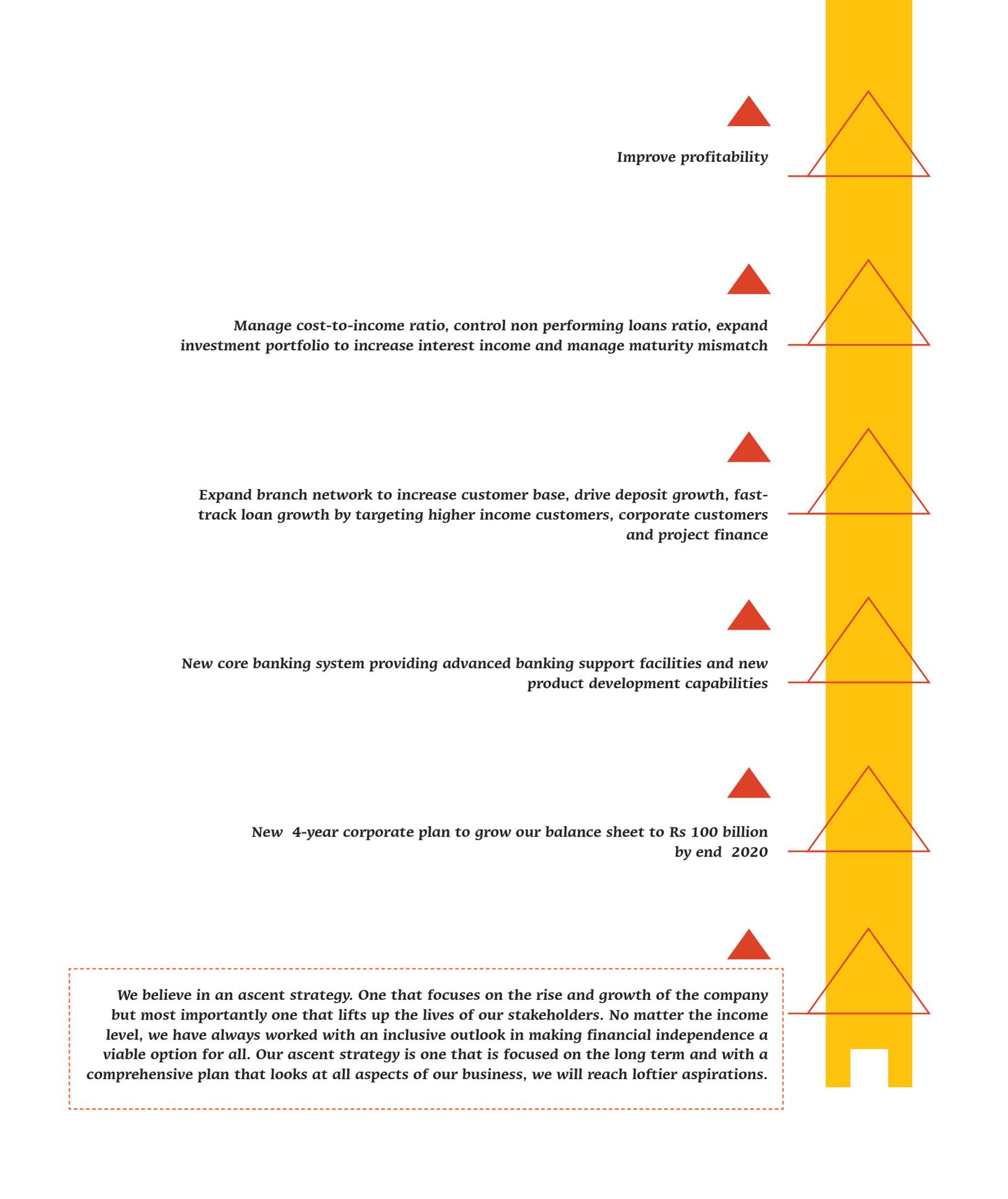




THE ASCENT STRATEGY

HDFC BANK OF SRI LANKA | ANNUAL REPORT 2016





Improve profitability

Manage cost-to-income ratio, control non performing loans ratio, expand investment portfolio to increase interest income and manage maturity mismatch

Expand branch network to increase customer base, drive deposit growth, fast-track loan growth by targeting higher income customers, corporate customers and project finance

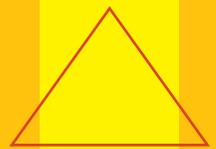
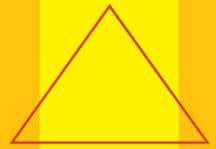
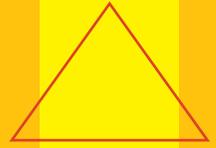
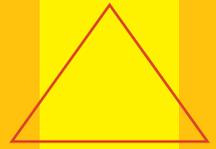
New core banking system providing advanced banking support facilities and new product development capabilities

New 4-year corporate plan to grow our balance sheet to Rs 100 billion by end 2020

We believe in an ascent strategy. One that focuses on the rise and growth of the company but most importantly one that lifts up the lives of our stakeholders. No matter the income level, we have always worked with an inclusive outlook in making financial independence a viable option for all. Our ascent strategy is one that is focused on the long term and with a comprehensive plan that looks at all aspects of our business, we will reach loftier aspirations.



