



+ HDFC =



Winning Formula

Contents

Financial Highlights of the Year	2	Financial Information	
Our Organisation		Directors' Responsibility for Financial Reporting	24
Chairman's Review	4	Auditor's Report	26
General Manager/ CEO's Review	8	Income Statement	33
Governance and Risk Management		Statement of Comprehensive Income	34
The Report of the Directors	12	Statement of Financial Position	35
The Report of the Board Audit Committee	17	Statement of Changes in Equity	36
The Report of the Board Human Resource and Remuneration Committee	19	Statement of Cash Flows	37
The Report of the Board Nomination Committee	21	Accounting Policies	38
The Report of the Board Integrated Risk Management Committee	22	Notes to the Financial Statement	42
The Report of the Board Related Party Transaction Monitoring Committee	23	Capital Adequacy	60
		Risk Adjusted on - Balance Sheet Exposure	61
		Share Information	62
		Value Added Statement	65
		Ten Year Statistical Summary	66
		Debt Securities Issued	67
		Notice of the Annual General Meeting	68
		Form of Proxy	69



Winning Formula

Our sustainable business strategies and team of dedicated people, have created the perfect winning formula. We ensure a win-win situation for all our stakeholders by learning from the past and planning not only for today, but also for tomorrow. We are confident our winning formula will see more families achieve their dream of a permanent home as we enhance our services into the future.

Rated
BBB
+Stable
by Lanka Rating Agency

Rolled out our new business model for long term financial sustainability

Reached the assets base of Rs. 34 Billion

Granted historically the highest value of Rs. 9 Billion loans

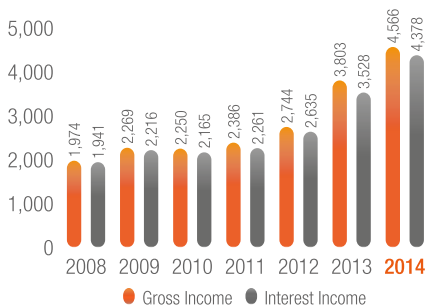
 Reached a network of **36** Branches

 Enhanced the customer reach through **775** ATM points

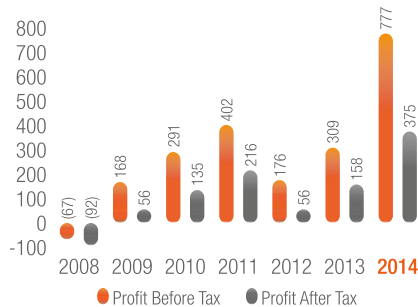
Loan book marked the value of LKR
23.4 Bn 

Grew our profit before taxes to LKR
777 Mn 

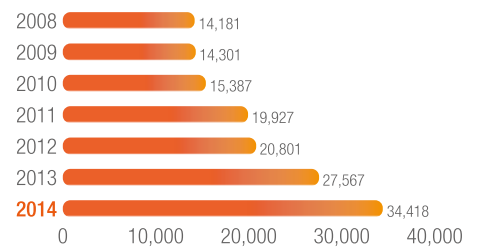
Income (Rs. Mn)



Profit Growth (Rs. Mn)



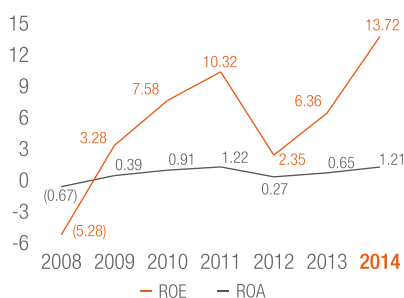
Total Assets (Rs. Mn)



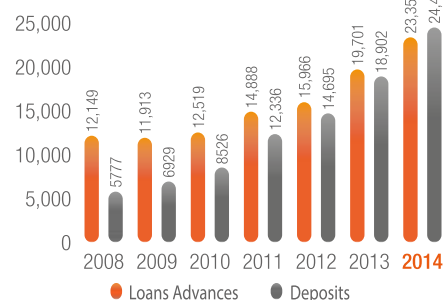
Financial Highlights of the Year

	2014 LKR. Mn	2013 LKR. Mn	Change %
Results for the year			
Income	4,566	3,803	20
Profit before Taxation	777	309	151
Provision for Taxation	402	151	166
Profit after Taxation	375	158	137
Revenue to the Government	438	155	183
Gross Dividends			
At the year end			
Shareholders' Fund	2,886	2,575	12
Deposits from Customers	24,479	18,902	30
Gross Loans & Advances to Customers	23,899	20,112	19
Total Assets	34,418	27,567	25
Information per Ordinary share			
Earnings (Basic) (Rs.)	5.79	2.44	137
Financial Ratios			
Return on Average Shareholders' Fund (%)	13.72	6.36	116
Return on Average Assets (%)	1.21	0.65	85
Share Holders Equity to Total Assets (%)	8.38	9.34	(10)
Statutory Ratios			
Liquid Assets (%)	28.90	28.74	1
Capital Adequacy -			
Tier I (%) - Minimum Required 5 %	13.78%	17.74%	(22)
Tier II (%) - Minimum Required 10 %	12.92%	18.29%	(29)
Other Information			
Branches	36	33	9
Employees (No Of Staff)	477	488	(2)
Credit Rating - Lanka Rating	BBB+ Stable	BBB Stable	

ROA & ROE



Loans Advances & Deposits (Rs. Mn)





Chairman's Review

"Sri Lanka's total housing finance outstanding is around Rs.340 billion which represents about 10% of the GDP. Researchers project that it may reach over 20% by 2020. Therefore, our future outlook is entirely focused at reaching a higher market share in housing development finance. For this, even more diversified customer friendly products, technological advancements to keep pace with the anticipated growth and an efficient service by our staff, is essential. We are increasingly delivering and processing towards realising targets determined to provide this to the people in the future."

On behalf of the Board of Directors, I am pleased to present our annual report for the financial year 2014. Your Bank has been successful in attaining its highest-ever profit during the year under review by pursuing an aggressive product diversification, while simultaneously expanding the Bank's reach to the underserved segments of society. During 2014, we extended the highest number of loans ever - 27,000 - to reach Rs.9 Bn. in loans as against 23,000 loans in 2013 which amounted to Rs.6.7 Bn. HDFC has now carved out a share of 8% in the housing finance market and a 20% market share in the low to mid income housing finance segment in Sri Lanka.

The passing of the new Act No. 45 in 2011 enabled the Bank to diversify into other financial solutions, whilst keeping housing finance as our core business. The new flexibility enabled us to grow housing finance business further by linking it to other products. As a result, during the financial year 2014, we devised innovative ideas to fashion products and solutions and made inroads into other financial segments, which helped our profitability during the year. Your Bank is now aligned with the government's vision to extend varied financial assistance to the bottom of the pyramid.

Sri Lanka's total housing finance outstanding is around Rs.340 Bn which represents about 10% of the GDP. Researchers project that it may reach over 20% by 2020. Therefore, our future outlook is entirely focused on reaching a higher market share in housing development finance. For this, even more diversified customer-friendly products, technological advancements to keep pace with the anticipated growth and an efficient service by our staff, is essential. We are increasingly delivering and processing towards realising targets determined to provide this to the people in the future.

Increasing the access of the non-banking segment to our Palm top mobile banking services was a key endeavour during the year under review and will be so in the future. While we made tremendous headway to reach 15,000 people daily through this service, we have started drawing plans to substantially increase our reach to groups of people in the country side, so that our operations from Palm top banking can benefit communities that don't patronise formal banking. This mobile banking service will enable us to reach the uninitiated in their places of work, on farms, in factories, in workshops, at their homes, or even by the roadside.



Winning Formula

“The national economy has grown over 7.7%. The Per Capita Income has risen to US\$ 3,624, affirming Sri Lanka’s potential to reach the USD 7,000 plus target by 2020. Widely benefiting from the committed development in the area of good governance and democratic processes, we expect a more favorable climate for improved investor confidence and a friendly environment for doing business.”

We hold the view that many people in the bottom rung of the economy are overawed by the prospect of entering a bank, leave alone conducting a transaction. Having one of our field staff approach them in their comfort zones, will make such people much more amenable to engaging in mainstream banking. Our Bank has been directly responsible for inculcating the savings habit amongst this segment of people due to the concept of Palm top banking and the outreach through a wide network.

One of our main target groups in the future will be farmers who face several hardships since subsequent generations subdivide the original tract of land. Smaller land tracts do not yield sufficient output to sustain adequate income for farmers to support their family. As a result, more people are moving away from farming in order to become a daily wage earner. More often than not, this segment does not have the inclination or the habit of visiting banks. Your Bank will extend a helping hand to such farmer needs by helping them to save even a small portion of their income. Our contribution to empowering the poorest of the poor is your Bank's contribution to nation building.

We have also continued our efforts to improve financial literacy amongst our customers. For example, because EPF monies are left untouched, we raise awareness of how employees can avail themselves of loans against their EPF balances to upgrade, improve the home or purchase a house.

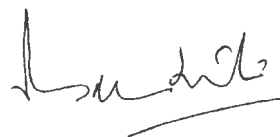
In the Bank's attempt to empower the lower and middle income groups in Sri Lanka, an important area of development that the bank will undertake in the future will be a "Research and Development Unit" to analyse the way forward for the Bank to achieve its goals. We are a housing development bank. While profitability is a key driver, we are committed to delivering the Bank's objective with new products and strategies, in order to diversify our customer base and target the inclusion of low to mid income segments in the bank's future growth. Towards this end, we will aggressively market our products amongst this segment and enhance our corporate image further to widen our appeal. In this endeavour, we intend empowering floundering cottage industries, organic farming and fruit production, encourage housing micro finance loans amongst such enterprise groups and individuals. There will be a clear focus on improving both the quality and volumes of business. I must admit that HDFC Bank has miles to go before it reaches its full potential. Judging by our recent growth, the Bank is poised to achieve ambitious targets in the near future.

Going ahead, we hope that the new government will consider the fact that as a development bank, we are unable to borrow from the open market at commercial rates like commercial banks. Our mandate is to offer low interest loans to the under privileged segments and we cannot do this without access to low cost finance in order for us to pass the benefits on to the poor. Housing loans are considered affordable if the monthly instalment is less than 40% of the householder's monthly

income. We are hopeful that the government will offer us affordable funding options sooner rather than later. As Sri Lanka moves rapidly towards achieving per capita income of US\$ 4,000, we expect the housing finance market to grow in tandem-merging economic growth with sustainability.

The country has achieved many economic goals despite the associated hidden economic and socio cost elements. The national economy has grown over 7.7%. The Per Capita Income has risen to US\$ 3,624, affirming Sri Lanka's potential to reach the USD 7,000 plus target by 2020. Widely benefiting from the committed development in the area of good governance and democratic processes, we expect a more favorable climate for improved investor confidence and a friendly environment for doing business. With inflation at 0.6% in February 2015 as opposed to 3.2% in January, we can expect a more favorable movement in the interest rates in the months to come. While leveraging on the macro economic development, I strongly believe that housing finance industry can contribute largely to the country's desired economic growth targets.

I would like to take this opportunity to thank the former Chairperson Mrs. Siromi Wickramasinghe for her valuable contribution in steering the Bank to profitability over the last four and a half years, supported by her eminent colleagues on the Board. I am aware that all members of the Board have worked collectively and participated diligently in all sub committee meetings according to Central Bank guidelines. I am equally grateful to the management and staff who welcomed me and my colleagues onboard this year. I also acknowledge the dedicated services of the GM/CEO of the Bank and rest 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 well-being of the Bank. 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 to the Bank.



R. J. De Silva
Chairman

Colombo
May 20, 2015



General Manager/ CEO's Review

It gives me great pleasure to report on what has been a most successful financial year in our history. The new business model - or the 'winning formula' that we have been perfecting over the last two years to strengthen our balance sheet-gained fruition this year, enabling the Bank to post its highest-ever profit before taxes of Rs. 777 Mn.

Our Performance

The Bank's interest income reached Rs. 4.377 Mn in 2014 from Rs. 3.528 Mn, marking an increase of 24%. The net interest income has rose to Rs. 1.843 Mn from Rs. 1.058 Mn, indicating an increase of 74%. Further, the fee-based income increased upto Rs. 211.4 Mn from Rs. 189.9 Mn reflecting an increase of 11%. The Bank's loan book has grown to Rs. 23.4 Bn from Rs. 19.7 Bn, marking an increase of 18.6%. The deposit base stands at Rs. 24.5 Bn as against Rs. 18.9 Mn in 2013, which reflects an increase of 30%. The Bank was able to record a steady growth in its asset base with total assets of Rs. 34.4 Bn in 2014, as compared to Rs. 27.5 Bn in the previous year, marking a growth of 25%.

Despite our unique credit evaluation process, we experienced a slight increase in gross Non-Performing Loans (NPL's) from 7.26% in 2013 to 9.81% in 2014, mainly due to certain internal classification issues, which are being addressed with the aid of stringent controls to bring this figure down to more acceptable levels.

The Return on Assets (ROA) stood at 2.51% as against 1.28% in the corresponding period in 2014, an increase of 51%, and the Return on Equity (ROE) rose from 6.36% to 13.72%, reflecting an increase of 46%. Meanwhile, HDFC Bank met the Capital Adequacy Requirement stipulated by the Central Bank of Sri Lanka. T1 and T2 Capital Adequacy Ratios stand at 13.78% and 12.92%, as against 5% and 10% regulatory requirements respectively. The Bank also maintains a statutory liquid ratio of 28.9% as against the regulatory requirement of 20%. With these performances, the Bank was able to record profit before taxes of Rs. 777 Mn as against Rs. 309 Mn in 2013 an increased of 151%. The profit after tax was Rs. 374.6 Mn as against Rs. 158.1 Mn in the previous year, an increase of 137.1%.

