properties for the year 2012 of Rs. 53 Mn has been reclassified into other income in the income statement in compliance with LKAS - 40 Investment Properties and this restated impact to the retained earnings is Rs. 53 Mn (Positive) and revaluation reserve is Rs. 53 Mn (Negative).

5. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

In Rupees	2013	Bank 2012
Loans and Receivables		
To banks	-	-
To Other Customers	86,608,211	1,496,477
Others	-	-
Total	86,608,211	1,496,477
5.1 To Other Customers		
Individual Impairment	(33,635,984)	(11,128,270)
Collective Impairment	120,244,196	12,624,747
	86,608,211	1,496,477

6. STAFF COSTS

In Rupees	2013	Bank 2012
Salary and Related Expenses		
Salary and Bonus	413,493,341	318,911,611
Staff Loan Benefits	33,637,428	16,212,647
Staff Medical	19,656,295	18,138,032
Overtime & Officers' Allowance	6,058,808	6,947,752
Encashment of Annual Leave	11,546,750	9,470,816
Incentive Payments	5,079,453	4,513,811
Share Based expenses	-	-
Others	-	-
	489,472,074	374,194,668
Retirement Benefits		
Contributions to defined contribution plans	48,004,616	42,740,828
Contributions to defined benefit plans	48,682,553	41,179,693
	96,687,168	83,920,521
Total	586,159,242	458,115,188

6.1 Remuneration of Key Management

In Rupees	2013	Bank 2012
Total Salary of Key Management	22,437,628	22,979,464
Provision for Retirement Benefits	1,464,836	2,267,375
	23,902,463	25,246,838

6.2 Contribution to defined benefit Plans -Special Gratuity

The 50% of the total of actuarial valuation as at 31-12-2013 for Special Gratuity provision as per the collective agreement with CBEU for employees, who have completed more than 15 years of service at HDFC Bank, has been provided for in 2013, the balance will be provided in 2014. Net Impact to the retain profit is LKR 41.43 Mn.

7. OTHER EXPENSES

In Rupees	2013	Bank 2012
Directors' emoluments	1,720,200	2,351,600
Auditors' remunerations	864,727	460,000
Non-audit fees to auditors	-	-
Professional expenses	1,450,310	3,416,165
Legal expenses	375,422	231,774
Depreciation of Property, Plant and equipment	63,027,724	54,260,794
Amortization of Leasehold property	364,642	364,642
Electricity & Water	22,998,076	19,389,074
Telephone Charges	17,541,738	18,881,882
Computer Maintenance	17,721,259	17,434,174
Rent	49,987,697	43,477,410
Repair & Maintenance	4,690,309	3,705,329
Donation	1,197,460	1,225,822
Business Dev.& Advertising	31,004,180	27,556,915
Other Office admin. and establishment expenses	138,592,844	111,043,907
Total	351,536,588	303,799,488

8. VAT ON FINANCIAL SERVICES

In Rupees	2013	Bank 2012
Total Value Addition	718,646,500	424,762,043
Value Addition Attributable for Financial Services	664,875,391	415,771,911
Finance VAT %	12%	12%
VAT on Financial Services For Current year	79,785,047	49,892,629
Under (Over) Provision in Previous Years	(1,867,070)	-
	77,917,978	49,892,629

9. TAX EXPENSES

In Rupees	2013	Bank 2012
Current Tax Expense		
Current Year	62,759,526	49,012,129
Prior years' Provision	-	26,867,756
Deferred Tax Expenses	10,606,581	(5,558,855)
Total	73,366,108	70,321,030

9.1 Reconciliation of tax expenses

In LKR	2013	Bank 2012
Accounting Profit	309,292,277	72,773,196
Add :Disallowable Expenses	243,566,597	176,818,350
Less :Allowable Expenses	328,717,708	74,548,229
Adjusted Profit Before Tax	224,141,166	175,043,318
Income Tax	62,759,526	70,321,029
Effective Tax Rate	20.29%	96.63%

9.2 Relationship Between Tax Expense and Accounting Income

Profit Before Tax as per the Income Statement	309,292,277	72,773,197
Add :Disallowable Expenses	243,566,597	176,818,351
Less :Allowable Expenses	328,717,708	74,548,230
Taxable Income	224,141,166	175,043,318
Tax @ 28%	62,759,526	49,012,129
Social Responsibility levy @ 1.5%		
Under (Over) Provision	-	26,867,756
Less : Differed Tax Adjustments	10,606,581	(5,558,855)
Provision for Income Tax	73,366,108	70,321,030

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

In LKR		
Deferred tax assets	(1,897,144)	19,200,733
Deferred tax Liabilities	8,709,437	(13,641,878)
Other temporary differences	-	-
Differed tax (credit)/ Charges to income Statement	(10,606,581)	5,558,855