**We cater to all
levels at
every point in
your journey**



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INTRODUCTION TO THIS REPORT

HDFC Bank's 2016 annual report has continued to adopt the Integrated Reporting Framework 2013 of the International Integrated Reporting Council and covers financial and other material topics of HDFC Bank for the period 1 January 2016, to 31 December 2016. In addition, this report includes disclosures under the Colombo Stock Exchange and other relevant regulations. The Bank has not had to restate any information from the previous annual report.

Stakeholder relationships

The Chairman's Message and the General Manager /CEO's review should be consulted for detailed information on how the Bank has engaged with different stakeholder groups during the year under review.

As the annual report is a key stakeholder communication tool, this report has been translated into Sinhala and Tamil. In addition, copies of this report were provided to the Ministry of Public Enterprise and the report has been uploaded onto our website (www.hdfc.lk) for greater accessibility.

Basis of preparation and presentation of this report

The material topics selected for disclosure were decided by the top management, under the guidance of the Chairman, based on key stakeholder expectations and regulatory and good governance disclosure requirements.

Meeting integrated reporting principles

Our financial statements have been verified by the Auditor General of Sri Lanka, for reliability and all other information have been approved by relevant senior managers.

Through the process of selecting material topics for disclosure, we have attempted to present a connected and complete, but concise report.

In addition, through the direct involvement of the Chairman, General Manager /CEO and senior management in compiling this report, we have presented a consistent and strategic picture of our performance for the financial year 2016 and our future plans.

Feedback on this annual report should be directed to:
The Chief Financial Officer

Mr. D. Vidana Pathirana

Email: cfo@hdfc.lk

Phone: +9411 235 6802/ +9411 235 6829



The report has been uploaded onto
www.hdfc.lk for greater accessibility

OUR STORY

HDFC (The Housing Development Finance Corporation Bank of Sri Lanka) is a licensed specialised bank incorporated by the HDFC Act No. 07 of 1997 (amended by Act No. 15 of 2003 and Act No 45 of 2011). As a specialist in housing finance, we have a track record of over three decades, providing housing related financial support to under served communities in the country. From 2011 the bank adopted a diversification strategy by diversifying the product portfolio and by entering new market segments.

Ownership

As at end 2016, the government, through state institutions, owned 51% of HDFC Bank while 49% was owned by private companies and individuals. Please refer the inner back cover of this report for additional corporate information.

Historical landmarks

1984

- ▲ Incorporated as a Building Society registered under the National Housing Act.

2003

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

1997

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

2005

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

2000

- ▲ The Housing Development Finance Corporation of Sri Lanka Act No 07 of 1997 was gazette, thereby formally establishing the Housing Development Finance Corporation of Sri Lanka.

2011

- ▲ The HDFC Act was further amended, to broaden the scope of business operations by conferring authority to carry on such forms of business as specified in Schedule IV to the Banking Act, No. 30 of 1980.

OUR STORY CONTD.



HDFC Bank is a specialist in housing finance with a track record of over three decades, of providing housing related financial support to under served communities in the country

OUR VISION

“Become the undisputed market leader in providing housing related finances; to realise the dream of shelter for all in Sri Lanka.”