Besides recording the most attractive financial performance, the year was marked by increasing evidence of the far-reaching impact that our presence is having in fulfilling the hopes and dreams of the people of the country. Affordable housing is becoming increasingly difficult for low



"As a development bank with the aim of reaching out to the grassroots, we realize that advanced technology will provide the fastest route to achieve our aim and we remain committed to providing technology-backed solutions for our customers. The migration to an advanced core banking solution during 2014 was the first decisive step towards this goal."

General Manager/ CEO's Review

to middle income earners, but we are committed to bridge this widening gap between individuals' capacity and their dreams to own a home, by extending unique housing loans to turn their dreams into reality. Consumer demands are expanding and diversifying and our wide range of financial solutions address all the aspiring needs of our customers under one roof. HDFC Bank is playing a growing role in transforming lives of people for the better.

Expanding Product Portfolio

Our strategy of diversifying the product portfolio, initiated in the year 2013, accrued rich returns for us in the period under review by way of improved profitability. However, despite the extensive diversification exercise, we sustained our core business of housing, further enhancing our reach and opening our loan books for aspiring home owners.

We consider our Gold Loan product as a solution that offers secure and hassle-free instant cash-in-hand for our customers. Although the fluctuating price of gold was a source of concern during the period under review, we continued to promote the Gold Loans product for the benefit of customers. Now that gold prices are relatively stable, we intend to improve our product further and expand its reach to the grassroots level, so that it remains the best option for customers in need of emergency cash.

The product diversification during the year witnessed the launch of several micro finance solutions. We believe in extending micro housing loans mainly because although the low income category may own a shelter, it is often an 'unfinished', basic house. Our micro loans assist the beneficiaries to improve and upgrade their shelter into a comfortable home by making home improvements, thereby improving their standard of living. Well over 27,000 loans were given for construction of housing, purchase of housing and repairs and upgrading of housing during 2014. The Bank extends loans to repair and upgrade homes, which is the growing need of housing finance. Since the large percentage of houses in the country are over 30 years old.

Further, we observed that when lower income customers applied for housing loans, very often they were also in need of funding for their small scale businesses. Taking cognizance of this customer requirement, we have devised products that will address both the housing and the business loan needs of customers, thereby truly helping uplift their standard of living and encouraging self-employment and wealth creation.

Another unique initiative during the year was our remittance product, HDFC entered into a partnership with DFCC Vardhana Bank during 2014 to offer its customers the facility to remit money to Sri Lanka directly into their HDFC savings accounts, via the Lanka Money Transfer Remittance System. Sri Lanka has significant migrant workers in far-flung countries such as Middle East, Italy, Japan, and so on, and this tie-up for easy

remittance directly to their bank accounts is expected to appeal both to existing and potential customers. We are expecting substantial addition of new customers as a result of the launch of this product in our diversification strategy and are confident of cross-selling other products to this customer segment.

HDFC has also introduced another micro product, the Commercial Scale Dairy Development Scheme for dairy farmers, in agreement with the Central Bank of Sri Lanka. The objectives of this refinance scheme is to uplift the dairy sector to improve the yield of fresh milk producing industry, while helping conserve valuable foreign exchange spent on imported milk powder. As a development bank at the grassroots level, we have an obligation and responsibility to uplift the livelihoods of grassroots customers and this dairy refinance scheme is yet another initiative taken by the Bank to deliver its promise of changing lives for the better.

HDFC Bank is one of the few banks which have received approval to facilitate loans against EPF balances as securities, which are guaranteed by the Central Bank of Sri Lanka. We are proactively supporting the government's vision to improve the lives of the disadvantaged, by extending development loans in affordable monthly payment.

Reaching Out to Customers

During the period under review, our branch network stood at 36 well spread across the country, I am happy to report that the Central Bank granted us approval to establish 6 more branches, of which we have already opened 3, one each in Nittambuwa, Nikaweratiya and Ambalangoda respectively during the year. The expansion has enabled us to establish our presence in different districts. We plan to establish branches in Kiribathgoda, Polonnaruwa and Deniyaya before the end of the year, enabling greater outreach to the grassroots level, thereby facilitating access to finance for the rural populace. There are still many unbanked people in rural areas and we believe that we are playing a vital role in bringing them into the formal banking channels and weaning them away from unscrupulous moneylenders.

Creating a Knowledge-based Work Culture

The focused dedication and hard work of the staff has contributed in no small measure to driving the exceptional performance witnessed during the year. Our team undergoes regular and rigorous training and development programmes to keep them abreast of expected levels of service, while ensuring that they are attuned to compliance with rules and regulations as mandated by the Central Bank. Senior staff members were sent for overseas training during the year, to gain knowledge and insights into the latest systems and processes employed by global financial entities. We are confident that they will be able to cascade their experiences to the rest of the staff to drive incremental gains in

our business model. We continued to avail of both internal and external training resources to fill any training gaps amongst staff.

Our endeavour is to build a knowledge-based institution and towards this end, we encourage staff to acquire greater technical skills through enhanced professional qualifications. Our policy to incentivize further professional study by reimbursing part of the cost has drawn a good response from our employees, with several of them going on to build their professional educational qualifications, thereby helping them to add value to their job roles and eventually to the company. We have secured approval from the Board of Directors to commence recruitment of management trainees hereon, which opens a new chapter in professionalism in the bank. We are confident that this step will elevate our staff profile and be a strong first step in infusing higher levels of dynamism in the bank's operations.

During the period under review, I was privileged to attend the annual session of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), in Malaysia, Kuala Lumpur. HDFC Bank is a member of ADFIAP, the focal point of all development banks and other financial institutions engaged in the financing of development in the Asia-Pacific region. Its mission is to advance sustainable development through its members. Founded in 1976, ADFIAP has currently 131 member-institutions in 45 countries.

Improving Delivery Channels

Our field force was empowered with the provision of electronic Palmtop devices, which enables them to facilitate banking transactions for customers in rural areas where they have no access to bank branches. The transaction is updated in real-time and is proving to be a useful mechanism for customers who are located in far-flung remote areas in the rural hinterland. During the year, our field officers were able to facilitate nearly 2.7 Mn banking transactions with customers.

Meanwhile, we continued to focus on driving greater automation and building our IT capability to be in a position to deliver improved products and services to our customers. The core banking solution which we had embarked on in 2013 received Board approval during the year under review, and I am pleased to announce that we are in the early stages of implementing the new core banking platform which, when complete, will offer significant process improvements to elevate our operations to the next level.

Challenges Ahead

Going ahead, we expect the banking industry to remain a highly competitive arena, thereby putting a further squeeze on margins. The Bank remains alert and focused on this, and is already bracing for the challenge by generating fee-based income avenues with growth potential.

Future Outlook

During the latter part of the year, the country was preparing for the presidential election in January 2015, and now that the new government has taken oath, we are hopeful that it will work towards establishing good governance in all spheres of society. The government has expressed its intention to drive housing and developmental initiatives and we are looking forward to the plans of the new government with regards to the housing development sector. The Bank actively supports the government's 100-day programme.

Our newly-introduced remittance product should provide robust returns, although remittances remain a strongly contested product platform. The Bank intends to provide easy payment of utility bills through the Palmtop banking services offered by our mobile sales teams. We believe this service will offer major relief for the beneficiaries. As a development bank with the aim of reaching out to the grassroots, we realize that advanced technology will provide the fastest route to achieve our aim and we remain committed to providing technology-backed solutions for our customers. The migration to an advanced core banking solution during 2014 was the first decisive step towards this goal. Lastly, the Bank remains focused on meeting the capital augmentation requirements as mandated by the Central Bank of Sri Lanka, which stipulates that core capital needs to increase to Rs. 5 Bn by 2016.

Acknowledgements

I would like to place on record my sincere gratitude to the Chairman and the Board of Directors for their support and for placing their confidence in my abilities. A special thanks to the outgoing Chairperson Mrs. Siromi Wickramasinghe, for her outstanding contribution to the institution during the last four-and-a-half years. Her advice and counsel during the year under review is much appreciated. I would like to welcome the new Chairman Mr. R. J. De Silva who brings with him a wealth of experience, which will be invaluable in steering the bank to the next level. My sincere thanks to the Governor and staff of the Central Bank of Sri Lanka; the Minister of Finance, the Minister of Housing, and officials of the National Housing Development Authority for working closely with us through the year. I would like to thank our valuable shareholders and customers for the confidence they continue to place in us. I commend the entire HDFC staff for extending their fullest cooperation during 2014 and look forward to achieving greater milestones with our combined synergies in the year 2015.



Nimal J. B. Mamaduwa

General Manager/ CEO

Colombo

May 20, 2015

The Report of the Directors

01. General

The Board of Directors is pleased to present the Annual Report and the State of Affairs of the Housing Development Finance Corporation Bank (HDFC BANK) together with the Audited Financial Statements of the Bank for the year ended 31st December 2014 in compliance with Companies Act No. 7 of 2007 and Listing Rules of The Colombo Stock Exchange. Completion and the Contents of this report are in accordance with the statutory requirements, and the requirements of relevant regulatory authorities for listed companies in the financial services industry and best accounting practices, which have been brought to the attention of the Shareholders and other Stakeholders. The Board of Directors has disclosed information of the Bank which they believe is material and in the best interest of the Shareholders and the Bank.

02. Principal Activities

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). The principal activities of the Bank are financing for housing and housing development projects whilst engage in schedule IV activities of the Banking Act. There are no significant changes during the period under review in the nature of its principal activities.

03. Review of Business

An overall assessment of the financial position, performance, state of affairs and significant events that took place in the Bank during the corresponding period is given in the General Manager / Chief Executive Officer's Review on pages 16 to 19.

04. Vision, Mission and Corporate Conduct

The Vision and Mission of the bank are given on Page 7 of this report. The Bank conducts its operations ethically and is led by an abiding Vision and Mission that helps define and achieve its corporate goals. The Bank pursues good governance and maintains high standards in financial and operational activities.

05. 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 16 to 19 of this Annual Report.

06. Financial Statements

Duly signed, certified and approved Financial Statements of the HDFC Bank for the period under review are given on pages 127 to 165 of this Annual Report.

07. Significant Accounting Policies

The significant accounting policies adopted in preparation of Financial Statements during the year are given on pages 142 to 145 of the Annual Report. The impact of changes in equity is given on page no 140 of the Annual Report.

08. 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 130 to 136 of the Annual Report. This year the Auditors' Report has been issued in line with the Section 14(2) (c) of the Finance Act which require to publish other comments and observations that the Auditor may consider necessary.

09. Going Concern

The Board of Directors have reviewed and is satisfied that the HDFC Bank has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the going concern basis in preparing the Financial Statements in compliance with Sri Lanka Accounting Standards.

10. Income

The income of the Bank for the year ended 31st December 2014 was LKR. 4,566 million. An analysis of the income is given in Notes 01 to 03 to the Financial Statements.

11. Profit and Appropriation

The profit before income tax of the Bank for the year ended 31st December 2014 was LKR. 635 million and the profit after tax for the year ended 31st December 2014 was LKR. 375 million.

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

For the year ended 31st December 2014	2014 Rs. Mn	2013 Rs. Mn
Operating profit on ordinary activities before VAT	777	309
VAT on financial services	142	78
Provision for taxation	260	73
Profit on ordinary activities after tax	375	158
Retained profit /(accumulated losses) b/f	1,269	1,192
Profit available for appropriation	1,644	1,349
Appropriation First & Final Dividend proposed	39	16
Transfer to Reserve Funds	56	81
Retained Profit carried forward	1,549	1,253

12. Reserves

The Bank's total Reserves as at 31st December 2014, amounted to LKR 2,886 million. The details are given on the statement on Changes in Equity on page 140 of the Financial Statement.

13. Donations

During the year the Bank made donations amounting to LKR. 225,000/-

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 2014 has been provided at 28% on the taxable income arising from the operations of the Bank and has been disclosed in Note 10 to the Financial Statements on pages 146 to 163 of this Annual Report.

16. Dividend

The Directors recommended a dividend payment (final) of LKR Cents Sixty (0.60) per share for the year 2014. Subject to satisfaction of Solvency test.

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 86 million, the details of which are given in Note 18 of the Financial Statements.

Details of freehold properties are given on Note 18 of the Financial Statements on page 153 to 155

18. Market Value of Freehold Properties

Details of the market value of freehold properties are given on Note 18 of the Financial Statements on page 153 to 155.

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 2014 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 168 to 170 of this Annual Report.

22. Issue of Listed Secured Redeemable Debentures

The Bank had issued listed secured redeemable debentures at face value amounting to LKR 2,000 million as at 31st December 2014. The proceeds of these debentures were utilized, to bridge the maturity gaps and 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 24 of the Financial Statements on pages of 146 to 163.

23. Equitable Treatment to all Stakeholders

All shareholders have been treated equitably in accordance with the original terms issued to them. 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 2014 are described in pages 23 to 25 of this Report.

24. The Board of Directors

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

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

01. Mrs. S. N. Wickramasinghe (Chairman) 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. L. E. Susantha Silva elected in May 2012- Non-executive/ independent
07. Mr. G.L.S. Senadeera appointed in January 2013 - Non-executive/ independent
08. Mr. Prasad Galhena elected in June 2013 - Non-executive/ independent

09. Mr. M. Surendran elected in June 2013 - Non-executive/ Non-independent
10. Mrs. B. G. S. Gunathilake in April 2014 - Non-executive/ independent
11. Mrs. M. F. K. Nissa in July in 2014 - Non-executive/ independent

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

01. Mrs. C. Wijayawardhane - with effect from April 2014
02. Mr. G.L.S. Senadeera - with effect from 14/03/2014

Appointments to the Board of HDFC Bank during the period under review

01. Ms. B.G.S. Gunathilake - with effect from 25/04/2014
02. Ms. M.F.K. Nissa - with effect from 11/07/2014

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 56 to 58 of this Annual Report.