10. EARNING PER SHARE

In Rupees	2013	Bank 2012
Net profit attributable to ordinary equity holders	158,008,190	55,531,155
Adjust:		
Interest on preference shares	-	-
Interest on convertible bonds	-	-
Net profit attributable to ordinary equity holders adjust for the effect of dilution	-	-
Weighted average number of ordinary shares for Basic earnings per share	64,710,520	64,710,520
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	2.44	0.86
Diluted earnings per share	-	-

11. CASH AND BALANCES WITH CENTRAL BANKS

In Rupees	2013	Bank 2012
Cash in Hand	101,866,952	107,856,602
Statutory balances with central banks	-	-
Central bank of Sri Lanka	-	-
Other Central banks	-	-
Non-statutory balances with central banks	-	-
Central Bank of Sri Lanka	-	-
Other Central Banks	-	-
Total balances with Central Banks	-	-
Total	101,866,952	107,856,602

12. SRI LANKA GOVERNMENT SECURITIES

In Rupees	2013	Bank 2012
Held-to-maturity	-	-
Treasury Bonds/ Treasury Bills	35,244,312	35,144,634
Treasury Bills Under Repurchase Agreements	240,039,452	837,000,000
Others	-	-
Total	275,283,764	872,144,634

13. BALANCE WITH BANKS

In Rupees	2013	Bank 2012
Placements	166,223,309	93,517,062
Others	216,623,842	317,702,214
Total	382,847,152	411,219,276

14. LOANS AND RECEIVABLES TO OTHER CUSTOMERS

In Rupees	2013	Bank 2012
Gross loans and receivable	20,112,269,211	16,289,990,476
(less) :Individual impairment charges	(27,809,810)	(61,445,794)
Collective impairment charges	(383,120,667)	(262,876,471)
Of which: Loans and receivables designated at fair value through profit or loss (note 20)	19,701,338,734	15,965,668,211
Net loans and Receivables	19,701,338,734	15,965,668,211

a. Analysis

In Rupees	2013	Bank 2012
By Product		
Overdrafts	-	-
Trade Finance	-	-
Credit Cards	-	-
Gold	121,197,035	50,751,350
Staff Loans	477,639,955	416,398,468
Term Loans	-	-
Short-term	-	-
Long-term	19,513,432,221	15,822,840,658
Reverse repo agreements	-	-
Others	-	-
Gross Total	20,112,269,211	16,289,990,476
By Currency		
Sri Lankan Rupee	20,112,269,211	16,289,990,476
United State Dollar	-	-
Great Brittan Pound	-	-
Others	-	-
Gross Total	20,112,269,211	16,289,990,476
By industry		
Agriculture and fishing	-	-
Manufacturing	-	-
Tourism	-	-
Transport	-	-
Construction	-	-
Traders	-	-
New economy	102,678,799	-
Housing	20,009,590,411	16,289,990,476
Grand Total	20,112,269,211	16,289,990,476

movements in Individual and Collective Impairment Charges during the Year

In Rupees	2013	Bank 2012
Individual impairment charges		
Opening balance at 01-01-2013	61,445,794	72,574,063
Charges/(Write back) to income statement	(33,635,984)	(11,128,269)
Net write-off during the year	-	-
Other movements	-	-
Closing balance 31-12-2013	27,809,810	61,445,794
Collective impairment charges	-	-
Opening balance at 01-01-2013	262,876,470	250,251,724
Charges/(Write back) to income statement	120,244,196	12,624,746
Net write-off during the year	-	-
Other movements	-	-
Closing balance 31-12-2013	383,120,666	262,876,470
Total	410,930,475	324,322,264

15. FINANCIAL INVESTMENTS -HELD-TO- MATURITY (EXCLUDING SRI LANKA GOVERNMENT SECURITIES)

In Rupees	2013	Bank 2012
Equity securities	30,600	30,600
Debt Securities	-	-
Fixed Deposit	5,319,581,333	1,821,716,644
Overnight Deposit	-	465,978,082
Commercial Paper	433,304,081	-
Trust Certificates	88,478,230	-
(Less) Impairment charges	-	-
Net Total	5,841,394,243	2,287,725,326
Of which : Held-To-Maturity Investments designated at fair value through profit or loss (note 20)	-	-
Held-To-Maturity Investments	5,841,394,243	2,287,725,326
a. Movements in Impairment Charges during the Year		
Opening Balance 01-01-2012	-	-
Charge/(write back) to income statement	-	-
Net write-Off during the year	-	-
Other movements	-	-
Closing Balance 31-12-2012	-	-