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

OUR MISSION

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

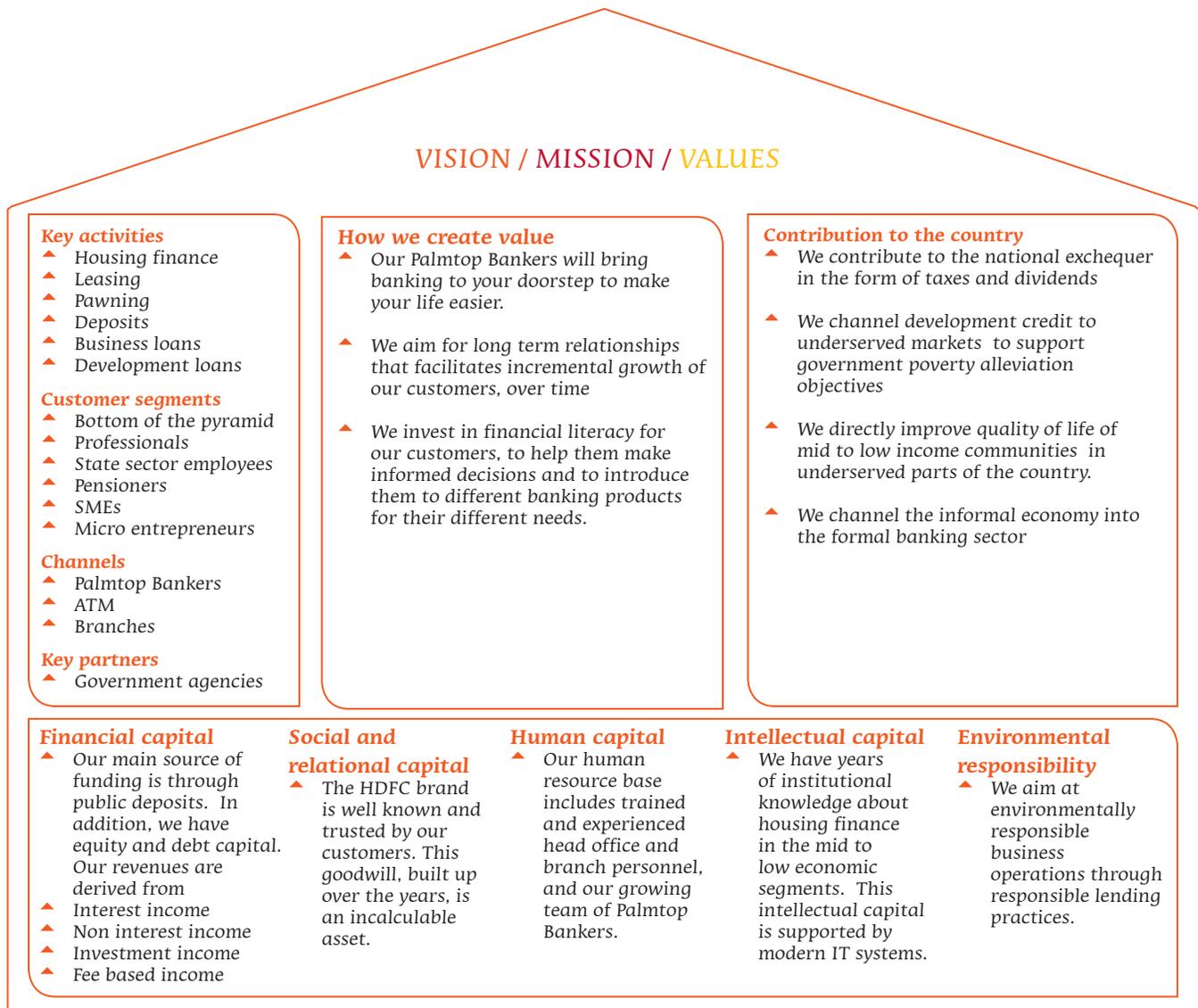
- ▲ To our shareholders, our mission is to optimise returns.
- ▲ To our customers, our mission is to provide a caring service by anticipating their requirements and innovatively satisfying them beyond their expectations.
- ▲ To our staff, our mission is to identify their multi-faceted talents, develop,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

OUR VALUES

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

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

OUR BUSINESS MODEL



Our business model has been growing stronger since 2013, under a product and market diversification strategy, developed to address financial and market risks faced by the Bank and to ensure future financial sustainability of the Bank.

Through our product diversification strategy, the Bank has introduced a range on financial products and services, in addition to the traditional housing finance. These new products have opened up additional revenue streams for the Bank and boosted profitability. In addition, the Bank is also actively pursuing new, niche market segments. While HDFC Bank has been traditionally active among the low to mid income customer groups in the country, the Bank is now able to offer more sophisticated products and services to niche customer segments, in the mid to high income range. The planned technology infusion which will take place in 2016, will support this extension in market range.

The financial base was further strengthened in 2015, with a capital infusion of Rs 4 bn through a debenture. We are also proactively expanding our public deposit base to fuel growth plans.

PRODUCT PORTFOLIO

LOAN PRODUCTS



Kedella

Home loan scheme on primary mortgage of the property.



Shrama Udana

Home loan for EPF members against EPF balance.



Lifestyle Loan

To purchase home appliances through nominated suppliers.



Situ Sevana

A value added home loan to fit your lifestyle.

Professionals' Loan

Professionals' Loan

Loans are granted to qualified professionals for housing purposes



Sirisara Home Loan

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



Gold Loan

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



HDFC Leasing

Swift, convenient and hassle free leasing solutions to fulfil the personal or business goals of customers.



Educational Loan

A loan for educational requirements backed by a mortgage.



Micro Finance

Financial facilities are granted for groups of self-employed on mutual guarantees.

Business Loan

Business improvement loan backed by a mortgage.



Diriya & Virudiriya

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

SAVINGS PRODUCTS



Prathilaba

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



Thilina

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



Thilina Rekewarana

Unique investment plan to guarantee the future financial security of children.