25. Board Sub Committees

In keeping with the principles of Corporate Governance, Transparency and Accountability, the Board has initiated the formation of the following Board Sub-Committees. There are five Committees for the areas of Audit, Human Resource and Remuneration, Nomination, Integrated Risk Management & Related Party Transaction Monitoring. These Sub-Committees have been formed in keeping with the Corporate Governance Directives of the Central Bank of Sri Lanka, the Institute of Chartered Accountants of Sri Lanka, the Regulation of Colombo Stock Exchange and the Bank's requirements as envisaged by its Directors. The duties, responsibilities and performance of the above sub-committees are discussed in the respective sub-committee reports in this Annual Report. In complying with the corporate governance directions of CBSL, the Board Sub Committees functioned during the corresponding period and relevant reports of above those Committees are given on pages 112 to 118 of the Annual Report.

26. Directors' Meetings

During the period under review 13 Board Meetings were held and attendance schedule is given on page 123 to 125.

Details of Board Sub Committee Meetings are given separately with the reports of Board Sub Committees, on pages 112 to 118 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 128,129 which forms 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 compliance 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' Interests in Shareholding

Directors' shareholdings are as follows:

	31/12/2014	01/01/2014
Mrs. S. N. Wickramasinghe (Chairman)	Nil	Nil
Mr. W. J. L. U. Wijayaweera	3000	3000
Mr. S. A. J. Samaraweera	Nil	Nil
Mr. W. D. R. D. Goonaratne	Nil	Nil
Mr. L. E. Susantha Silva	1000	1000
Mr. Prasad Galhena	1000	1000
Mr. M. Surendran	Nil	Nil
Mrs. B.G.S. Gunathilake	Nil	Nil
Mrs. M.F.K. Nissa	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 2014. Further information is given on pages 162 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.

31. Directors' and CEO's Interests in Debentures

Individual debenture holding of Directors were as follows:

As at December 31,	2014	
	No. of Debentures	Value (Rs.)
1. Mrs. S.N. Wickramasinghe (Chairman)*	20,000	2,000,000
2. Mr. W.J.L.U. Wijayaweera	Nil	Nil
3. Mr. S. A. J. Samaraweera	Nil	Nil
4. Mr. W. D. R. D. Goonaratne	Nil	Nil
5. Mr. L. E. Susantha Silva	Nil	Nil
6. Mr. Prasad Galhena	Nil	Nil
7. Mr. M. Surendran	Nil	Nil
8. Ms. B.G.S. Gunathilake	Nil	Nil
9. Ms. M.F.K. Nissa	Nil	Nil
10. Mr. Nimal J.B. Mamaduwa (CEO/GM)	Nil	Nil
Total	20,000	2,000,000

* Chairman 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 are given in Note 32 of the financial statement of this Annual Report.

33. Directors' Remuneration

Directors' remuneration, for the financial year ended 31st December 2014 is given on Note 8 to the financial statement on page 148.

34. Environmental Protection

The Bank has taken initiatives to safeguard and enhance the environment which are vital for its sustainable development and growth. 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.

35. Risk Management and System of Internal Controls

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors have instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. 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 112, 113 Integrated Risk management report on page 117.

36. Corporate Governance

In the management of the Bank, the Directors have placed emphasis on complying with best practices in corporate governance. Accordingly, systems and structures have been enhanced on a regular basis to strengthen risk management measures and to improve accountability. Please refer Corporate Governance compliance statement in pages 75 to 106 of this Annual Report.

37. Compliance with Applicable Laws and Regulations

The Board of Directors has continuously communicated with relevant regulatory and supervisory bodies, and has taken decisions in accordance with prevailing rules and regulations of the country. To the best of the knowledge of the Directors, there has been no direct or indirect violation of laws or regulations in any jurisdiction which the Bank is bound to disclose, nor has there been any irregularities involving management of employees that could have been a material financial effect on the Bank.

38. Appointment of Auditors

The Auditor General continues to be the Auditor of the bank as stipulated in the HDFC Act No.07 of 1997.

39. Auditors Remuneration and Interest in Contract with the Bank

The Auditors were paid LKRS. 633,200/- for the year ended 31st of December, 2014 as audit fees by the Bank. The Auditors do not have any other relationship or interest in contracts with the Bank.

40. Audit Committee

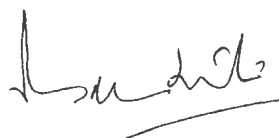
The composition of the Audit Committee and their report is given on page 112, 113 of this Annual Report.

41. Notice of Meeting

The 30th Annual General Meeting of the Bank will be held on Friday 26th June 2015 at 10.00am 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 174 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors



R. J. De Silva
Chairman



K. T. D. De Silva
Company Secretary

Colombo
May 20, 2015

The Report of the Board Audit Committee

The audit committee presents its report for the financial year ended 31st December 2014 as per the 'Listing Rules' of the Colombo Stock Exchange and 'Code of best practices on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Membership and Attendance

The Audit Committee consists of five members who are all non-executive directors.

The Board Audit Committee comprised of following Board members:

Mr. L. E. Susantha Silva (Chairman of the Committee, non-executive, independent Director),

Mr. W. D. R.D Goonaratne (non-executive, non-independent Director),

Mr. Prasad Galhena (non-executive, independent Director),

Mr. M. Surendran (non-executive, non-independent Director),

Mrs. M.F.K. Nissa (non-executive, independent Director),

Mrs. C. Wijayawardhana (non-executive, independent Director),

Mr. G. L. S. Senadeera (non-executive, independent Director)

Mr. G. L. S. Senadeera & Mrs. C. Wijayawardhana resigned from the Board and the Committee with effect from March & April 2014 respectively.

The Committee held six meetings during the financial year ended December 31st, 2014. The attendance of the members at meetings are given in the Corporate Governance section of the Annual Report.

The Chief Internal Auditor functioned as the Secretary to the Committee. The Committee also invited members of the Senior Management and the Branch Managers of the Bank to participate in the meetings from time to time based on necessity. The external auditor also attended these meetings by invitation.

Terms of Reference

The Charter/ Terms of Reference of the Committee is periodically reviewed and the same was reviewed last in July 2014. This process ensures that new developments and concerns are adequately addressed in a timely manner.

The Committee is responsible to the Board of Directors and reports its activities regularly to the Board. The Committee assists the Board of Directors to effectively carry out its supervisory oversight responsibilities on accounting and financial reporting processes and the audit of the financial statements of the Bank. The Committee is empowered to:

- Review the Financial Statements (including Quarterly Interim Statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies and consistent application of the same.
- Report to the Board on the acceptability of the Banks's accounting policies and practices.
- Review internal audit reports, external audit reports and findings of statutory examinations conducted by the Central Bank of Sri Lanka and liaise with corporate management for taking proactive actions to obviate violations, frauds and errors.
- Assess independence and monitoring performance and functions of the Internal Audit Department including overseeing the appointment of the Head of Internal Audit.
- Review effectiveness of the Bank's system of internal control over financial reporting to provide reasonable assurance regarding the reliability of Financial Statements.
- Oversee compliance with the mandatory requirements and the systems and procedures to ensure fulfilment of such requirements.
- Review the effectiveness of the internal control procedures in place to identify and manage all significant risks faced by the Bank.

Ethics and Good Governance

The Committee continuously emphasizes on upholding ethical values of the staff members. In this regard, a Code of Conduct was put in place and two Corporate Management members have been appointed to receive information from all members of staff if they suspect wrong doings or other improprieties are taken place. This ensures that highest standards of good governance are maintained and followed by the bank.

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



L. E. Susantha Silva

Chairman: Board Audit Committee

Colombo

March 16, 2015

The Report of the Board Human Resource and Remuneration Committee

The Remuneration Committee is committed to the principles of accountability and transparency, and operates within the agreed terms of reference, while ensuring that rewards and remuneration align with the performance of the organization and its employees. The overall scope of the committee is to provide strategic direction to build an efficient organization for the Bank. Human Resources is the most important strategic asset at HDFC Bank, and the Board Sub Committee on Human Resource and Remuneration plays a vital role in ensuring that organizational policies, employee benefits, employee relations and control mechanisms help the Bank in retaining employees. The main function of the Committee is the determination and establishment of fair, equitable and consistent salary policy relating to all staff, with emphasis on building a conducive work environment that facilitates the Bank to achieve its strategic objectives. Another significant focus of the Committee has been to create a vibrant corporate culture based on the Bank's corporate values in order to achieve a competitive advantage.

The Composition of the HR & Remuneration Committee

The Board Human Resources and Remuneration Committee comprised of following Board members, during the period under review.

Mrs. S. N. Wickramasinghe (Chairman 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),

Mr. M. Surendran (non-executive, non-independent Director),

Mrs. B. G. S. Gunathilake (non-executive, independent Director).

Mr. G. L. S. Senadeera resigned with effect from March 2014.

The Responsibilities of the Committee

In addition, the Committee is tasked with accomplishing the following main objectives of the Bank:

- (a) Implementation of a Remuneration Policy relating to the Chief Executive Officer (CEO) and other Key Management Personnel of the Bank.
- (b) Setting up goals and targets for the CEO and other Key Management Personnel.
- (c) Evaluating the performance of the CEO and other Key Management Personnel against the set targets and goals periodically and determining the basis for revising remuneration benefits and other payments of performance based incentives.
- (d) Making necessary recommendations to the Board pertaining to Salary revisions, Pre-requisites, 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 Committee Meetings and How it Discharges its Duties

The Committee, which is appointed by the Board, reports directly to the Board of Directors, and has held 06 Committee Meetings during the period under review. The attendance of the Committee members at the meeting is given on page no. 123 to 125. 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 to participate at Committee meetings as and when required by the committee.

During the period under review, the Committee had taken many initiatives for capacity building of the staff members and also to improve quality and the productivity of the staff. Accordingly, the Bank provides continuous training for all employee categories, as per the Training Calendar of the Bank. These training sessions are conducted in a manner to enhance the knowledge and upgrade the skills of employees, with the assistance of a selected panel of trainers which consists of

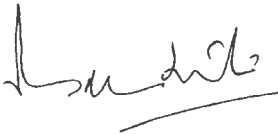
internal and external experts in the respective areas of Banking, Finance, IT, Law etc.

The Committee approved overseas training for employees, in line with the training policy of the Bank in considering the importance of foreign exposure in certain cases.

The Committee, in 2014, adopted a new policy to ensure a safe working environment free from any sexual harassment or gender discrimination.

The Committee, in 2014, effected the promotion policy of the Bank by promoting 152 staff members in the cadre who were below the managerial level.

Also, it took measures to adopt a promotion policy for Corporate and Senior Managerial grades. These relevant promotions were effected in 2015.



R. J. De Silva

Chairman



Dharshani De Silva

Company Secretary

April 06, 2015

At Colombo

The Report of the Board Nomination Committee

The Composition of the Nomination Committee

The Nomination Committee comprises of the following Directors, during the period under review.

Mrs. S. N. Wickramasinghe (Chairman of the Committee, non-executive, independent Director)

Mr. W. J. L. U. Wijayaweera (non-executive, independent Director)

Mrs. C. Wijayawardhana (non-executive, independent Director)

Mrs. B.G.S. Gunathilake (non-executive, independent Director) - with effect from 26th June 2014

Mrs. M.F.K. Nissa (non-executive, independent Director) Appointed - with effect from 26th June 2014

Mrs. C. Wijayawardhana resigned with effect from April 2014.

The Responsibilities of the Committee

The Committee's main focus is on achieving a range of objectives:

- (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 and 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.

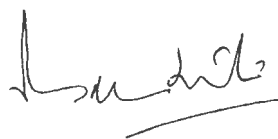
The Committee Meetings and How it Discharge its Duties

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 following were the main areas considered by the Nomination Committee during the period under review.

- (a) The Committee reviewed the contribution of the shareholder directors in order to make appropriate recommendations pertaining to their continuation with the Board.
- (b) In order to further strengthen the transparency of selection / recruitment process of GM/CEO, the Committee suggested necessary amendments to the existing Recruitment Policy of the Bank.
- (c) The Committee made relevant suggestions to strengthen the HDFC's Human resource policies applicable to the Key Managerial Positions, including CEO.

The attendance of the Committee members at the meeting is given on page No. 123 to 125.



R. J. De Silva
Chairman



Dharshani De Silva
Company Secretary

April 06, 2015
At Colombo

The Report of the Board Integrated Risk Management Committee

The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to oversight of risk management framework, including significant policies and practices. The Committee is established as per directions of the regulator. The functions of the Committee also fall within the risk management framework of the Bank's overall risk management responsibilities, which are addressed through the above Board Sub Committee on a regular basis, in addition to the risk management framework set up by the Bank through the Risk Working Committee and Risk department, which is headed by a skilled Risk Officer.

The Bank has taken effective actions to improve its management information system, existing IT applications, system securities and, established of controls to create a better environment for risk management. This is in order to discharge duties and responsibilities efficiently, the Committee has been empowered to have direct access, receive regular reports from management, and be provided with any information it requests relating to its responsibilities. The Committee has the authority to obtain independent professional advice on matters within its purview.

The Integrated Risk Management Committee comprises of the following Board members:

During the period under review, Mrs. S. N. Wickramasinghe (Chairman of the Committee, non-executive, independent Director), Mrs. C. Wijayawardhana (non-executive, independent Director), Mr. L. E. Susantha Silva (non-executive, independent Director), Mr. G. L. S. Senadeera (non-executive, independent Director) Mr. M. Surendran (non-executive, non-independent Director), Mr. Prasad Galhena (non-executive, independent Director) and Mrs. M. F. K. Nissa attend as Board members Mr. Nimal J. B. Mamaduwa (General Manager/ CEO) Mr. S. Dissanayeke (Chief Operations Officer DGM), 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. C. R. P. Balasooriya (Chief Manager Treasury), Mr. K. R. M. K. A. Bandara (Compliance Officer) and Mr. I. Nishantha (Risk Officer) are the Committee members for the period under review.