16. PROPERTY, PLANT AND EQUIPMENT

In Rupees

	Land and Buildings	Leasehold Properties	Computer Hardware and Software	Office Equipment, Furniture and Fittings	Others	Total
2013						
Cost/Fair Value						
Opening Balance at 01-01-2013	23,422,679	52,371,044	165,182,698	174,457,782	72,295,949	487,730,153
Additions	-	-	23,071,729	29,669,410	13,248,685	65,989,823
Disposals	-	875,364	-	800,815	-	1,676,179
Closing Balance at 31-12-2013	23,422,679	51,495,680	188,254,427	203,326,377	85,544,633	552,043,797
(less) : Accumulated depreciation						
Opening Balance at 01-01-2013	1,905,991	4,011,060	93,205,914	60,125,637	40,362,173	199,610,776
Charge for the year	908,536	364,642	25,193,066	20,924,436	16,001,686	63,392,366
Additions	-	-	-	-	-	-
Disposals	-	-	-	496,340	-	496,341
Closing Balance at 31-12-2013	2,814,528	4,375,702	118,398,980	80,553,733	56,363,859	262,506,801
(less): Impairment charges	-	-	-	-	-	-
Net Book Value at 31-12-2013	20,608,151	47,119,979	69,855,448	122,772,644	29,180,774	289,536,996
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
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
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

16.1 Fully Depreciated Property Plant and equipments

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

2013	Fully depreciated	Depreciating	Total
Land and Buildings	-	23,422,679	23,422,679
Leasehold Properties	-	51,495,680	51,495,680
Computer Hardware and Software	25,935,901	162,318,526	188,254,427
Office Equipment, Furniture and Fittings	8,087,508	195,238,869	203,326,377
Plant and Machinery	3,781,006	27,768,841	31,549,847
Tools	33,446	-	33,446
Motor Vehicle	8,614,499	-	53,911,880
Working Progress	-	49,460	49,460
Total	46,452,361	460,294,055	552,043,797

2012	Fully depreciated	Depreciating	Total
Land and Buildings	-	23,422,679	23,422,679
Leasehold Properties	-	52,371,044	52,371,044
Computer Hardware and Software	23,147,412	142,035,287	165,182,698
Office Equipment, Furniture and Fittings	6,579,544	167,878,239	174,457,782
Plant and Machinery	2,467,500	27,413,263	29,880,763
Tools	33,446	-	33,446
Motor Vehicle	8,614,500	33,716,080	42,330,580
Working Progress	-	51,160	51,160
Total	40,842,401	446,887,752	487,730,153

16.2 Information on Free hold Land and Building of Bank

Location	Extent	Building-Square feet	Net Book Value
Kalutara Branch - No. 13, Gnanodaya Mw, Kalutara South, Kalutara.	P 7.535	3,420	16,537,610

16.3 Information on Lease hold Land and Building of Bank

Location	Extent	Building-Square feet	Net Book Value
Hyde Park Branch - No. 63, Hydeparkcorner, Colombo 02.	P 31	1,150	51,190,520

17. INVESTMENT PROPERTIES

a. Investment Properties at Cost/fare Value

In Rupees	2013	Bank 2012
Cost/fare value		
Opening Balance at 01-01-2013	738,677,165	692,547,709
Additions	-	-
Disposals	(26,335,477)	(6,951,545)
Exchange rate Variance	-	-
Adjustments/Revaluation	95,413,312	53,081,000
Closing Balance at 31-12-2013	807,755,000	738,677,165
(less) : Accumulated depreciation		
Opening Balance at 01-01-2013		
Charge for the year	-	-
Additions	-	-
Disposals	-	-
Exchange rate Variance	-	-
Adjustments	-	-
Closing Balance at 31-12-2013	-	-
(less):Impairment charges	-	-
Net Book Value at 31-12-2013	807,755,000	738,677,165
Market Value at 31-12-2013	807,755,000	738,677,165

17.1 Investment Properties details

Location	Extent (Perches)	Deed No	2013	Bank 2012
No; 441 Sangarajah Mw,Aluthkade East -Land	59.20	1127	213,120,000	207,000,000
No.192 Srimath Bandaranayake Mw, Kotahena Colombo 13. - Land	123.20	1124	449,680,000	320,319,000
No.192 (Part) Sri Sangarajah Mawatha, Kotahena Colombo 13.	15.00	1126	54,750,000	38,999,000
Avissawella -Housing Project -Land	-	-	90,205,000	172,359,165
			807,755,000	738,677,165

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

Name of the Valuer	Mr. M. A. A. Sarath AIV
Qualifications of the Valuer	Member of Institute of Valuers
Valuation Date	18th December 2013 /14th February 2014

17.3 Avissawella -Housing Project

Name of the Valuer	Mr. K. A. D. N. J. Nanayakkara
Qualifications of the Valuer	Chief Valuer - Valuation Department
Valuation Date	21st March 2014

17.4 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 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 Appellate Court of Western Province under Reference No WP/HCCA/COL-180/2012 F, which is pending to date.