Arumbu

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



Vishrama Rekewarana

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



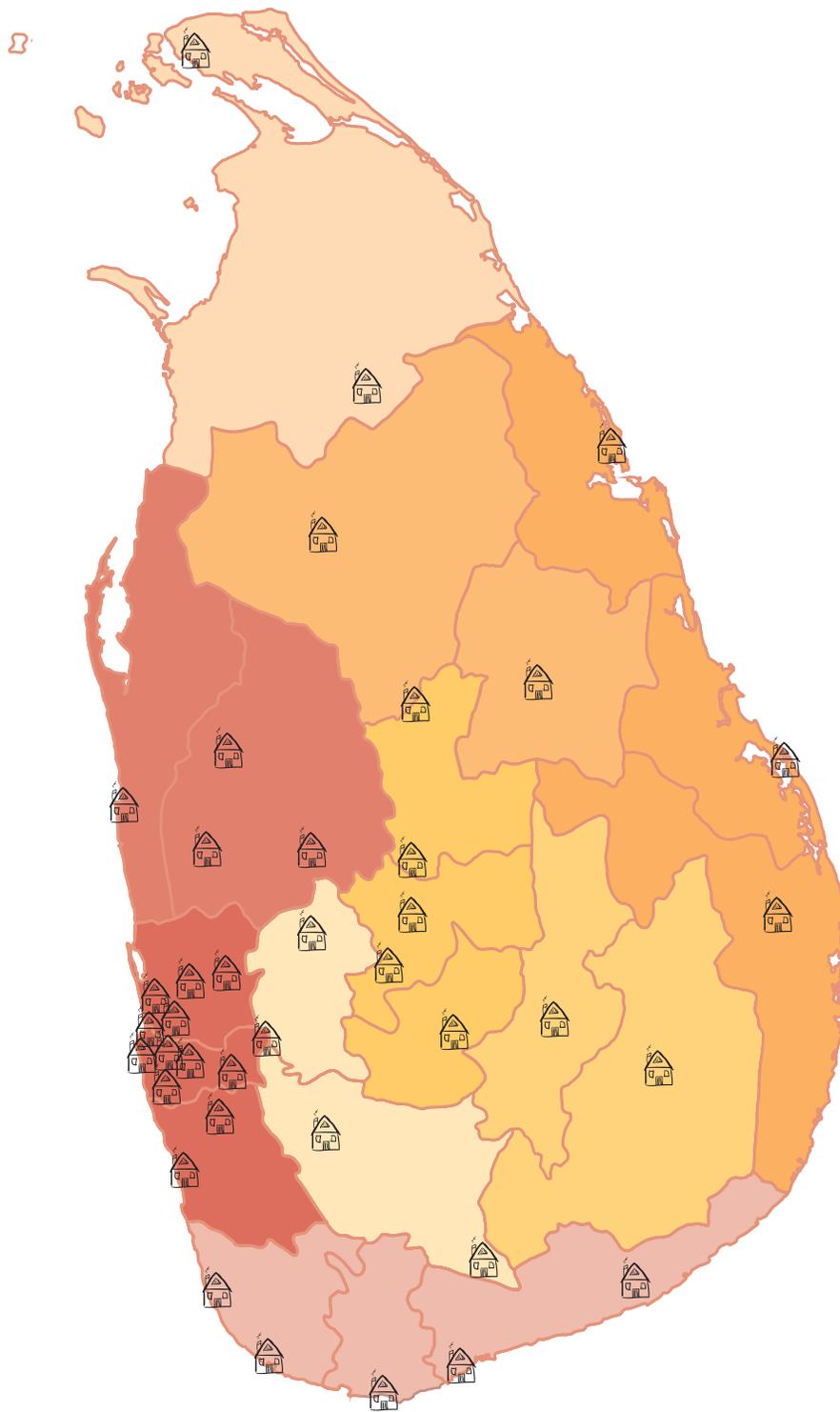
Vishrama Udana

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

NETWORK – MAP

Branch Network

 Allocated Branches



Western South

- ▲ Colombo
- ▲ Homagama
- ▲ Horana
- ▲ Hyde Park
- ▲ Nugegoda
- ▲ Piliyandala
- ▲ Avissawella

Western North

- ▲ Gampaha
- ▲ JaEla
- ▲ Kiribathgoda
- ▲ Nittambuwa
- ▲ Peliyagoda

Uva

- ▲ Badulla
- ▲ Monaragala
- ▲ Tissamaharama
- ▲ Ratnpura
- ▲ Ampara
- ▲ Batticaloa
- ▲ Nuwara Eliya

Southern

- ▲ Kalutara
- ▲ Ambalangoda
- ▲ Galle
- ▲ Matara,
- ▲ Tangalle
- ▲ Embilipitiya

North Western

- ▲ Jaffna
- ▲ Vavuniya
- ▲ Chilaw
- ▲ Kuliyaipitiya
- ▲ Nikaweratiya
- ▲ Anuradapura
- ▲ Polonnaruwa
- ▲ Trincomalee
- ▲ Dambulla