Mrs. C. Wijayawardhana & Mr. G. L. S. Senadeera resigned with effect from April & March 2014.

The appointments to the above Committee are made by the Board of Directors. The Committee held 04 Committee Meetings during the period under review. The attendance of the Committee members at the meeting is given on page No. 123 to 125.

The Risk Management Committee clearly sets out the purpose, membership, authority, and duties and responsibilities of the Committee. The following main responsibilities have been set out:

- (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 risks 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. The Committee oversees the compliance function to ensure that the Bank is aligned with statutory laws, regulations, guidelines by the regulator, internal controls and approved policies.
- (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 carry out such functions.

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



Prasad Galhena
Chairman



Dharshani De Silva
Company Secretary

April 06, 2015
At Colombo

The Report of the Board Related Party Transaction Monitoring Committee

In compliance with the 'Code of Best Practices on Related Party Transactions' issued by the Securities and Exchange Commission of Sri Lanka in 2013 and CBSL directions and guidelines pertaining to the related party transactions, the Related Party Transaction Review Committee of the HDFC Bank was formed in October 2014.

The Composition of the Related Party Transaction Monitoring Committee

The Committee comprises of following Board members, during the period under review.

Mrs. S. N. Wickramasinghe (Chairman of the committee, non-executive, independent Director)

Mr. L. E. Susantha Silva (non-executive, independent Director)

Mr. M. Surendran (non-executive, non-independent Director)

Mrs. B. G. S. Gunathilake (non-executive, independent Director)

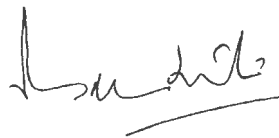
The Responsibilities of the Committee

The core objective of the committee is to review all related party transactions of the HDFC Bank to ensure that the bank complies with the rules set out in the code of best practices on related party transactions given by the relevant regulatory authorities, which covers the following areas:

- (a) To examine the compliance status of the Bank pertaining to the rules set out in the Code of Best Practices on Related Party Transactions issued by the SEC, CBSL or any other regulatory authority and to ensure that the Bank is in compliance with the relevant laws, rules and directions issued by said regulatory authorities, periodically.
- (b) To review in advance all proposed Related Party Transactions.
- (c) To receive regular reports from the Management, and be provided with any information it requests relating to its responsibilities.
- (d) To review and to evaluate the terms and conditions, and to determine the advisability of any Related Party Transaction.
- (e) To determine whether the relevant Related Party Transaction is fair, and in the best interests of the bank and its stakeholders as a whole.
- (f) To recommend to the Board what action, if any, should be taken by the Board with respect to any Related Party Transaction.
- (g) Review and assess the adequacy of this RPT Charter periodically and recommend any proposed changes to the Board for approval.
- (h) To recommend to the Board what action, if any, should be taken by the Board with respect to any Related Party Transaction.
- (i) To obtain the advice and assistance from inside or outside legal, technical, financial and other advisors as the Committee deems necessary to carry out its duties.

The Committee Meetings and How it Discharge its Duties

The Committee reports directly to the Board of Directors. During the period under review, the Committee held 01 meeting and adopted its charter, as an initiative to regularize related party transactions. The attendance of the Committee members at the meeting is given on page no. 123 to 125.



R. J. De Silva

Chairman



Dharshani De Silva

Company Secretary

April 06, 2015
At Colombo

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 130 to 136 of the Annual Report.

Your Directors are aware that in addition to being a guardian of the shareholders, they also have a duty towards the depositors and other customers of the Bank, especially as the depositors' funds are far in excess of the shareholders' funds. The Directors are personally liable if they have not performed their expected role. As per the provisions of the Companies Act No. 07 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 2014, Income Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

The Financial Statements of the Company give a true and fair view of:

1. The state of affairs of the Company as at the date of the Statement of Financial Position.
2. The Financial Performance of the Company for the financial year ended 31st December 2014.

In preparing these Financial Statements, the Directors are required to ensure that:

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

4. Information required by and otherwise comply with the Companies Act, No. 07 of 2007, Regulation of and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange (CSE) or requirements of any other regulatory authority are provided in full. The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparation of these Financial Statements.

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.

The Directors also have a responsibility to ensure that the Company maintains sufficient accounting records to disclose with reasonable accuracy the financial position of the Company. Directors' Responsibility for Financial Reporting These Financial Statements which have been prepared and presented in the Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, and the Listing Rules of the Colombo Stock Exchange.

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Company, prevent and detect fraud and other irregularities, and to secure as far as practicable the accuracy and reliability of records.

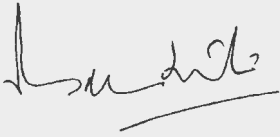
Directors are required to prepare the Financial Statements and to provide the Company's External Auditors, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary to express their independent audit report on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

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes on behalf of and in respect of its Staff Members, and all other

known statutory dues as were due and payable by the Company at Balance Sheet date have been paid or where relevant, provided for. The Directors also confirm that based on its assessment the accounting controls are adequate and nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the Bank, and also the Bank will have adequate resources to continue in operational existence and as a going concern for the foreseeable future. The Directors are of the view that they have discharged their responsibilities as set out in the above.

By Order of the Board



R. J. De Silva

Chairman

April 06, 2015

Colombo

Auditor's Report



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அறிப்பதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல. }
My No. }

FBS/F/HDFC/1/14

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

15 May 2015

The Chairman

Housing Development Finance Corporation Bank of Sri Lanka

Report of the Auditor General on the Financial Statements of the Housing Development Finance Corporation Bank of Sri Lanka for the year ended 31 December 2014 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 2014 comprising the statement of financial position as at 31 December 2014 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow 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. My comments and observations which I consider should be published with the annual report of the Bank in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Bank on 25 March 2015.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards 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.



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

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

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Housing Development Finance Corporation Bank of Sri Lanka as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Bank for the year ended 31 December 2014, had resulted in a pre-tax net profit of Rs. 777 million as compared with the corresponding pre-tax net profit of Rs. 309 million in the preceding year, thus indicating an increase of Rs. 468 million or 151 per cent in the financial result for the year under review. The reasons for this increase are summarized and shown below.

Item	2014	2013	Increase/ (Decrease)
	Rs. Mn	Rs. Mn	Rs. Mn
Interest Income	4,378	3,528	850
Interest Expenses	(2,535)	(2,469)	66
Net Interest Income	1,843	1,059	784



විගණකාධිපති දෙපාර්තමේන්තුව
 ගණිතඥානායුක්තා අධිකාරිය
 Auditor General's Department

Non-interest Income	188	275	(87)
Net Income	2,031	1,334	697
Staff Cost	(671)	(586)	85
Other Expenses	(452)	(352)	100
Impairment Charges for Loan and Other Loss	(131)	(87)	44
Operating Profit Before Value Added Tax	777	309	468
Value Added Tax	(142)	(78)	64
Tax Expenses	(260)	(73)	187
Profit for the Year	375	158	217

While the interest income and interest expenses had increased by 24.09 per cent and 2.67 per cent respectively, the non-interest expenses had increased by 22.34 per cent as compared with the preceding year.

3.2 Analytical Financial Review

3.2.1 Cost of Funds and Financial Yield

The cost of funds and financial yield for the year under review based on cumulative cost and revenue are shown below.

Description	Average Balance	Cost / Revenue	Cost/Revenue as a percentage of Average Balance
	Rs. 000	Rs. 000	%
(I) <u>Cost of Fund</u>			
(a) Deposits			
Saving Deposits	2,737,513	141,484	5.17
Fixed Deposits	19,327,758	1,933,912	10.01
Dhananidana	168,519	19,684	11.68
Total Deposits	22,233,790	2,095,080	9.42
(b) Commercial Borrowings			
Bank Overdrafts	98,289	977	0.99
Borrowing from Market	2,935,948	393,696	13.41
Total Commercial Borrowings	3,034,237	394,672	13.01
(c) Cost of Funds on Mobilization (a+b)	25,268,027	2,489,752	9.85
Overhead Cost	25,268,027	1,254,363	4.96
Cost of Fund	25,268,027	3,744,116	14.82



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வகம்
Auditor General's Department

(d) Other Liabilities	2,606,110	-	-
Capital	962,093	-	-
Reserves	1,794,046	-	-
Total Other Liabilities	30,630,276	3,744,116	12.22
Less:			
(e) Other Assets	1,643,315	-	-
(f) Financial Cost (d-e)	28,986,961	2,534,685	8.74
Overhead Costs	28,986,961	1,254,363	4.33
Total Cost of Funds	28,986,961	3,789,048	13.07
 (II) <u>Financial Yield</u>			
Loan Portfolio	21,484,905	3,704,719	17.24
Investment	7,502,056	673,126	8.97
Financial Yield – Performance	28,986,961	4,377,845	15.10
Margin	28,986,961	588,796	2.03
Fee Based /Other Income	28,986,961	188,281	0.65
Margin	28,986,961	777,077	2.68
Tax	28,986,961	402,482	1.39
Net Margin	28,986,961	374,595	1.29

4. Operating Review

4.1 Performance

The following observations are made.

(a) Non-Performing Loans (NPL)

Non-Performing Loans as a percentage of total loans were 20.20 per cent, 19.85 per cent and 22.57 per cent as at end of the year 2012, 2013 and 2014 respectively.

(b) Vested Property Loans

The total value of vested property loans as at 31 December 2014 amounted to Rs. 54,741,285. Out of that, the loans valued at Rs. 19,194,775 had been identified as a gain in determination of the cash inflows for the years 2013 and 2014 even though no any asset out of those had been sold even up to 31 December 2014. Further, no provision had been made in this regard in the above years.



විගණකාධිපති දෙපාර්තමේන්තුව
 කොමන්වෙල්ත් කොමන්wealth ආණ්ඩු විකාශන
 Auditor General's Department

(c) Loans Granted Against the Employees Provident Fund (EPF)

The EPF loans amounting to Rs. 38,880,152 was in arrears for more than 18 months. Although there was a possibility to recover those loans from the Central Bank of Sri Lanka, the Bank had not taken any satisfactory actions to recover those loan balances even up to end of December 2014. Details are as follow,

Defaulted Period	Number of Loans	Arrears Amount Rs.
18-30 months	402	33,050,468
30-42 months	38	3,358,871
More than 42 months	21	2,470,813
Total	461	38,880,152

4.2 Matters for Emphasis

Out of total customer deposits of the Bank, more than 49 per cent was owned by twenty depositors as at 31 December 2014 and it was 42 per cent in the preceding year, thus indicates that the Bank was more dependent on very limited depositors and exposed to high liquidity risk.

4.3. Issue and Purchase of Debentures

The following observations are made.

- (i) The Bank had issued the secured debentures valued at Rs. 2 billion during the month of October 2013 at the interest rate ranging from 14.5 per cent to 15.5 per cent. In the meantime, the Bank had purchased Rs. 850 million worth of unsecured debentures in the year 2014 at the interest rates ranging from 8 per cent to 9.75 per cent and as such the financial market forecast made by the management is open to question.
- (ii) Even though the Bank had invested a sum of Rs. 850 million in debentures during the period from September 2014 to December 2014, the Bank had incurred an estimated loss of Rs. 9,871,302 due to decrease of fair value of debentures as at 31 December 2014.

4.4 Transactions of Contentious Nature

(a) Collection of Funds through Third Party

The Bank had entered into an agreement with a Finance Company to collect fixed deposits on behalf of Bank and agreed to pay a commission of 0.5 per cent per annum on the deposits value and for any renewals of the fixed deposits thereafter.



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வகம்
Auditor General's Department

The following observations are made in this regard.

- (i) Even though the Bank had two separate divisions as Treasury and Marketing headed by two Chief Managers, the Bank had incurred an additional cost of Rs. 1,292,914 for collecting the funds through a third party. Details of interest paid to the above Finance Company during the last three years are given below.

Year	Amount Paid Rs.
2012	206,633
2013	931,316
2014	154,965
Total	1,292,914

- (ii) According to the agreement entered with the above Finance Company, the Bank had agreed to pay a special rate for high value deposits of over Rs. 3 million. However, without considering the value of deposits, the Bank had offered the special rate for the deposits less than Rs. 3 million too.

(b) Covering Period of Performance Guarantee

The Bank had entered into an agreement with a private company on 12 July 2013 to operate the Sky Bank- Sky Lease Application Software Project. According to the operational plan, the Project scheduled to be commenced on 15 July 2013 and expected to be completed by 15 July 2014.

The following observation is made in this connection.

In terms of Guideline No. 5.4.8 (b) of the Government Procurement Guideline, "a performance security should be provided by the contractor by way of a performance guarantee issued from an acceptable agency and valid till twenty eight (28) days beyond the intended completion date. Nevertheless, the contractor had submitted a performance guarantee only on 12 July 2013 by indicating the validity period as 3 months up to 10 October 2013.

4.5 Provision for Employees Gratuity Fund

Even though, the provisions for employees gratuity and special employees gratuity amounting to Rs. 152,785,128 and Rs.128, 142,135 had been made in the accounts as at 31 December 2014, those had not been invested separately to meet the future obligations.



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வகப் துறைமுக அலுவலர் திணைக்களம்
Auditor General's Department

5. Systems and Controls

Weaknesses observed in the systems and controls during the course of audit were brought to the notice of the Chairman of the Bank in time to time. Special attention is needed in respect of the following areas of control.

- (a) Inventory Control
- (b) Loan Administration
- (c) Personnel Management
- (d) Control over Fixed Deposits
- (e) Control over Fixed and Intangible Assets

A handwritten signature in black ink, appearing to read 'W P C Wickramaratne', is written over a light blue horizontal line.