18. DEFERRED TAX ASSETS/LIABILITIES

In Rupees	2013	Bank 2012
Deffered tax assets	36,970,091	41,731,663
Deferred tax Liabilities	(24,448,161)	(18,603,151)
Income Statement	-	-
Net Total	12,521,930	23,128,512

19. OTHER ASSETS

In Rupees	2013	Bank 2012
Cost		
Receivables	11,376,865	10,014,421
Deposits and Prepayments	33,798,994	33,290,261
Sundry debtors	-	-
Loan related Receivable	48,736,213	-
Others	61,023,866	62,762,864
Total	154,935,939	106,067,546

20. DUE TO BANKS AND OTHER INSTITUTES

In Rupees	2013	Bank 2012
Borrowings from Banks	1,018,692,325	920,693,334
Borrowings from Other Institutes	2,250,638,177	2,293,091,098
Total	3,269,330,502	3,213,784,432

21. DUE TO OTHER CUSTOMERS

In Rupees	2013	Bank 2012
At amortized cost	18,913,646,260	14,695,420,265
(Less): Designated at fair value through profit or Loss	-	-
Total	18,913,646,260	14,695,420,265

a. Analysis

In Rupees	2013	Bank 2012
By Product		
Demand deposits(current accounts)	-	-
Savings deposits	2,383,823,188	1,809,935,716
Fixed deposits	16,524,975,103	12,878,101,632
Other Deposits	4,847,968	7,382,917
Total	18,913,646,260	14,695,420,265
By Currency		
Sri Lankan Rupee	18,913,646,260	14,695,420,265
United State Dollar	-	-
Great Britan Pound	-	-
Others	-	-
Total	18,913,646,260	14,695,420,265

22. DEBT SECURITIES ISSUED

In Rupees	2013	Bank 2012
Issued by the bank	1,982,358,158	-
Issued by theOther Subsidiaries	-	-
Total	1,982,358,158	-
Due within 1 year	-	-
Due after 1 year	1,982,358,158	-
Total	1,982,358,158	-

a. Details of Debt Securities Issued

Type	Face Value In Rupees Millions	Interest Rate and Repayment Terms	Issue Date	Maturity Date	2013	2012
Issued by Bank						
Listed,Secured, Redeemable & Rated 3 Year Debenture	476,460,000	14.50%	24th Oct 2013	23rd Oct 2016	472,336,316	-
Listed,Secured, Redeemable & Rated 4 Year Debenture	443,540,000	15.00%	24th Oct 2013	23rd Oct 2017	439,615,038	-
Listed,Secured, Redeemable & Rated 5 Year Debenture	1,080,000,000	15.50%	24th Oct 2013	23rd Oct 2018	1,070,406,805	-
Sub Total	2,000,000,000				1,982,358,158	-

23. PROVISION FOR TAXATION AND DEEMED DIVIDEND TAX

In LKR	2013	Bank 2012
Taxation - current	99,645,807	71,472,617
VAT Payable	6,388,596	13,478,057
Debit & PAYE Tax	567,212	322,418
WHT Received	(45,475,982)	(23,391,216)
Crop Insurance Levy	2,791,254	-
Total	63,916,888	61,881,876

24. OTHER LIABILITIES

In Rupees	2013	Bank 2012
Sundry creditors	578,799,563	210,507,342
Long Term Funds & Deposits	20,132,442	23,154,576
Charges recovered in advance	164,075,276	204,651,075
Total	763,007,280	438,312,992

25. STATED CAPITAL /ASSIGNED CAPITAL

In Rupees	2013	Bank 2012
Authorized Capital	2,000,000,000	2,000,000,000
Stated capital /Assigned Capital	962,092,936	962,092,936
Total	962,092,936	962,092,936

26. STATUTORY RESERVE FUND

In Rupees	2013	Bank 2012
Opening balance as at 01-01-2013	61,994,005	61,871,397
Transfer During the Period	9,244,495	122,608
Closing Balance 31-12-2013	71,238,500	61,994,005

27. RETAINED EARNINGS

In Rupees	2013	Bank 2012
Opening balance as at 01-01-2013	1,191,882,032	1,169,978,442
Profit for the year	158,008,190	55,533,167
Transfer to other reserves	80,923,517	33,629,578
Dividend	-	-
Closing Balance 31-12-2013	1,268,966,705	1,191,882,032

28. OTHER RESERVES

a. Bank-2013			
In Rupees	Opening Balance 01-01-2013	Movement/ transfers	Closing balance as at 31-12-2013
General reserve	50,389,508	18,488,990	68,878,499
Revaluation Reserve	34,138,954	(875,364)	33,263,590
Investment Fund	87,258,522	53,190,032	140,448,554
Available-for-sale reserve	-	-	-
Cash flow reserve	-	-	-
Foreign currency translation reserve	-	-	-
Special Reserve	3,451,125	(0)	3,451,125
Actuarial Gain/ Loss	-	26,881,713	26,881,713
Total	175,238,110	97,685,371	272,923,481

a. Bank-2012			
In Rupees	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	(875,364)	34,138,954
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
Actuarial Gain/ Loss	-	-	-
Total	142,606,505	32,631,605	175,238,110