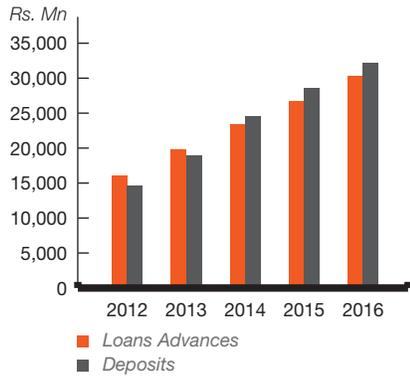
Central

- ▲ Kegalle
- ▲ Matale
- ▲ Kurunegala
- ▲ Kandy
- ▲ Gampola

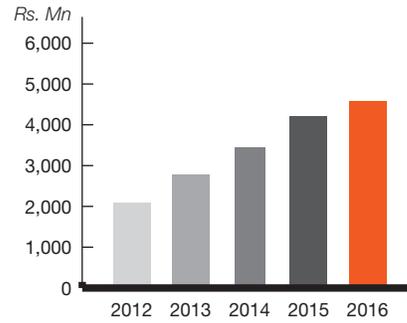
FINANCIAL HIGHLIGHTS

	2016 LKR.Mn	2015 LKR.Mn	Change %
Results for the year			
Income	5,928	4,925	20
Profit Before Taxation	848	1,009	(16)
Provision for Taxation	459	500	(8)
Profit After Taxation	390	509	(23)
Revenue to the Governments	472	512	(8)
Gross Dividends			
At the year end			
Shareholders, Fund	3,728	3,364	11
Deposits From Customers	32,123	28,593	12
Gross Loans & Advance to Customers	31,052	27,316	14
Total Assets	45,622	41,913	9
Information per Ordinary share			
Earnings (Basic) (Rs.)	6.03	7.87	(23)
Financial Ratios			
Return on Average Shareholders' Fund (%)	11.01	16.30	(32)
Return on Average Assets (%)	0.89	1.33	(33)
Share Holders Equity to Total Assets (%)	8.17	8.03	2
Statutory Ratios			
Liquid Assets (%)	29.90	35.03	(15)
Capital Adequacy			
Tier I (%) - Minimum Required 5 %	14.02%	13.67%	3
Tier II (%) - Minimum Required 10 %	12.65%	12.18%	4
Other Information			
Branches	38	38	-
Employees (No of Staff)	570	561	2
Credit Rating - Fitch/Lanka Rating	BBB(lka) Stable	BBB+ Stable	

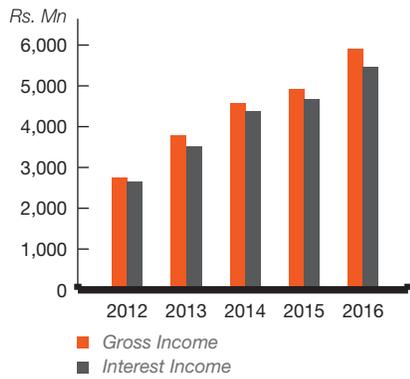
LOANS ADVANCES & DEPOSITS



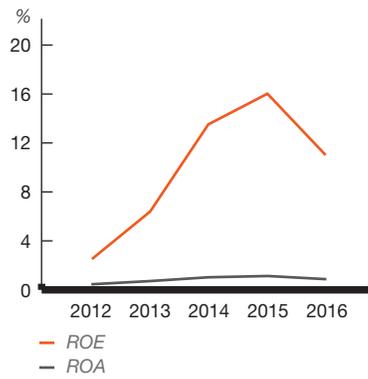
TOTAL ASSETS



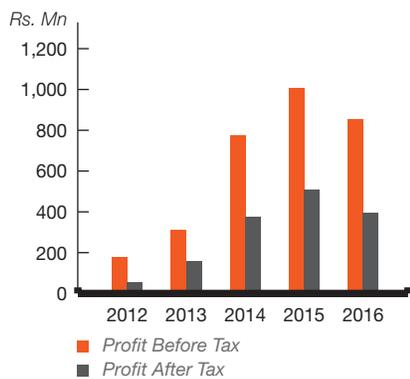
INCOME



ROA & ROE



PROFIT GROWTH



CHAIRMAN'S MESSAGE



It gives me great pleasure to present the integrated annual report and audited financial statements of HDFC Bank for the year 2016, to our shareholders and other stakeholders.

I am pleased to inform you that the HDFC Bank has made steady progress on its journey to achieve professionalism in our approach to our customers in the delivery of our products and services and widening our participation in the entire spectrum in the housing industry. Although our profitability has dipped slightly when compared with 2015, mainly due to external reasons beyond our control, we have improved our operational efficiencies and governance systems in order to improve our performance in the future. Our new core banking system - a new IT Platform connecting the entire branch network, the implementation of which was completed in January 2017 - has been central to these improvements. In

addition, we have also launched a 4-year corporate plan to grow our balance sheet to Rs 100 bn by end 2020. More information on our growth plans are given in the sections under Future Outlook.