W P C Wickramaratne
Acting Auditor General

Income Statement

For the Year Ended 31st December 2014

Figures in LKR

	Notes	Bank 2014	2013
INCOME		4,566,125,682	3,802,864,578
Interest Income	1	4,377,844,809	3,528,217,218
Interest Expenses	2	(2,534,685,012)	(2,469,268,259)
Net Interest Income		1,843,159,796	1,058,948,959
Fee and Commission Income	3	211,424,163	189,946,905
Fee and Commission expenses		-	-
Net fee and commission Income		211,424,163	189,946,905
Net Trading income/(expense)		-	-
Net gain/(loss) from financial instruments designated at fair value through Profit or Loss	4	(9,871,302)	-
Net gain/(loss) from financial investments		-	-
Other operating income(net)	5	(13,271,987)	84,700,454
Total Operating Income		2,031,440,670	1,333,596,318
Impairment Charges for Loans and Other Losses	6	131,139,965	86,608,211
Net Operating income		1,900,300,704	1,246,988,107
Staff Costs	7	671,192,234	586,159,242
Amortization and impairment of intangible assets		-	-
Other Expenses	8	452,031,165	351,536,588
Total Expenses		1,123,223,399	937,695,830
Operating Profit/(loss) before Value Added Tax (VAT)		777,077,306	309,292,277
Less : VAT On Financial Services	9	142,492,347	77,917,978
Operating Profit/(loss) after Value Added Tax (VAT)		634,584,959	231,374,299
Share of Profits of associates and joint ventures		-	-
Profit/(Loss) before tax		634,584,959	231,374,299
Tax expenses	10	259,989,639	73,366,108
Profit/(Loss) for the year		374,595,320	158,008,190
Earnings Per Share on Profits			
Basic Earning per Share Rs.	11	5.79	2.44
Diluted earnings per ordinary share		-	-

Statement of Comprehensive Income

For the Year Ended 31st December 2014

Figures in LKR

	Notes	Bank 2014	2013
Profit for the Year		374,595,320	158,008,190
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		(20,015,666)	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		-	-
Other comprehensive income for the year, net of tax		(20,015,666)	26,881,713
Total Comprehensive Income for the Year		354,579,654	184,889,903
Attributable to :			
Shareholders		354,579,654	184,889,903
Non-Controlling Interest		-	-
Total		354,579,654	184,889,903

Statement of Financial Position

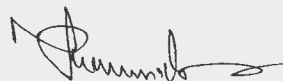
For the Year Ended 31st December 2014 Figures in LKR	Notes	Bank	
		2014	(Restated) 2013
Assets			
Cash and balances with central banks	12	123,224,003	101,866,952
Sri Lanka government securities	13	425,456,328	275,283,764
Balances with banks	14	164,301,732	382,847,152
Financial Assets designated at fair value through profit or loss	15	850,381,869	-
Loans and Receivables to other customers	16	23,356,508,363	19,701,338,734
Financial Investments - Held-to-Maturity	17	8,283,551,776	5,841,394,243
Property, Plant and equipment	18	295,889,942	289,536,996
Investment properties	19	777,648,500	807,755,000
Differed tax assets	20	8,889,129	12,521,930
Other assets	21	131,878,083	154,935,939
Total assets		34,417,729,726	27,567,480,711
Liabilities			
Due to banks and Other Institutes	22	4,225,673,914	3,274,178,471
Due to other customers	23	24,479,322,303	18,901,975,178
Debt securities issued	24	1,987,287,821	1,982,358,158
Current Tax liabilities	25	271,035,110	63,344,493
Other liabilities	26	568,544,008	770,402,789
Total liabilities		31,531,863,156	24,992,259,088
Equity			
Stated capital	27	962,092,936	962,092,936
Statutory reserve fund	28	89,968,266	71,238,500
Retained earnings	29	1,571,195,097	1,268,966,705
Other reserves	30	262,610,270	272,923,481
Total shareholders' equity		2,885,866,570	2,575,221,623
Non-controlling interests		-	-
Total equity		2,885,866,570	2,575,221,623
Total equity and liabilities		34,417,729,726	27,567,480,711
Contingent liabilities and commitments			
Book Value Per Share (Rs.)		44.60	39.80

The significant accounting policies and notes on pages 142 to 165 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

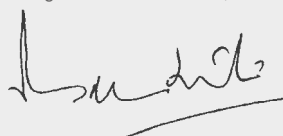
Chief Financial Officer/ DGM



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,



R. J. De Silva

Chairman



Prasad Galhena

Director

April 20, 2015
Colombo

Statement of Changes in Equity

For The Year Ended 31-12-2014 Bank (000) Figures in LKR	Number of voting shares	Stated Capital	General Reserve	Revaluation reserve	Statutory Reserve Fund	Special Reserve	Investment Fund	Actuarial Gain/Loss	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 01-01-2013	64,710,520	962,093	50,390	34,139	61,994	3,451	87,259	-	1,191,882	2,391,207	-	2,391,207
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	-	158,008	158,008	-	158,008
Other comprehensive income (net of tax)	-	-	-	-	-	-	-	26,882	26,882	26,882	-	26,882
Total comprehensive income for the year	64,710,520	962,093	50,390	34,139	61,994	3,451	87,259	26,882	1,349,890	2,576,097	-	2,576,097
Transactions with equity holders, recognized directly in equity	-	-	-	-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital	-	-	-	-	-	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-	-	-	-	-	-
Right issue	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	-	-	18,489	-	9,244	-	53,190	-	-80,924	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	-
Profit transferred to head office	-	-	-	-	-	-	-	-	-	-	-	-
Gain/(loss) on revaluation of property, plant and equipment (if cost method is adopted)	-	-	-	-875	-	-	-	-	-	-	-	-875
Others	-	-	-	-	-	-	-	-	-	-	-	-
Total transactions with equity holders	-	-	18,489	-875	9,244	-	53,190	26,882	-80,924	-875	-	-875
Balance as at 31-12-2013	64,710,520	962,093	68,878	33,264	71,239	3,451	140,449	26,882	1,268,967	2,575,222	-	2,575,222
Figures in LKR												
Balance as at 01-01-2014	64,710,520	962,093	68,878	33,264	71,239	3,451	140,449	26,882	1,268,967	2,575,222	-	2,575,222
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	-	374,595	374,595	-	374,595
Other comprehensive income (net of tax)	-	-	-	-	-	-	-	-46,897	-46,897	-46,897	-	-46,897
Total comprehensive income for the year	64,710,520	962,093	68,878	33,264	71,239	3,451	140,449	-20,016	1,643,562	2,902,920	-	2,902,920
Transactions with equity holders, recognized directly in equity	-	-	-	-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital	-	-	-	-	-	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-	-	-	-	-	-
Right issue	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	-	-	37,460	-	18,730	-	-	-	-56,189	-	-	-56,189
Dividend paid	-	-	-	-	-	-	-	-	-16,178	-16,178	-	-16,178
Profit transferred to head office	-	-	-	-	-	-	-	-	-	-	-	-
Gain/(loss) on revaluation of property, plant and equipment (if cost method is adopted)	-	-	-	-875	-	-	-	-	-	-	-	-875
Others	-	-	-	-	-	-	-	-	-	-	-	-
Total transactions with equity holders	-	-	37,460	-875	18,730	-	-	-20,016	-72,367	-17,053	-	-17,053
Balance as at 31-12-2014	64,710,520	962,093	106,338	32,388	89,968	3,451	140,449	-20,016	1,571,195	2,885,867	-	2,885,867

Statement of Cash Flows

For the Year Ended 31st December 2014

Figures in LKR

	Bank	
	2014	2013
Cash Flows From Operating Activities		
Interest Received	4,234,095,719	3,320,032,832
Interest payments	(2,385,694,895)	(3,187,649,403)
Receipt from other operating activities	175,016,873	129,679,162
Cash payments to employees & suppliers	(680,785,257)	(615,537,693)
Payments on other operating activities	(393,491,211)	(278,761,236)
Operating profit before changes in operating assets	949,141,229	(632,236,337)
(Increase)/Decrease In Operating Assets :		
Funds Recovered from customers	5,017,648,368	3,171,099,579
Funds advanced to customers	(8,693,617,023)	(6,818,831,356)
Other Assets	52,560,306	26,876,730
	(3,623,408,349)	(3,620,855,047)
Increase / (Decrease) In Operating Liabilities		
Deposits from customers	5,427,052,591	4,935,916,914
Others	(417,201,629)	300,788,095
	5,009,850,961	5,236,705,009
Net cash from operating activities before income tax	2,335,583,841	983,613,624
Income Tax & Deemed Dividend Tax Paid	(54,389,187)	(34,590,653)
Net cash from operating activities	2,281,194,654	949,022,972
Cash Flows From Investing Activities		
Dividends received	40,000	17,857
(Purchase)/Sale of Investment Securities	(3,240,522,472)	(2,855,729,677)
Purchase of property, plant and equipment	(85,556,848)	(65,989,823)
Disposal of property, Plant and equipment	107,689,849	800,815
Net cash from Investing activities	(3,218,349,471)	(2,920,900,827)
Cash Flows From Financing Activities		
Issue/(Redemption) of Shares	-	-
Redemption of Contribution towards Share Capital	-	-
Repayment of Borrowings	(1,008,163,848)	(2,492,491,361)
Proceeds from Borrowings	1,966,497,420	4,531,085,814
Dividends paid	(16,177,630)	-
Net cash from financing activities	942,155,943	2,038,594,453
Net increase in cash & cash Equivalents	5,001,126	66,716,597
Cash & cash equivalents at beginning of the period	268,090,261	201,373,664
Cash & cash equivalents at the end of the period	273,091,387	268,090,261
Reconciliation of Cash and Cash Equivalents		
Cash In Hand	123,224,003	101,866,952
Cash at Bank	149,867,384	166,223,309
	273,091,387	268,090,261

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 the all activities of the schedule iv of Banking Act No 30 of 1988 with amendments thereafter. HDFC bank's Head office is located at NHDA Secretariat Colombo-02, Sri Lanka.

2. 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 the accounting standards laid down by the Institute of Chartered Accountants of Sri Lanka applied consistently on a historical cost basis and fair value accounting wherever it is necessary. The financial statements are presented in Sri Lanka Rupees.

Sri Lanka Accounting Standards which are introduced by the Institute of Chartered Accountants of Sri Lanka mandated for all specified business enterprises were used to prepare these financial statements. The comparative figures were also restated as per the above standards.

Rounding

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

Format of Accounts and Prior year Figures.

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

4. Valuation of Assets

4.1 Loans and Advances to Customers:

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

4.1.1 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 ‘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.

4.1.1.1 Collective Impairment Provisions

Collective impairment provisions for possible loan losses are made in accordance with the Sri Lanka Accounting Standard (LKAS) No.-39 ‘Financial Instruments : Recognition and measurement in the Financial Statements of the Bank. The Bank used to make the collective impairment provision at rolling rate method where the individual impairment is not material.

4.1.1.1.1 Mortgage & Guarantor Loans

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

4.1.1.1.2 Cash Margin Loans

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

4.1.1.1.3 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 was greater than 18 months, the bank used rolling rate applicable to relevant category.

4.1.1.2 Individual Impairment Provisions

4.1.1.2.1 Acquired Properties for Sale

Properties mortgaged to HDFC Bank are auctioned if the customers default for a reasonable time and the properties which are not disposed at such auctions are 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.

4.1.1.2.2 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. Financial Investments

Investment in treasury bills, Bonds and Held-to-maturity investments are stated at cost plus interest receivable and Held for sale investments are stated at cost plus interest receivable with Impairment gain (loss) adjustments.

4.3 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, if the value of property has significantly changed.

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

4.3.3 Depreciation Policy

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

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

Total annual depreciation is provided on the assets which is purchased during the year and used for the year and no depreciation is provided for the year of disposal. However if the Assets Value is more than 15Mn and Significant to the operation of the Bank, depreciation policy is from the date of actual use. Further depreciation is not provided for the freehold lands.

05. Investment Property

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

06. Liabilities and Provisions

6.1 Due to other Customers

These include interest bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. They are stated in the 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 3.0% of the salaries of each employee to the Employees Trust Fund managed by Employee Trust Fund Board

6.5 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.

07. 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 instalment 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 a cash basis.

08. Expenses

8.1 Interest on Deposits, Borrowings

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

8.2 Other Expenses

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

09. 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 '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 the Financial Statements.

10. The Statement of Cash Flows

The Cash Flow Statement has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) No.-7 Statements of Cash Flows, 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 for the effects of all dilutive potential Ordinary Shares.

14. Inventory Valuation

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

15. Interest in Other Entities

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

16. 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 2015.

(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 till January 01, 2018

(ii) SLFRS 15 – Revenue from contract with customers. The objective of this SLFRS is to establish a comprehensive framework for determining whether, how much and when revenue is recognized. This standard is effective for annual reporting periods beginning on or after January 1, 2017.