29. MATURITY ANALYSIS

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

As at 31st December 2013 (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	101,867	-	-	-	-	101,867
Due from Banks	166,223	-	-	-	-	166,223
Investments	4,304,569	1,941,389	87,313	-	31	6,333,302
Loans & Advances	1,112,307	1,545,735	4,749,714	4,138,321	8,155,262	19,701,339
Fixed Assets	-	-	-	-	289,537	289,537
Other Assets	29,222	23,919	76,580	20,036	825,457	975,213
Total Assets	5,714,188	3,511,043	4,913,607	4,158,356	9,270,287	27,567,481
Percentage 31st Dec 2013	20.73	12.74	17.82	15.08	33.63	100.00
Percentage 31st Dec 2012	14.22	12.44	17.08	14.95	41.30	100.00
Liabilities						
Total Capital Fund	-	-	-	-	2,575,222	2,575,222
Deposits	9,161,038	6,297,743	1,383,766	1,369,640	701,460	18,913,646
Borrowings	613,171	385,244	1,232,143	1,763,202	1,257,928	5,251,689
Other Liabilities	642,969	1,597	7,526	165,654	9,178	826,924
Total Liabilities	10,417,178	6,684,584	2,623,435	3,298,496	4,543,788	27,567,481
Percentage 31st Dec 2013	37.79	24.25	9.52	11.97	16.48	100.00
Percentage 31st Dec 2012	38.72	32.36	5.58	4.12	19.22	100.00

30. 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 30.1 of the accounts.

30.1 Related Party Transactions

Name	Related Party	Office Holding	Transactions	Nature of Transactions	% Regulatory Capital
S. A. J. SamaraWeera (Director HDFC)	National Housing Development Authority	Chairman	19.78 Mn	Rent for Head Office Buliding	0.76%
Siromi Wickramasinghe (Chairperson HDFC)	Chairman HDFC	Chairman	0.57 Mn	Savings Deposit	0.02%
W. J. L. U. Wijeweera (Director HDFC)	Director HDFC	Director	0.05 Mn	Savings Deposit	0.002%
D. G. K. Dilani (Spouse of Director)	W. J. L. U. Wijeweera (Director HDFC)		0.68 Mn	Savings Deposit & Fixed Deposit	0.0266%
W. D. R. D. Goonaratne	Director HDFC	Director	0.0011 Mn	Savings Deposit	0.00004%

Directors, Interest in Debentures

Mrs Siromi Wickramasinghe, the chairporson of HDFC Bank has purchased listed debentures of HDFC Bank at the initial issue and details as follows as at 31-12-2013

No of Debentures	Value of Debentures	Tenure	Interest Rate	AER
20,000	LKR 2,000,000	5 years	15.50%	15.50%

31. EVENTS OCCURRING AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

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

32. ASSETS PLEDGED

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

Type of Facility	Amount of Facility LKR Mn	Nature of Seurity	Value of Security LKR Mn	Balance as at 31-12-2013 LKR Mn
(1) Overdraft (Sampath Bank)	100	Part of Portfolio	150	-
(2) Borrowing (Term Loan) (Sampath Bank)	1000	Part of Portfolio	1250	624.7
(3) Borrowing (Term Loan) (BOC)	500	Part of Portfolio	1000	391.66
Type of Facility	Amount of facility Rs Mn	Nature of Seurity	Value of security Rs Mn	Balance as at 31-12-2013 LKR Mn
(1) Listed ,Secured ,Redeemable Debenture	2000	Part of Portfolio	3100	2000

CAPITAL ADEQUACY

CAPITAL BASE	2013	2012
As at 31st December	(Rs.000')	(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	71,239	61,994
Published Retained Profits/(Accumulated Losses)	1,268,967	1,138,801
General and Other Reserves	212,778	141,099
Sub Total	2,515,076	2,303,987
Deductions/Adjustments-Tier 1		
Net Deferred Tax Assets	12,522	23,129
Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	49,843	49,843
Total Core Capital (Tier 1)	2,452,711	2,231,016
General Provisions	75,934	61,640
Total Tier 2 Capital	2,528,645	2,292,656
Total risk adjusted balances (credit risk, market risk, operational risk)	13,826,323	9,393,162
Risk Adjusted Capital Ratios		
Tier 1 (Eligible Tier 1 capital / Total risk adjusted balances) *	17.74%	23.75%
Tier 11(Capital base / Total risk adjusted balances) **	18.29%	24.41%