Meeting stakeholder expectations

I believe our key stakeholders are essential for our future growth and sustainability and I will take this opportunity to explain in brief, how we have attempted to balance different stakeholder expectations.

As a majority government owned entity, we have a responsibility to support the government's economic policies for income generation and employment creation. In this context, HDFC has made notable contributions towards SME development through specially designed credit schemes and educational and technical support.

We have introduced the concept of holistic financial packages that support not only small businesses but also their workers. In the coconut industry for instance, we provide financial support for exporters of coconut based products and we have also initiated a tripartite agreement with the Coconut Development Authority and coconut mill owners to provide housing finance to coconut industry workers. We believe this scheme will have the wider economic impact of labour retention in the coconut industry, thereby facilitating industry growth. In the dairy industry, HDFC Bank single handedly accounted for as much as 42% of the national credit disbursements in 2016.

We have also continued our proactive engagements in under served agricultural regions and we are now ready to launch a credit line for farming communities on the collateral of land permits, to improve housing and sanitation facilities and livelihoods. This is a community that has been traditionally ignored by commercial banks as they cannot raise collateral due to lack of title deeds for lands. HDFC was also the first to request the Central Bank to facilitate solar power for rural communities. We believe that access to electricity, together with financial support for housing improvements, will lead to significant improvements to the quality of life in communities living in harsh rural climates. I believe it will be possible for the HDFC to channel solar power into the rural interiors, in 2017.

While supporting the government's goal in creating a strong middle class, we have not neglected our core business. The Central Bank Annual Report for 2015 states that the annual housing requirement of Sri Lanka is 50,000 new houses. The economic contribution by the HDFC Bank to the housing industry alone, in 2016, was Rs 11.8 bn. Value of loans amounting to Rs 8 bn was disbursed for new housing units in 2016, amounting to 29% of the country's requirement and a further Rs 3.8 bn to upgrade existing houses. The report also indicated that the Bank had contributed 2.39% to the average decline in the number of individuals below the poverty line in 2015. Therefore, the HDFC Bank has the legitimate credentials to claim to be the largest specialised lender to the housing sector.



The Central Bank Annual Report for 2015 states that the annual housing requirement of Sri Lanka is 50,000 new houses. The economic contribution by the HDFC Bank to the housing industry alone, in 2016, was Rs 11.8 bn. Value of loans amounting to Rs 8 bn was disbursed for new housing units in 2016, amounting to 29% of the country's requirement and a further Rs 3.8 bn to upgrade existing houses. The report also indicated that the Bank had contributed 2.39% to the average decline in the number of individuals below the poverty line in 2015. Therefore, the HDFC Bank has the legitimate credentials to claim to be the largest specialised lender to the housing sector.

On meeting the financial expectations of our shareholders however, I must admit that we have fallen short. Addressing this deficiency will be a primary focus moving forward, and I can assure our shareholders that we have made progress in this regard. The new core banking system has already instigated an overhaul of all functional aspects of the Bank, together with a change of organisational culture. We have also improved our leadership skills by appointing to the Board, IT and marketing experts and we have hired consultants to develop our treasury management, credit development and human resources. I have identified the need to have representation in the area of condominium housing in our Board, and fresh marketing policies, and will make the necessary changes with the approval of the Board and the support of our staff. I believe the investments made so far, in leadership skills, have already contributed towards improving customer value creation through more efficient and professional service delivery.

Due to the Bank's diversification strategy, our customer base too, has diversified, and in addition to our traditional rural and under served communities the Bank is now increasingly serving new customers from professional, corporate and mid-to-high income segments. This has necessitated rapid professional development of HDFC employees. While these extensive changes were sometimes viewed with suspicion by employees, overall, I believe employees have understood the benefits of professionalism and personal

CHAIRMAN'S MESSAGE CONTD.

development. Therefore, I am confident of sustaining our new trajectory of growth.

Regulatory Requirements

The Central Bank of Sri Lanka has directed that all Licensed Specialised Banks should have a minimum capital at Tier 1 level, of Rs. 5 bn and have granted time until January 2018 for the HDFC Bank to reach this figure. We closed 2016 slightly below our target level in our Capital Augmentation Plan. However, the Board has already initiated discussions with our shareholders and the government, on how to address this shortfall and I am confident of reaching a favourable decision within 2017.

While the government will look at liberalising the ownership to meet the requirements of BASEL 111 rules, the government will surely look at strengthening banking regulations. The main challenge for the Bank will be to achieve a credit growth parallel with the Bank's capitalisation.

For additional information on HDFC Bank's compliance status, please refer the chapters on Governance and Internal Controls.