Notes to the Financial Statement

01 Interest Income

In Rupees	2014	2013
Interest Income		
Sri Lanka government securities	77,978,951	28,416,192
Balance With Banks	-	-
Derivatives	-	-
Financial assets held-for-trading	10,803,514	-
Financial assets designated at fair value through Profit or Loss	-	-
Loans and receivables to banks	-	-
Loans and receivables to other customers	3,704,718,926	2,922,126,138
Financial investments - Held -to- maturity	584,343,418	577,674,889
Financial investments - Available-for-sale	-	-
Others	-	-
Total interest income	4,377,844,809	3,528,217,218

02 Interest Expenses

In Rupees	2014	2013
Due to Banks	64,529,141	144,780,900
Derivatives	-	-
Financial liabilities at fair value through profit or loss	-	-
Due to other customers	2,095,079,747	2,160,373,603
Debt securities issued	307,947,362	58,466,955
Other Borrowings	67,128,762	105,646,801
Total interest expenses	2,534,685,012	2,469,268,259

3 Fee and Commission Income

In Rupees	2014	2013
Fee and Commission income	211,424,163	189,946,905
Others	-	-
Fee and Commission Income	211,424,163	189,946,905
Comprising		
Loans	181,931,192	165,739,838
Cards	-	-
Trade and remittances	-	-
Investment banking	-	-
Deposits	-	-
Guarantees	-	-
Others	29,492,971	24,207,067
Fee and Commission Income	211,424,163	189,946,905

4 Net gain/(loss) from financial instruments designated at fair value through Profit or Loss

In Rupees	2014	2013
Net Loss from Debenture Investment	(9,871,302)	-
Total	(9,871,302)	-

5 Other Operating Income (net)

In Rupees	2014	2013
Revaluation gain Investment Property	(20,196,500)	95,413,312
Revaluation (loss) Investment Property	-	-
Profit (Loss) on sale of investment properties	6,924,513	(10,712,858)
Others	-	-
Other Operating Income (net)	(13,271,987)	84,700,454

6 Impairment Charges for Loans and Other Losses

In Rupees	2014	2013
Loans and Receivables		
To banks	-	-
To Other Customers	131,139,965	86,608,211
Others	-	-
Total	131,139,965	86,608,211
6.1 To Other Customers		
Individual Impairment	1,995,315	(33,635,984)
Collective Impairment	129,144,650	120,244,196
Total	131,139,965	86,608,211

7 Staff Costs

In Rupees	2014	2013
Salary and Related Expenses		
Salary and Bonus	438,538,120	413,493,341
Staff Loan Benefits	33,408,152	33,637,428
Staff Medical	27,278,314	19,656,295
Overtime & Officers Allowance	8,824,882	6,058,808
Encashment of Annual Leave	13,320,053	11,546,750
Incentive Payments	9,945,765	5,079,453
Sub total	531,315,286	489,472,074
Retirement Benefits		
Contributions to defined contribution plans	53,664,346	48,004,616
Contributions to defined benefit plans	86,212,601	48,682,553
Sub total	139,876,948	96,687,168
Total	671,192,234	586,159,242
7.1 Remuneration of Key Management		
Total Salary of Key Management	23,173,261	22,437,628
Provision for Retirement Benefits (Refer Note 26.1)	1,420,213	1,464,836
Total	24,593,474	23,902,464

8 Other Expenses

In Rupees	2014	2013
Directors' emoluments	1,818,600	1,720,200
Auditors' remunerations	633,200	864,727
Professional expenses	4,645,753	1,450,310
Legal expenses	415,722	375,422
Depreciation of Property, Plant and equipment	68,479,115	63,027,724
Amortization of Leasehold property	364,642	364,642
Electricity & Water	26,185,209	22,998,076
Telephone Charges	20,523,949	17,541,738
Computer Maintenance	20,330,591	17,721,259
Rent	53,507,496	49,987,697
Repair & Maintenance	5,285,132	4,690,309
Donation	225,000	1,197,460
Business Dev.& Advertising	41,921,179	31,004,180
Other Office admin and establishment expenses	207,695,578	138,592,844
Total	452,031,165	351,536,588

9 VAT On Financial Services

In Rupees	2014	2013
Total Value Addition	1,259,653,455	718,646,500
Value Addition Attributable for Financial Services	1,207,723,595	664,875,391
Finance VAT %	12%	12%
VAT on Financial Services For Current year	144,926,831	79,785,047
Under (Over) Provision in Previous Years	(2,434,484)	(1,867,070)
Total	142,492,347	77,917,978

10 Tax Expenses

In Rupees	2014	2013
Current Tax Expense	-	-
Current Year	256,356,837	62,759,526
Prior years' Provision	-	-
Differed Tax Expenses	3,632,801	10,606,581
Total	259,989,639	73,366,108

10.1 Reconciliation of tax expenses

Accounting Profit	777,077,306	309,292,277
Add :Disallowable Expenses	377,629,082	243,566,597
Less :Allowable Expenses	239,146,254	328,717,708
Adjusted Profit Before Tax	915,560,134	224,141,166
Income Tax	256,356,837	62,759,526
Effective Tax Rate	32.99%	20.29%

10.2 Relationship Between Tax Expense and Accounting Income

Profit Before Tax as per the Income Statement	777,077,306	309,292,277
Add :Disallowable Expenses	377,629,082	243,566,597
Less :Allowable Expenses	239,146,254	328,717,708
Taxable Income	915,560,134	224,141,166
Tax @ 28%	256,356,837	62,759,526
Under (Over) Provision	-	-
Less : Differed Tax Adjustments	3,632,801	10,606,581
Provision for Income Tax	259,989,639	73,366,108

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

Deferred tax assets	41,689,697	(1,897,144)
Deferred tax Liabilities	45,322,498	8,709,437
Other temporary differences	-	-
Differed tax (credit)/ Charges to income Statement	(3,632,801)	(10,606,581)

11 Earning Per Share

In Rupees	2014	2013
Net profit attributable to ordinary equity holders	374,595,320	158,008,190
Net profit attributable to ordinary equity holders adjust for the effect of dilution	374,595,320	158,008,190
Weighted average number of ordinary shares for basic earnings per share	64,710,520	64,710,520
Basic earning per ordinary share (Rs.)	5.79	2.44
Diluted earnings per share	-	-

12 Cash and Balances with Central Banks

In Rupees	2014	2013
Cash in Hand	123,224,003	101,866,952
Total	123,224,003	101,866,952

13 Sri Lanka Government Securities

In Rupees	2014	2013
Held-to-maturity		
Treasury Bonds/ Treasury Bills	35,456,328	35,244,312
Treasury Bills Under Repurchase Agreements	390,000,000	240,039,452
Others	-	-
Total	425,456,328	275,283,764

14 Balance With Banks

In Rupees	2014	2013
Placements	149,867,384	166,223,309
Others	14,434,349	216,623,842
Total	164,301,732	382,847,152

15 Financial Assets designated at fair value through profit or loss

In Rupees	2014	2013
Investment in Trading Debentures	850,381,869	-
Total	850,381,869	-

16 Loans and receivables to Other Customers

In Rupees	2014	2013
Gross loans and receivable	23,898,578,805	20,112,269,211
(less) : Individual impairment charges	(29,805,125)	(27,809,810)
Collective impairment charges	(512,265,317)	(383,120,667)
Of Which: Loans and receivables designated at fair value through profit or loss	23,356,508,363	19,701,338,734
Net loans and Receivables	23,356,508,363	19,701,338,734

a. Analysis

In Rupees	2014	2013
By Product		
Overdrafts	-	-
Trade Finance	-	-
Credit Cards	-	-
Gold	175,640,022	121,197,035
Staff Loans	577,934,535	477,639,955
Leasing and Hire Purchase	104,705,328	-
Term Loans	-	-
Short-term	-	-
Long-term	23,040,298,921	19,513,432,221
Reverse repo agreements	-	-
Others	-	-
Gross Total	23,898,578,805	20,112,269,211
By Currency		
Sri Lankan Rupee	23,898,578,805	20,112,269,211
United State Dollar	-	-
Great Britain Pound	-	-
Others	-	-
Gross Total	23,898,578,805	20,112,269,211
By industry		
Agriculture and fishing	-	-
Manufacturing	-	-
Tourism	-	-
Transport	-	-
Construction	-	-
Traders	-	-
New economy	211,558,099	102,678,799
Housing	23,687,020,706	20,009,590,411
Gross Total	23,898,578,805	20,112,269,210

b. Movements in Individual and Collective Impairment Charges during the Year

In Rupees	2014	2013
Individual impairment charges		
Opening balance at 01-01	27,809,810	61,445,794
Charges/(Write back) to income statement	1,995,315	(33,635,984)
Net write-off during the year	-	-
Other movements	-	-
Closing balance 31-12	29,805,125	27,809,810
Collective impairment charges		
Opening balance at 01-01	383,120,666	262,876,470
Charges/(Write back) to income statement	129,144,650	120,244,196
Closing balance 31-12	512,265,316	383,120,666
Total	542,070,441	410,930,476

17 Financial Investments -Held-to- Maturity (Excluding Sri Lanka Government Securities)

In Rupees	2014	2013
Equity securities	30,600	30,600
Debt Securities	-	-
Fixed Deposit	7,619,780,363	5,319,581,333
Overnight Deposit	-	-
Commercial Paper	498,424,128	433,304,081
Trust Certificates	165,316,685	88,478,230
(Less) Impairment charges	-	-
Net Total	8,283,551,776	5,841,394,243
Of Which : Held-To-Maturity Investments designated at fair value through profit or loss	-	-
Held-To-Maturity Investments	8,283,551,776	5,841,394,243

18 Property, Plant and Equipment

In Rupees	Land and Buildings	Leasehold Properties	Computer Hardware and Software	Office Equipment, Furniture and Fittings	Others	Total
2014						
Cost/Fair Value						
Opening Balance at 01-01-2014	23,422,679	51,495,680	188,254,427	203,326,377	85,544,633	552,043,797
Additions	-	-	31,395,723	34,510,158	19,650,967	85,556,848
Disposals	-	875,364	-	-	13,224,000	14,099,364
Exchange rate Variance	-	-	-	-	-	-
Adjustments	-	-	(68,317,963)	(26,649,517)	501,631	(94,465,849)
Closing Balance at 31-12-2014	23,422,679	50,620,316	151,332,187	211,187,018	92,473,231	529,035,432
(less) : Accumulated depreciation						
Opening Balance at 01-01-2014	2,814,528	4,375,702	118,398,980	80,553,733	56,363,859	262,506,801
Charge for the year	908,610	364,642	28,296,027	24,348,063	1,702,489	55,619,831
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Exchange rate Variance	-	-	-	-	-	-
Adjustments	(37)	-	(64,657,386)	(19,832,945)	(490,774)	(84,981,142)
Closing Balance at 31-12-2014	3,723,101	4,740,344	82,037,620	85,068,851	57,575,574	233,145,490
(less): Impairment charges	-	-	-	-	-	-
Net Book Value at 31-12-2014	19,699,578	45,879,973	69,294,567	126,118,167	34,897,657	295,889,942
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	65,989,824
Disposals	-	875,364	-	800,815	-	1,676,179
Exchange rate Variance	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
Closing Balance at 31-12-2013	23,422,679	51,495,680	188,254,427	203,326,377	85,544,634	552,043,798
(less) : Accumulated depreciation						
Opening Balance at 01-01-2013	1,905,991	4,011,060	93,205,914	60,125,637	40,362,173	199,610,775
Charge for the year	-	-	-	-	-	-
Additions	908,537	364,642	25,193,066	20,924,436	16,001,686	63,392,367
Disposals	-	-	-	496,340	-	496,340
Exchange rate Variance	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
Closing Balance at 31-12-2013	2,814,528	4,375,702	118,398,980	80,553,733	56,363,859	262,506,802
(less): Impairment charges	-	-	-	-	-	-
Net Book Value at 31-12-2013	20,608,151	47,119,978	69,855,447	122,772,644	29,180,775	289,536,996

18.1 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.

2014	Fully depreciated	Depreciating	Total
Land and Buildings	-	23,422,679	23,422,679
Leasehold Properties	-	50,620,316	50,620,316
Computer Hardware and Software	28,369,460	122,962,727	151,332,187
Office Equipment, Furniture and Fittings	7,832,506	203,354,512	211,187,018
Plant and Machinery	11,009,210	19,195,210	30,204,420
Tools	57,725	-	57,725
Moter Vehicle	10,978,620	42,216,339	53,194,959
Working Progress	-	9,016,127	9,016,127
Total	58,247,521	470,787,910	529,035,432

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
Moter Vehicle	8,614,499	45,297,381	53,911,880
Working Progress	-	49,461	49,461
Total	46,452,361	505,591,436	552,043,797

18.2 Information on Free hold Land and Building of Bank

Location	Extent	Building -Square feet	Net Book Value	Market Value
Kalutara Branch - No. 13, Gnanodaya Mw, Kalutara South, Kalutara.	P 7.535	3,420	16,537,610	29,000,000

Date of Valuation 11th November 2014

Name of the Valuer M A Ananda Sarath

Qualification of the Valuer B.Sc. (Special) Estate Management & valuation (Sri Lanka) AIV, Sri Lanka.
Incorporated Valuer

18.3 Information on Lease hold Land and Building of Bank

Location	Extent	Building -Square feet	Net Book Value	Market Value
Hyde Park Branch - No. 63, Hyde Park Corner, Colombo 02.	P 31	1150	57,505,385	116,000,000
Date of Valuation	13th November 2014			
Name of the Valuer	M A Ananda Sarath			
Qualification of the Valuer	B.Sc. (Special) Estate Managemnt & valuation (Sri Lanka) AIV, Sri Lanka. Incorporated Valuer			

19 Investment Properties

a. Investment Properties at Cost/fair Value

In Rupees	2014	2013
Cost/fair value		
Opening Balance at 01-01-2014	807,755,000	738,677,165
Additions	-	-
Disposals	(9,910,000)	(26,335,477)
Exchange rate Variance	-	-
Adjustments/Revaluation	(20,196,500)	95,413,312
Closing Balance at 31-12-2014	777,648,500	807,755,000
(less) : Accumulated depreciation		
Opening Balance at 01-01-2014	-	-
Charge for the year	-	-
Additions	-	-
Disposals	-	-
Exchange rate Variance	-	-
Adjustments	-	-
Closing Balance at 31-12-2014	-	-
(less):Impairment charges	-	-
Net Book Value at 31-12-2014	777,648,500	807,755,000
Market Value at 31-12-2014	777,648,500	807,755,000

19.1 Investment Properties Valuation details

Location	Extent (Perches)	Deed No	Bank	
			2014	2013
No; 441 Sangarajah Mw, Aluthkade East	59.20	1127	207,000,000	213,120,000
No.192 Srimath Bandaranayake Mw,,Kotahena Colombo 13.	123.20	1124	429,700,000	449,680,000
No.192 (Part) Sri Sangarajah Mawatha,Kotahena Colombo 13.	15.00	1126	52,500,000	54,750,000
Avissawella -Housing Project	-	-	88,448,500	90,205,000
	-	-	777,648,500	807,755,000