* Statutory minimum 5 ** Statutory minimum 10%

RISK ADJUSTED ON - BALANCE SHEET EXPOSURE

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2013	2012		2013	2012
Exposures					
Cash- Local Currency	101,867	107,857	0%	-	-
Sri Lanka Govt Treasury Bills & Bonds	275,284	1,338,123	0%	-	-
Central Bank of Sri Lanka	216,624	317,702	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	3,877,217	4,428,080	50%	1,938,608	2,214,040
Claims that not qualify for regulatory capital purposes	3,259,652	2,330,224	100%	3,259,652	2,330,224
Housing loans against EPF.	7,560,106	6,297,823	0%	-	-
Cash Margin Loans	581,307	366,046	0%	-	-
Gold Loans	119,050	50,751	0%	-	-
Retail claims that qualify for regulatory capital purposes	3,191,359	1,534,065	75%	2,393,519	1,150,549
Claims Secured by Real State	29,524	41,548	100%	29,524	41,548
Non Performing Assets					
Past Due Residential Mortgage Loans					
Specific provisions are more than 20%	10,718	10,266	50%	5,359	5,133
Specific provisions are less than 20%	674,717	637,898	100%	674,717	637,898
Housing loans on Guarantors & others					
Specific provisions are more than 20%	20,991	10,547	100%	20,991	10,547
Specific provisions are less than 20%	49,861	19,238	150%	74,792	28,857
Due From local Commercial Banks (AAA to BBB-)	4,130,477	1,748,507	20%	826,095	349,701
Claims on Financial Institutions/Primary Dealers/ Finance Companies (A+ to BBB)-	456,804	166,727	50%	228,402	83,364
Claims on Financial Institutions/Primary Dealers/ Finance Companies (BB+ to B- and unrated)	1,420,306	-	100%	1,420,306	-
Fixed Assets	289,537	288,119	100%	289,537	288,119
Other Assets	1,018,365	844,600	100%	1,018,365	844,600
Total Risk Weighted Assets	27,283,796	20,538,152		12,179,898	7,984,611
Total risk adjusted balance for operational risk				1,646,424	1,408,551
Total risk adjusted balances (credit risk, market risk, operational risk)				13,826,323	9,393,162

SHARE INFORMATION

As at 31-12-2013

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

December 31,2013									
Shareholders	Resident			Non Resident			Total		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No. of Shares	%
1 - 1,000	1,557	1,016,794	1.57	7	3,562	0.01	1,564	1,020,356	1.58
1,001 - 10,000	450	1,506,337	2.32	8	29,948	0.05	458	1,536,285	2.37
10,001 - 100,000	75	2,349,162	3.63	2	69,845	0.11	77	2,419,007	3.74
100,001 - 1,000,000	15	3,829,686	5.92	0	0	0.00	15	3,829,686	5.92
Over 1,000,000	4	46,750,186	72.24	1	9,155,000	14.15	5	559,051,186	86.39
Total	2,101	55,452,165	85.68	18	9,258,355	14.32	2,119	64,710,520	100.00

December 31,2012									
Shareholders	Resident			Non Resident			Total		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No. of Shares	%
1 - 1,000	1,472	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	1,974	64,524,292	99.71	18	186,228	0.29	1,992	64,710,520	100.00

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

	December 31,2013				December 31,2012			
	No of Share holders	%	No of Shares	%	No of Share holders	%	No of Shares	%
Individuals	2,017	95.19	6,954,198	10.75	1,894	95.08	6,845,097	10.58
Institution	102	4.81	57,756,322	89.25	98	4.92	57,865,423	89.42
Total	2,119	100.00	64,710,520	100.00	1,992	100.00	64,710,520	100.00

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

	Name Of Shareholder	No. of Shares 2013	Percentage (%) 2013	No. of Shares 2012	Percentage (%) 2012
1	National Housing Development Authority	32,180,000	49.73	32,180,000	49.73
2	Lanka ORIX Leasing Company PLC	9,707,740	15.00	9,707,740	15.00
3	Thurston Investments Ltd.	9,155,000	14.15	-	-
4	Legalinc Trustee Services (Pvt.) Ltd.	3,485,520	5.39	3,485,520	5.39
5	Dr. T. Senthilverl	1,376,926	2.13	1,376,926	2.13
6	DFCC Vardhana Bank Ltd./ Mr. Chandaka Haren Ranil De Soysa	568,958	0.88	668,958	1.03
7	Mr. D. G. Wijemanne	395,010	0.61	395,010	0.61
8	Mr. C. H. R. De Soysa	342,585	0.53	368,358	0.57
9	Dr. R. R. De Silva	304,126	0.47	302,128	0.47
10	Urban Development Authority	300,000	0.46	300,000	0.46
11	Condominium Management Authority	300,000	0.46	300,000	0.46
12.	Mr. H. A. Pieris	265,953	0.41	144,680	0.22
13.	DFCC Vardena Bank Ltd/A, Sithampalam	258,054	0.40	258,054	0.40
14.	Union Commodities (Pvt.) Ltd.	200,000	0.31	200,000	0.31
15.	Finco Holding (Pvt.) Ltd.	185,000	0.29	185,000	0.29
16.	The Associated Newspapers of Ceylon Ltd.	180,000	0.28	180,000	0.28
17.	Mr. D. A. De Soysa	170,000	0.26	170,000	0.26
18.	Road Development Authority	120,000	0.19	120,000	0.19
19.	National Water Supply & Drainage Board	120,000	0.19	120,000	0.19
20.	State Engineering Corporation	120,000	0.19	120,000	0.19
	Total	59,734,872	92.31	50,582,374	78.18