I would like to conclude by thanking all our stakeholders and in particular our shareholders for their continued support for the bank. Despite shortfalls, I firmly believe HDFC Bank has great potential as Sri Lanka's specialist in housing finance. I believe we are slowly but surely making progress towards building a stronger and more valuable national asset.

Sincerely



R. J. De Silva
Chairman

Colombo
24 May 2017

GENERAL MANAGER/ CEO'S REVIEW



Having concluded my first year at the helm of HDFC Bank as its General Manager/CEO, I am pleased to present my performance review to our stakeholders.

During the current financial year, the Bank finally brought online a long awaited new core banking system at a cost of Rs. 193 millions. When fully operational, this modern IT system will replace previous processes and different, IT programmes, with a fully integrated information technology system that will allow HDFC and all its branches to communicate effectively, in real time and support strategic planning. We have now started training staff on how to use the new system and we have started implementing and testing difference components.

We have also reorganised the zonal structure to facilitate better monitoring of branch performance and achieve strategic objectives. I believe HDFC Bank will reap the benefits of these changes from 2017 onwards.

Operating environment and impact on HDFC

In 2016, the country experienced rising interest rates and a difficult market condition due to the financial crisis of 2007 and 2008. In the financial sector this translated into greater cost competition among financial institutions with customers shopping around for the best deals.

GENERAL MANAGER/CEO'S REVIEW CONTD.

While demand for credit continue to recover, net interest margins continue to shrink eroding profitability and pushing financial institution to become more cost efficient and increase lending volumes to sustain profit growth.

HDFC faced some specific challenges in this scenario as a state owned, specialised bank. First, this environment made it difficult to lower the Bank's overall cost structures due to rising cost of funds and increased administration and personnel costs. Secondly, it was not possible to increase margins as the Bank has an obligation, as a state bank, to support government policies by financing underserved and designated market segments, such as SME's, on concessionary terms. This operational model, which caters to vulnerable communities, also results in higher NPLs and comparatively higher administration costs per transaction, due to large volumes of small-ticket transactions.

In an attempt to develop a more financially sustainable business model, HDFC has been diversifying its product portfolio since 2012, by offering a wider range of financial products, in addition to its traditional housing finance instruments. The Bank has also been attempting to target new, high end customer segments. During 2016 we saw some progress in this diversification strategy with small growth in non-housing related financial products and new customer segments. However, there was no significant change to the weight age in the product and customer mix.

Therefore, long term housing finance continued to account for the major share of lending at 85% of total lending, while non housing finance accounted for only 15% of the lending portfolio by end 2016. The Bank's funding sources too, remained largely unchanged with short term, institutional deposits, accounting for 85% of total funding, while savings deposits brought in only 15% of funds. As a result, HDFC continued to suffer from the perennial problem of maturity mismatch in assets and liabilities.

Deposits are the Bank's main source of funds and in 2016, the total deposit base increased to Rs 32 bn from Rs 28 bn in 2015. Total lending increased to Rs 30 billion from Rs 26 bn. However, cost of funds also increased from around 11.34% in 2015 to around 12.48% in 2016, while average lending rates decreased from around 15.80% to 14.91%, as HDFC retains extremely thin margins on development and refinance loans that are facilitated through the Bank as a national service. As a result, the Bank's interest margins shrank from about 2.03% to 0.90% within one year, considerably eroding gains from growth.

HDFC was also handicapped by limitations on branch expansion as the Central Bank did not authorise new branches in 2016, pending the government proposal for a merger between HDFC and another suitable financial institution.

Financial performance

In spite of the above challenges, We are pleased to report that HDFC's total asset base increased from Rs 41 billion in 2015, to 45 billion in 2016, boosted by growth in lending. Out of the Rs 4 billion worth of new loans added to the loan book in 2016, EPF backed housing loans accounted for 27%, while SME lending accounted for 3% and 5% of lending was concessionary lending through designated development programmes and refinance schemes. In terms of volume, HDFC's loan book grew by 15% new loans in 2016, out of which 57% was distributed outside the western province. Only 43% of loans, in terms of volume, went to western province.

The Bank's net NPL (excluding EPF backed housing loans), averaged at 4.7% compared to 5.56% in 2015. While this is higher than the industry average of 3.20% (gross) for 2016, this is primarily due to HDFC's lending portfolio accommodating a higher share of low and middle income communities than private commercial banks. For instance, our NPL levels are higher in areas such as Badulla and Nuwara Eliya, where we are a primary financial services provider to estate communities, who are not traditionally served by commercial banks.

The Bank's total operating income increased to Rs 5.9 bn from Rs 4.9 bn. However, operating expenses increased from Rs 1,287 mn to Rs 1,412 mn, due to increased cost of funds and higher salaries following a new collective agreement.

As a result, the operating profits of the Bank fell to Rs 825 mn from Rs 992 in 2015. Profit after tax followed downwards to Rs 397 mn from Rs 492 mn.