19.2 Revaluation of Lands

No 192 Srimath Bandaranayake Mw, Kotahena Deed No 1127

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

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

Name of the Valuer	Department of Valuation
Qualification of the Valuer	Chief Valuer -Valuation Department
Valuation Date	13th February 2015

19.3 Revaluation of Avissawella -Housing Project

Name of the Valuer	Department of Valuation
Qualification of the Valuer	Chief Valuer -Valuation Department
Valuation Date	11th November 2014

19.3 Pending Court Case Investment Property

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

20 Deferred Tax Assets/Liabilities

In Rupees	2014	2013
Deferred tax assets	58,129,916	36,970,091
Deferred tax Liabilities	(49,240,787)	(24,448,161)
Income Statement	-	-
Net Total	8,889,129	12,521,930

21 Other Assets

In Rupees	2014	2013
Cost		
Receivables	9,414,903	11,376,865
Deposits and Prepayments	45,411,273	33,798,994
Loan Related Receivable	66,069,743	48,736,213
Others	10,982,164	61,023,866
Total	131,878,083	154,935,939

22 Due to Banks and Other institutes

In Rupees	2014	2013
Borrowings from Banks	1,760,904,588	1,018,692,325
Borrowings from Other Institutions	2,464,769,326	2,255,486,146
Total	4,225,673,914	3,274,178,471

23 Due to Other Customers

In Rupees	2014	2013
At amortised cost	24,479,322,303	18,901,975,178
Total	24,479,322,303	18,901,975,178

a. Analysis

In Rupees	2014	2013
By Product		
Savings deposits	3,271,144,137	2,377,000,075
Fixed deposits	21,208,178,166	16,524,975,103
Total	24,479,322,303	18,901,975,178
By Currency		
Sri Lankan Rupee	24,479,322,303	18,901,975,178
Total	24,479,322,303	18,901,975,178

24 Debt Securities Issued

In Rupees	2014	2013
Issued by the bank	1,987,287,821	1,982,358,158
Issued by the Other Subsidiaries	-	-
Total	1,987,287,821	1,982,358,158
Due within 1 year	-	-
Due after 1 year	1,987,287,821	1,982,358,158
Total	1,987,287,821	1,982,358,158

a. Details of Debt Securities Issued

Type	Face Value In Rupees	Interest Rate and Repayment Terms	Issue Date	Maturity Date	2014	2013
Issued by Banks						
Listed , secured, Redeemable & Rated 3 Year Debenture	476,460,000	14.50%	24th October 2013	23rd Oct 2016	473,831,997	472,336,316
Listed , secured, Redeemable & Rated 4 Year Debenture	443,540,000	15.00%	24th October 2013	23rd Oct 2017	440,658,385	439,615,038
Listed , secured, Redeemable & Rated 5 Year Debenture	1,080,000,000	15.50%	24th October 2013	23rd Oct 2018	1,072,797,438	1,070,406,805
Sub Total	2,000,000,000				1,987,287,821	1,982,358,159

25 Provision For Taxation and Deemed Dividend Tax

In Rupees	2014	2013
Taxation - current	356,002,644	99,645,807
VAT Payable	10,777,753	6,388,596
WHT Received	(101,744,540)	(45,481,165)
Crop Insurance Levy	3,081,627	2,791,254
NBT Payable	2,917,626	-
	271,035,110	63,344,492

26 Other Liabilities

In Rupees	2014	2013
Sundry creditors	108,445,710	432,542,045
Contributions to defined benefit plans (Note 26.1)	280,927,815	156,618,027
Long Term Funds & Deposits	18,956,998	20,132,442
Charges recovered in advance	160,213,485	161,110,276
Total	568,544,008	770,402,789

26.1 Contributions to defined benefit plans

Actuarial Valuation of Gratuity Liabilities as at 31 December 2014	Normal Gratuity Rs.	Special Gratuity Rs.	TOTAL Rs.
Accounting Disclosures :			
Change in the Present Value of The Defined Benefit Obligation (PV-DBO)			
Provision for PV-DBO as at 01 January 2014	110,207,948	92,820,161	203,028,109
Interest Cost for the period	11,020,795	9,282,016	20,302,811
Current Service Cost for the period	10,937,107	8,562,601	19,499,708
Gratuity paid/payable for those who left during the period	(6,027,938)	(2,772,254)	(8,800,192)
Actuarial (Gain)/Loss on PV-DBO	26,647,768	20,249,611	46,897,379
Provision for PV-DBO as at 31 December 2014	152,785,680	128,142,135	280,927,815

AMOUNTS RECOGNIZED IN THE BALANCE SHEET AND INCOME STATEMENT**Liability recognised in the balance sheet**

Provision for Gratuity as at 31 December 2014	152,785,680	128,142,135	280,927,815
Unrecognized actuarial Gains/(Losses) as at 31 December 2014	-	-	-
Liability recognized in the balance sheet as at 31 December 2014	152,785,680	128,142,135	280,927,815

Expenses recognised in the income statement

Interest Cost	11,020,795	9,282,016	20,302,811
Current Service Cost	10,937,107	8,562,601	19,499,708
Net Actuarial (Gain)/Loss recognized immediately	26,647,768	20,249,611	46,897,379
Expenses recognized in the Income Statement	48,605,670	38,094,228	86,699,898

Movements in the Net Liability Recognised in the balance sheet

Opening Net Liability as at 01 January 2014	110,207,948	92,820,161	203,028,109
Expenses recognized in the Income Statement	48,605,670	38,094,228	86,699,898
Gratuity paid/payable for those who left during the period	(6,027,938)	(2,772,254)	(8,800,192)
Closing Net Liability as at 31 December 2014	152,785,680	128,142,135	280,927,815

Name of the Actuary

M Poopalanathan

Date of the Actuarial Computation

17th February 2015

Method of Valuation

Projected Unit Credit Method

27 Stated Capital /Assigned Capital

In Rupees	2014	2013
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

28 Statutory Reserve Fund

In Rupees	2014	2013
Opening balance as at 01-01-2014	71,238,500	61,994,005
Transfer During the Period	18,729,766	9,244,495
Closing Balance 31-12-2014	89,968,266	71,238,500

29 Retained Earnings

In Rupees	2014	2013
Opening balance as at 01-01-2014	1,268,966,705	1,191,882,032
Profit for the year	374,595,320	158,008,190
Transfer to other reserves	(56,189,298)	(80,923,517)
Dividend	(16,177,629)	-
Closing Balance 31-12-2014	1,571,195,097	1,268,966,705

30 Other Reserves**a. Bank-2014**

In Rupees	Opening Balance 01-01-2014	Movement/ transfers	Closing balance as at 31-12-2014
General reserve	68,878,499	37,459,532	106,338,031
Revaluation Reserve	33,263,590	(875,364)	32,388,226
Investment Fund	140,448,554	-	140,448,554
Available-for-sale reserve	-	-	-
Cash flow reserve	-	-	-
Foreign currency translation reserve	-	-	-
Special Reserve	3,451,125	-	3,451,125
Actuarial Gain/Loss	26,881,713	(46,897,379)	(20,015,666)
Total	272,923,481	(10,313,211)	262,610,270

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	-	3,451,125
Actuarial Gain/Loss	-	26,881,713	26,881,713
Total	175,238,109	97,685,371	272,923,481

31. 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 2014 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	123,224	-	-	-	-	123,224
Due from Banks	149,867	-	-	-	-	149,867
Investments	5,604,672	3,895,920	38,927	34,305	-	9,573,824
Loans & Advances	1,838,597	2,029,387	5,560,716	4,902,682	9,025,127	23,356,508
Fixed Assets	-	-	-	-	295,890	295,890
Other Assets	34,379	40,977	46,935	8,104	788,020	918,416
Total Assets	7,750,739	5,966,284	5,646,578	4,945,091	10,109,037	34,417,730
Percentage 31st Dec 2014	22.52	17.33	16.41	14.37	29.37	100.00
Percentage 31st Dec 2013	20.73	12.74	17.82	15.08	33.63	100.00
Liabilities						
Total Capital Fund	-	-	-	-	2,885,867	2,885,867
Deposits	13,409,488	7,428,438	983,865	1,669,745	987,786	24,479,322
Borrowings	1,436,496	342,856	1,583,816	2,067,964	781,830	6,212,962
Other Liabilities	543,840	7,857	24,009	36,941	226,933	839,579
Total Liabilities	15,389,824	7,779,151	2,591,690	3,774,650	4,882,415	34,417,730
Percentage 31st Dec 2014	44.71	22.60	7.53	10.97	14.19	100.00
Percentage 31st Dec 2013	37.79	24.25	9.52	11.97	16.48	100.00

32. 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.

32.1 Related Party Transactions

Name	Related Party	Office Holding	Transactions	Nature of Transactions	% Regulatory Capital
Mr. S. A. J. Samaraweera (Director HDFC)	National Housing Development Authority	Chairman	21.65 Mn	Rent for Head Office Building	0.75%
Mrs. S.N. Wickramasinghe (Chairman HDFC)	Chairman HDFC	Chairman	1.01 Mn	Savings Deposit	0.035%
Mr. W. J. L. U. Wijeweera (Director HDFC)	Director HDFC	Director	0.03 Mn	Savings Deposit	0.001%
Mrs. D. G. K. Dilani (Spouse of Director)	Mr. W. J. L. U. Wijeweera (Director HDFC)		0.17 Mn	Savings Deposit & Fixed Deposit	0.0061%
Mr. W. D. R. D. Goonaratne	Director HDFC	Director	0.001 Mn	Savings Deposit	0.00004%
Mr. Wasantha Hewapalihakkara (Spouse of Director)	Mrs. B.G.S. Gunathilaka (Director HDFC)		0.01 Mn	Savings Deposit	0.0003%

Directors, Interest in Debentures

Mrs S. N . Wickramasinghe, the chairman of HDFC Bank has purchased listed debentures of HDFC Bank at the initial issue and details as follows as at 31-12-2014

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

33. Events Occurring After the Date of Statement of Financial Position

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

34. Assets Pledged

Type of Facility	Amount of facility Rs. Mn	Nature of Security	Value of security Rs. Mn	Balance as at 31-12-2014 Rs. Mn
(1) Overdraft (Sampath Bank)	100	Part of Portfolio	150	-
(2) Borrowing (Term Loan) (Sampath Bank)	1500	Part of Portfolio	1915	924.5
(3) Borrowing (Term Loan) (BOC)	500	Part of Portfolio	1000	500
(4) Nations Trust Bank	350	Part of Portfolio	350	270

Type of Facility	Amount of facility Rs. Mn	Nature of Security	Value of security Rs. Mn	Balance as at 31-12-2014 Rs. Mn
(1) Listed ,Secured ,Redeemable Debenture	2000	Part of Portfolio	3100	2000

Capital Adequacy

CAPITAL BASE

As at 31st December	2014 (Rs.000')	2013 (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	89,968	71,239
Published Retained Profits/(Accumulated Losses)	1,571,195	1,268,967
General and Other Reserves	250,238	212,778
Sub Total	2,873,494	2,515,076
Deductions/Adjustments-Tier 1		
Net Deferred Tax Assets	8,889	12,522
Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	3,084	49,843
50% investments in the capital of other banks and financial institutions	249,945	-
Total Core Capital (Tier 1)	2,611,576	2,452,711
Additions		
General Provisions	87,343	75,934
50% investments in the capital of other banks and financial institutions	249,945	-
Total Tier 2 Capital	2,448,974	2,528,645
Total risk adjusted balances (credit risk, market risk, operational risk)	18,949,558	13,826,323
Risk Adjusted Capital Ratios		
Tier 1 (Eligible Tier 1 capital / Total risk adjusted balances) *	13.78%	17.74%
Tier 11(Capital base / Total risk adjusted balances) **	12.92%	18.29%

* Statutory minimum 5 ** Statutory minimum 10%

Risk Adjusted on - Balance Sheet Exposure

Rs. .000' As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2014	2013		2014	2013
Exposures					
Cash- Local Currency	123,224	101,867	0%	-	-
Sri Lanka Govt Treasury Bills & Bonds	425,456	275,284	0%	-	-
Central Bank of Sri Lanka	14,434	216,624	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	3,189,309	3,877,217	50%	1,594,655	1,938,608
Claims that not qualify for regulatory capital purposes	3,787,062	3,259,652	100%	3,787,062	3,259,652
Housing loans against EPF.	8,884,242	7,560,106	0%	-	-
Cash Margin Loans	656,102	581,307	0%	-	-
Gold Loans	182,153	119,050	0%	-	-
Trading Investment	850,382	-	-	-	-
Retail claims that qualify for regulatory capital purposes	5,031,130	3,191,359	75%	3,773,347	2,393,519
Claims Secured by Real State	21,973	29,524	100%	21,973	29,524
Non Performing Assets					
Past Due Residential Mortgage Loans					
Specific provisions are more than 20%	15,979	10,718	50%	7,989	5,359
Specific provisions are less than 20%	956,967	674,717	100%	956,967	674,717
Housing loans on Guarantors & others					
Specific provisions are more than 20%	56,652	20,991	100%	56,652	20,991
Specific provisions are less than 20%	162,050	49,861	150%	243,075	74,792
Due From local Commercial Banks Less Than Three Months (AAA to BBB-)	149,867	4,130,477	20%	29,973	826,095
Due From local Commercial Banks More than Three Months (AAA to AA-)	2,091,441	-	20%	418,288	-
Due From local Commercial Banks More than Three Months (A+ to BBB-)	3,344,868	-	50%	1,672,434	-
Due From local Commercial Banks More than Three Months (BB+ to B-)	1,242,193	-	100%	1,242,193	-
Claims on Financial Institutions/Primary Dealers/ Finance Companies (AAA to AA-)	165,317	456,804	20%	33,063	-
Claims on Financial Institutions/Primary Dealers/ Finance Companies (A+ to BBB- and unrated)	941,278	1,420,306	50%	470,639	228,402
Claims on Financial Institutions/Primary Dealers/ Finance Companies (unrated)	498,424	-	100%	498,424	1,420,306
Fixed Assets	295,890	289,537	100%	295,890	289,537
Other Assets	909,382	1,018,365	100%	909,382	1,018,365
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet					
Total Risk Weighted Assets On Balance Sheet	33,995,805	27,283,796		16,012,038	12,179,898
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet					
	3,558		100%	3,558	
Total Risk Weighted Assets	33,999,363			16,015,595	
Total risk adjusted balance for operational risk					
				2,152,096	1,646,424
Total risk adjusted balance for Market risk					
				781,867	
Total risk adjusted balances (credit risk, market risk, operational risk)					
				18,949,558	13,826,323