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

	2013 Rs.	2012 Rs.
Highest	52.50	1,699.00
Lowest	27.50	44.00
Year end	29.90	50.60

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

	2013	2012
Dividend per share (Rs.)	0.25 (proposed)	-
Dividend pay out ratio (%)	10.25	-
Net Assets value per share (Rs.)	39.80	36.95
Earning per Share (Rs.)	2.44	0.86

The Board of Directors of the Bank has recommended a final dividend of Cents Twenty Five (Rupees 0.25) per share, for the year ended 31st December 2013 for approval by the shareholders at the 29th Annual General Meeting of the HDFC Bank.

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

Name	2013	2012
Mrs. Siromi Wickramasinghe (Chairperson)	Nil	Nil
Mr. W. J. L. U. Wijayaweera	3,000	3,000
Mrs. C. Wijayawardhana	Nil	Nil
Mr. S. A. J. Samaraweera	Nil	Nil
Mr. W. D. R. D. Goonaratne	Nil	Nil
Mr. L. E. Susantha Silva	1,000	1,000
Mr. G. L. S. Senadeera	Nil	Nil
Mr. G. P. I. Gnanasena	1,000	Nil
Mr. M. Surendran	Nil	Nil
Mr. N. J. B. Mamaduwa (GM/ CEO)	1000	Nil

The percentage of public holding as at December 31, 2013 was 21.11% (21.19% as at December 31, 2012)

DEBENTURE ISSUE 2013

The Bank proceeded with a public issue of 10,000,000 listed secured redeemable debenture of the par value of Rs. 100/- each aggregating to the value of Rs. 1,000,000,000/- with an option to issue a further 10,000,000 of the said debentures in the event of an oversubscription. The issue was oversubscribed and 20,000,000 debentures of Rs.100/- each were allotted to the investors on 21st October 2013 and a consideration of Rs. 2,000,000,000/- was received.

Interest rates of comparable government securities as at 31st December 2013

Tenure	Govt. T/B Rate (%)	HDFC Bank Debenture
3 Years	8.37	14.50% quarterly
4 Years	8.37	15.00% quarterly
5 Years	9.21	15.50% annually

Debt/ equity ratio: 2.04

Interest Cover - Debenture (Times): 10.14

Quick Assets Ratio: 0.17

Class: Listed, Secured, Redeemable Debenture

Reason for the Issue:

- To raise medium and long term matching funds to manage Assets and Liabilities gap exposure and associated risks of the Bank.
- To finance the budgeted lending targets and improve balance sheet growth and earning capacities
- Provide investors a structure to meet their risk return and maturity needs while offering HDFC medium and long term funds at attractive rates,

Any Changes in Credit Rating: No

Details of Allotment

	Quarterly Interest (14.50%) 3 Years	Quarterly Interest (15.00%) 4 Years	Annual Interest (15.50%) 5 Years
No. of Debenture Issued	4,764,600	4,435,400	10,800,000
Value (Rs.)	476,460,000/-	443,540,000/-	1,080,000,000/-

The Market Prices during the Year:

Debt Description	Price High (Rs.)	Price Low (Rs.)	Close Price (Rs.)
5 Years -15.50% p.a payable annually	101.04	101.04	101.04
3 Years -14.50% p.a payable quarterly	Did not trade during the date of listing up to 31st December 2013		
4 Years -15.00% p.a payable quarterly			

VALUE ADDED STATEMENT

For the period ended 31st December

	%	2013	Bank	%	2012
Interest Income		3,528,217,218			2,634,758,527
Other Income		274,647,359			109,719,408
Gross Income		3,802,864,578			2,744,477,936
Cost of Service		2,754,193,518			2,052,000,903
Total Value Additions		1,048,671,060			692,477,032
Value Distributed					
To Employees					
(Remuneration & Benefits)	55.9	586,159,242		66.2	458,115,188
To Government					
Income Tax	7.0	73,366,108		10.2	70,321,030
Value Added Tax	7.4	77,917,978		7.2	49,892,630
Stamp Duty	0.3	3,583,605		0.4	2,859,758
Debit Tax	-	-		-	-
	14.8	-		17.8	-
To Share Holders (Dividend)	1.5	16,177,630		-	-
Retained in the Business					
Retained Income	13.5	141,830,560		8.0	55,531,155
Depreciation	6.0	63,027,724		7.8	54,260,794
Loan Loss Provision	8.3	86,608,211		0.2	1,496,477
Total Value Distributions	100.0	1,048,671,060		100.0	692,477,032

TEN YEAR STATISTICAL SUMMARY

Year ended 31st December (LKR. Mn)	2004	2005	2006	2007	2008	2009	2010	2011*	2012*	2013*
OPERATING RESULTS										
Income	947	1,056	1,286	1,741	1,974	2,269	2,250	2,386	2,744	3,803
Interest Income	908	1,024	1,203	1,696	1,941	2,216	2,165	2,261	2,635	3,528
Interest Expense	444	568	699	1,247	1,602	1,582	1,339	1,354	1,805	2,469
Other Income	39	32	82	46	33	52	85	82	110	275
Operating Expenses	197	253	272	359	385	439	513	620	762	938
Provision for Loss	14	17	5	43	54	79	107	10	1	87
Profit Before Tax	291	217	309	93	(67)	168	291	402	176	309
Income Tax & Finance VAT	109	101	136	72	25	112	156	186	120	151
Profit After Taxation	183	117	172	21	(92)	56	135	216	56	158
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer Deposits	1,140	1,537	2,501	4,960	5,777	6,929	8,526	12,336	14,695	18,914
Borrowings	4,314	4,966	5,783	6,067	5,840	4,336	3,629	3,556	3,214	5,252
Other Liabilities	909	688	621	666	867	1,315	1,383	1,699	500	827
Shareholders' Funds	1,013	1,643	1,800	1,789	1,697	1,721	1,849	2,337	2,391	2,575
Total	7,376	8,834	10,705	13,482	14,181	14,301	15,387	19,927	20,801	27,567
ASSETS										
Loans and Advances	7,119	8,100	10,134	11,869	12,149	11,913	12,519	14,888	15,966	19,701
Cash, short term funds and statutory	173	561	352	1280	1091	1410	1,920	3,960	3,679	6,601
Property, plant and equipment	42	85	85	111	671	721	756	250	288	290
Other assets	42	88	134	222	270	257	192	830	868	975
Total	7,376	8,834	10,705	13,482	14,181	14,301	15,387	19,927	20,801	27,567
RATIOS										
Return on Average Shareholders Funds (%)	19.3	8.8	10.0	1.2	(5.3)	3.3	7.6	10.3	2.35	6.36
Income Growth (%)	14.1	11.5	21.8	35.4	13.4	14.9	(0.8)	6.0	15.0	38.6
Return on Average Assets(%)	2.7	1.4	1.8	0.2	(0.7)	0.4	0.9	1.2	0.27	0.65
Advance to Deposits and Borrowings (%)	76.6	80.3	81.7	92.9	95.6	94.6	97.1	106.7	112.2	122.7
Shareholders Funds (%)	4.1	5.2	4.7	6.2	39.5	41.9	40.9	10.7	12.0	11.2
Total Assets to shareholders funds (times)	7.28	5.38	5.95	7.54	8.36	8.31	8.32	8.53	8.70	10.70
SHARE INFORMATION										
Market Value per Share (Rs.)										After Sub Division
High (Rs.)	195.00	401.00	235.25	192.00	135.00	191.75	600.00	1,900.00	119	52.5
Lower (Rs.)	-	165.00	153.00	125.75	54.00	49.5	135.00	546.00	44	48.2
Close (Rs.)	-	191.00	174.75	128.00	56.00	147.75	550.00	1,400.30	51	49.6
Earnings per Share (Rs.)	4.44	2.67	2.74	0.33	(0.39)	1.69	2.63	3.34	0.86	2.44
Price Earnings Ratio	-	-	-	-	-	-	-	419.47	59	20.31
Net Assets per Share(Rs.) •	24.57	26.82	27.82	27.64	26.23	26.60	28.56	36.11	36.95	39.80
PROFILE										
Ownership - Government %	-	56	51	51	51	51	51	51	51	51
- Private %	-	44	49	49	49	49	49	49	49	49
No of employees	276	290	300	286	289	364	425	505	488	488
No of branches	20	20	20	21	21	26	28	31	32	33
No of ATM (Access)Δ	-	-	-	-	4	10	225	255	360	652

Δ Including Network Linked ATM Machines with Sampath Bank , PABC , DFCC. MCB, NDB, NTB, Union Bank

• AS Per SLFRS & LKAS

* From 2012 accrued int added to th deposit and Borrowing Capital Balance.

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty Ninth (29th) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka is convened on Friday the thirtieth (30th) day of May 2014 at Booker Recreation (Pvt.) Ltd (Gardinia Hall), 1st Floor, No. 10, Off Deans Road, Hedges Court, Colombo 10 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 2013 together with the Report of the Auditor thereon.
3. To declare a final dividend of Cents Twenty Five (Rupees 0.25) per share as recommended by the Board of Directors of the HDFC Bank.
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

01st May 2014

NOTE

[illegible]

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 30th of May 2014 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 2014.

.....

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 authorized in writing.
03. In the case of a company or corporation or an incorporated body the form of proxy must be either under its common seal or under the hand of an officer or Attorney duly authorized.
04. In the case of joint holder, only one needs sign. The Votes of the senior holder who renders a vote will only be counted.
05. If you wish to appoint any person other than the chairman as your proxy, please insert the relevant details at 1 to 5.



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www.hdfc.lk

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