Share Information

As at 31-12-2014

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

December 31, 2014									
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	1,456	947,000	1.46	4	3,100	0.00	1,460	950,100	1.46
1,001 - 10,000	420	1,514,303	2.34	6	27,750	0.04	426	1,542,053	2.38
10,001 - 100,000	118	2,881,613	4.45	0	0	0.00	118	2,881,613	4.45
100,001 - 1000,000	19	3,963,479	6.13	0	0	0.00	19	3,963,479	6.13
Over 1,000,000	5	46,218,275	71.42	1	9,155,000	14.16	6	55,373,275	85.58
Total	2018	55,524,670	85.80	11	9,185,850	14.20	2,029	64,710,520	100.00

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 - 1000,000	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	55,905,186	86.39
Total	2101	55,452,165	85.68	18	9,258,355	14.32	2,119	64,710,520	100.00

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

	December 31, 2014				December 31, 2013			
	No of Share holders	%	No of Shares	%	No of Share holders	%	No of Shares	%
Individuals	1,923	94.78	5,718,849	8.84	2,017	95.19	6,954,198	10.75
Institution	106	5.22	58,991,671	91.16	102	4.81	57,756,322	89.25
Total	2,029	100.00	64,710,520	100.00	2,119	100.00	64,710,520	100.00

Twenty largest Shareholders (As per rule No. 7.6 (III) of the Colombo Stock Exchange)¹

	Name Of Shareholder	No. of Shares 2014	Percentage (%) 2014	No. of Shares 2013	Percentage (%) 2013
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	9,155,000	14.15
5	Sampath Bank PLC/ Dr. T. Senthilveri	1,833,023	2.83	-	-
6	Seylan Bank PLC/ T. Senthilveri	1,354,364	2.09	-	-
7	AIA Insurance Lanka PLC	1,143,148	1.77	-	-
8	Dr. Senthilveri	345,709	0.53	1,376,926	2.13
9	Capital Development and Investment Company PLC	318,818	0.49	-	-
10	Condominium Management Authority	300,000	0.46	300,000	0.46
11	Urban Development Authority	300,000	0.46	300,000	0.46
12	Dr. R.R. De Silva	295,126	0.46	304,126	0.47
13	Bank of Ceylon A/C Eagle Growth Fund	269,320	0.42	-	-
14	DFCC Vardena Bank Ltd/A, Sithampalam	258,054	0.40	258,054	0.40
15	Legalinc Trustee Services (Pvt) Ltd	215,680	0.33	3,485,520	5.39
16	DFCC Vardena Bank Ltd/Mr C. H. R. De Soysa	193,456	0.30	568,958	0.88
17	Finco Holding (Pvt.) Ltd.	185,000	0.29	185,000	0.29
18	The Associated Newspapers of Ceylon Ltd.	180,000	0.28	180,000	0.28
19	Miss. S.C. Perera	171,000	0.26	-	-
20	Mr. D. A. De Soysa	170,000	0.26	170,000	0.26
21	Seylan Bank Ltd/ Govindasamy Ramanan	149,344	0.23	-	-
	Total	58,724,782	90.75	58,171,324	89.90

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

	2014 Rs.	2013 Rs.
Highest	75.00	52.50
Lowest	29.90	27.50
Year end	66.10	29.90

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

	2014	2013
Dividend per share (Rs.)	0.60 (proposed)	0.25
Dividend pay out ratio (%)	10.36	10.25
Net Assets value per share (Rs.)	44.60	39.80
Earning per Share (Rs.)	5.79	2.44

The Board of Directors of the Bank has recommended a final dividend of Cents Sixty (Rupees 0.60) per share, for the year ended 31st December 2014 for approval by the shareholders at the 30th Annual General Meeting of the HDFC Bank.

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

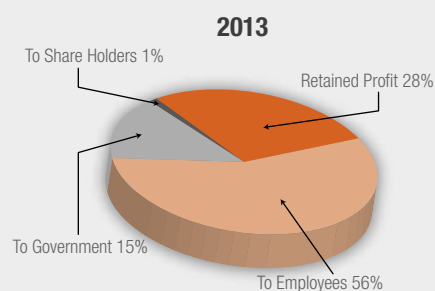
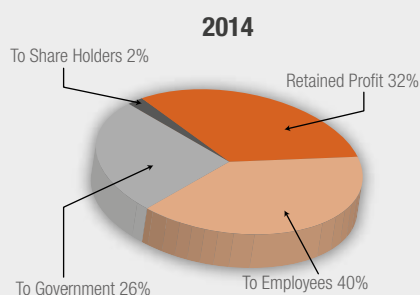
Name	2014	2013
Mrs. S. N. Wickramasinghe (Chairman)	Nil	Nil
Mr. W.J.L.U. Wijayaweera	3,000	3,000
Mr. S. A. J. Samaraweera	Nil	Nil
Mr. W. D. R. D. Goonaratne	Nil	Nil
Mr. L.E. Susantha Silva	1,000	1,000
Mr. G.P.I. Gnanasena	1,000	1,000
Mr. M. Surendran	Nil	Nil
Ms. B.G.S. Gunathilake	Nil	Nil
Ms. M.F.K. Nissa	Nil	Nil
Mr. N.J.B. Mamaduwa (GM/CEO)	1000	1000

The percentage of public holding as at December 31, 2014 was 35.35% (21.11% as at December 31, 2013)

Value Added Statement

For the period ended 31st December

LKR "000"	%	Bank		2013
		2014	%	
Interest Income		4,377,845		3,528,217
Other Income		188,281		274,647
Gross Income		4,566,126		3,802,865
Cost of Service		2,882,262		2,754,194
Total Value Additions		1,683,864		1,048,671
Value Distributed				
To Employees				
(Remuneration & Benefits)	39.9	671,192	55.9	586,159
To Government				
Income Tax	15.4	259,990	7.0	73,366
Value Added Tax	8.5	142,492	7.4	77,918
Nation Building Tax	1.7	28,716	-	-
Crop insurance Levy	0.2	2,719	-	-
Stamp Duty	0.3	4,539	0.3	3,584
	26.0		14.8	
To Share Holders (Dividend)	2.3	38,826	1.5	16,178
		*		
Retained in the Business				
Retained Income	19.9	335,769	13.5	141,831
Depreciation	4.1	68,479	6.0	63,028
Loan Loss Provision	7.8	131,140	8.3	86,608
Total Value Distributions	100.0	1,683,864	100.0	1,048,671



* Proposed Dividend 2014

Ten Year Statistical Summary

Year ended 31st December (LKR. Mn)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
OPERATING RESULTS										
Income	1,056	1,286	1,741	1,974	2,269	2,250	2,386	2,744	3,803	4,566
Interest Income	1,024	1,203	1,696	1,941	2,216	2,165	2,261	2,635	3,528	4,378
Interest Expense	568	699	1,247	1,602	1,582	1,339	1,354	1,805	2,469	2,535
Other Income	32	82	46	33	52	85	82	110	275	188
Operating Expenses	253	272	359	385	439	513	620	762	938	1,123
Provision for Loss	17	5	43	54	79	107	10	1	87	131
Profit Before Tax	217	309	93	(67)	168	291	402	176	309	777
Income Tax & Finance VAT	101	136	72	25	112	156	186	120	151	402
Profit After Taxation	117	172	21	(92)	56	135	216	56	158	375
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer Deposits	1,537	2,501	4,960	5,777	6,929	8,526	12,336	14,695	18,902	24,479
Borrowings	4,966	5,783	6,067	5,840	4,336	3,629	3,556	3,214	5,257	6,213
Other Liabilities	688	621	666	867	1,315	1,383	1,699	500	834	840
Shareholders' Funds	1,643	1,800	1,789	1,697	1,721	1,849	2,337	2,391	2,575	2,886
Total	8,834	10,705	13,482	14,181	14,301	15,387	19,927	20,801	27,567	34,418
ASSETS										
Loans and Advances	8,100	10,134	11,869	12,149	11,913	12,519	14,888	15,966	19,701	23,357
Cash, short term funds and statutory	561	352	1280	1091	1410	1,920	3,960	3,679	6,601	8,997
Trading Investments	-	-	-	-	-	-	-	-	-	850
Property, plant and equipment	85	85	111	671	721	756	250	288	290	296
Other assets	88	134	222	270	257	192	830	868	975	918
Total	8,834	10,705	13,482	14,181	14,301	15,387	19,927	20,801	27,567	34,418
RATIOS										
Return on Average Shareholders Funds (%)	8.8	10.0	1.2	(5.3)	3.3	7.6	10.3	2.35	6.36	13.72
Income Growth (%)	11.5	21.8	35.4	13.4	14.9	(0.8)	6.0	15.0	38.6	20.1
Return on Average Assets(%)	1.4	1.8	0.2	(0.7)	0.4	0.9	1.2	0.27	0.65	1.21
Advance to Deposits and Borrowings (%)	80.3	81.7	92.9	95.6	94.6	97.1	106.7	112.2	122.6	131.4
PPE on Shareholders Funds (%)	5.2	4.7	6.2	39.5	41.9	40.9	10.7	12.0	11.2	10.3
Total Assets to shareholders funds (times)	5.38	5.95	7.54	8.36	8.31	8.32	8.53	8.70	10.70	11.93
SHARE INFORMATION										
Market Value per Share (Rs.)	For Rs. 100/= Shares					For Rs 10/= Shares				
High (Rs.)	401.00	235.30	192.00	135.00	191.80	600.00	1,900.00	119.00	52.50	75.00
Lower (Rs.)	165.00	153.00	125.80	54.00	49.50	135.00	546.00	44.00	48.20	29.90
Close (Rs.)	191.00	174.80	128.00	56.00	147.80	550.00	1,400.30	50.60	49.60	66.10
Earnings per Share (Rs.)	2.67	2.74	0.33	(0.39)	1.69	2.63	3.34	0.86	2.44	5.79
Price Earnings Ratio	71.51	63.80	392.64	(142.13)	87.22	209.13	419.47	58.84	20.31	11.42
Net Assets per Share(Rs.) **	26.82	27.82	27.64	26.23	26.60	28.56	36.11	36.95	39.80	44.60
PROFILE										
Ownership - Government %	56	51	51	51	51	51	51	51	51	51
- Private %	44	49	49	49	49	49	49	49	49	49
No of employees	290	300	286	289	364	425	505	488	488	477
No of branches	20	20	21	21	26	28	31	32	33	36
No of ATM (Access)*	-	-	-	4	10	225	255	360	652	775

* Including Network Linked ATM Machines with Sampath Bank, PABC, DVB, MCB, NDB, NTB, Union Bank

Debt Securities Issued

(Listed Secured and Redeemable)

Category	Coupon Rate	Comparable T-Bond Rates	Interest Payable Frequency	Allotment Date	Maturity Date	Interest Yield		Market Price		Value	Rating
						2014	2013	High	Low		
Fixed Rate Debentures											
2013/2016	14.50%	8.50%	Quarterly	24.10.2013	23.10.2016	-	-	Not Traded	Not Traded	476.46	BBB + (Stable)
2013/2017	15.00%	9.12%	Quarterly	24.10.2013	23.10.2017	13.54%	-	111.06	104.00	443.54	BBB + (Stable)
2013/2018	15.50%	9.25%	Annually	24.10.2013	23.10.2018	8.40%	-	122.86	106.79	1,080.00	BBB + (Stable)

Credit Rating Made by Lanka Rating Agency Ltd [Formally known as RAM Ratings (Lanka) Limited]

Ratio	2014	2013
-------	------	------

Debt/Equity Ratio	2.15	2.04
Interest Cover - Debenture(Times)	4.17	8.86

In Year 2013, debenture interest accrued only for 70 days.

Notice of the Annual General Meeting

Notice is hereby given that the Thirtieth (30th) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka is convened on on Friday the Twenty Sixth (26th) day of June 2015 at Booker Recreation (Pvt) Ltd. (Gardenia Hall), 1st Floor, No. 10, off Deans Road, Hedges Court, Colombo 10, at 10.00am 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 2014 together with the Report of the Auditor thereon.
3. To declare a final dividend of cents sixty (Rupees 0.60) per share as recommended by the Board of Directors of the HDFC Bank.
4. To appoint three Shareholding Directors.
5. 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.
6. To transact any other business of which due notice shall be given.

By order of the Board



Dharshani De Silva

Company Secretary
HDFC Bank

May 25, 2015
Colombo

Form of Proxy

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

1. Mr. /Ms. ofwhom failing
2. Mr./Ms. ofwhom failing
3. Mr./Ms. ofwhom failing
4. Mr./Ms. ofwhom failing
5. Mr./Ms. ofwhom 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 26th of June 2015 at 10.00 am and at any adjournment thereof, and at every poll which any be taken in consequence thereof.

Signed this day of 2015.

.....
 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.



Designed & produced by REDWORKS
Photography by Life Photography
Digital plates & Printed by Printel Private Ltd

HDFC BANK OF SRI LANKA

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