Employee productivity

Personnel costs increased by 8.21% to Rs 896 million during the year, due to salary and benefit revisions through the latest 3-year collective agreement. While the Bank does not conduct an employee productivity assessment annually, I believe employee productivity can improve significantly with the new IT system and new recruitments would not be required to expand the branch network in 2017. Enhancing employee productivity will be essential for the Bank to remain competitive over the next few years as market rates continue upwards and pricing becomes more competitive.

Plans for the new financial year

HDFC's main focus in the new financial year will be on containing costs and enhancing revenues. We will focus on canvassing savings deposits to increase the share of savings to fixed deposits, to reduce cost of funding. We have already designated 2017 as the 'Savings Year' to launch a savings campaign.

We will also focus on growing our lending portfolios by adding another 10 branches to the current network of 38 branches, subject to Central Bank approval. Branch and employee performance monitoring will also be improved through the new IT system.

Other revenue sources, such as fees and charges, will be explored to enhance incomes within Central Bank guidelines. I am confident HDFC's revenues will improve in 2017, as the government is planning large scale housing projects to build around 500,000 new housing units, that HDFC will partner with the National Housing Development Authority.



We are pleased to report that HDFC's total asset base increased from Rs 41 billion in 2015, to 45 billion in 2016, boosted by growth in lending. Out of the Rs 4 billion worth of new loans added to the loan book in 2016, EPF backed housing loans accounted for 27%, while SME lending accounted for 3% and 5% of lending was concessionary lending through designated development programmes and refinance schemes. In terms of volume, HDFC's loan book grew by 15% new loans in 2016, out of which 57% was distributed outside the western province. Only 43% of loans, in terms of volume, went to western province.

I would like to thank the Minister of Public Enterprise Development, and the Governor and the Bank Supervision Department of the Central Bank for their support during the year and as always I am grateful the HDFC employees and management and our loyal customers for their contributions.

Sincerely

Upali Hettiarachchi
General Manager / CEO

Colombo
24 May 2017

FINANCIAL REVIEW OF 2016

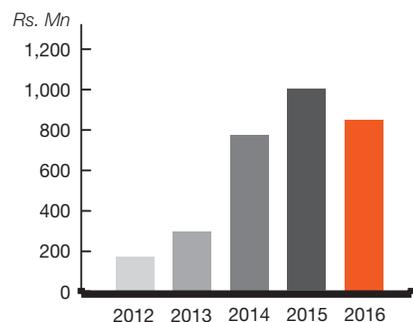
2016 has been a crucial year for HDFC Bank. The profit before tax has underperformed by 12% compared to 2015. The decline in financial results was attributable to the high interest regime underpinned by unfavourable market conditions that prevailed during the year.

HDFC being a housing Bank catering primarily to low and middle income clientele, has limited potential for transferring incremental financial costs to customers.

Operating Statement

	2013	2014	2015	2016
Interest Income	3,528	4,378	4,660	5,472
Interest Expense	(2,469)	(2,535)	(2,539)	(3,509)
Net Interest income	1,059	1,843	2,121	1,963
Other Income	275	188	249	456
Operating Income	1,334	2,031	2,370	2,419
Operating Expenses	938	1,123	1,319	1,408
Impairment loss	87	131	89	160
Profit Before Tax	309	777	1,009	848

PROFIT BEFORE VAT AND CORPORATE TAX



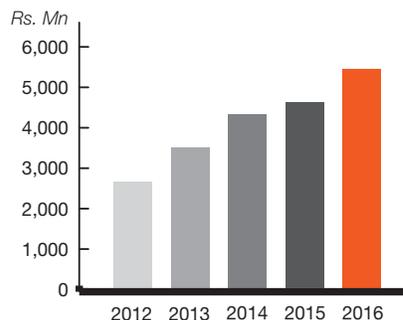
Interest and non-interest income

During the year, interest income escalated by 17%, reaching Rs. 5.4 bn, from Rs. 4.7bn in the previous financial year. This sharp increase was mainly due to loan book growth and high interest earning lending that occurred during the year. With the limitation of re-pricing the existing loan portfolio, the new lending was priced with an appropriate interest spread, inline with the rising interest environment.

Financial investments also contributed to the interest income during the year to a greater extent. Interest income from investments contributed 24% of the total interest income compared to 16% in 2015.

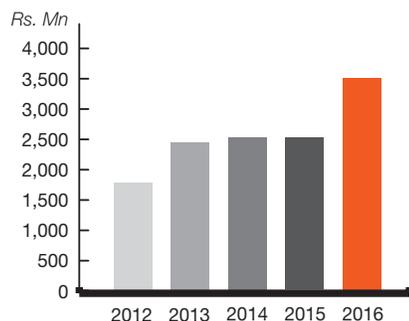
The increase in other income contributed largely towards the growth of profitability in 2016. Other than the revaluation surplus from investment properties, the main contribution to the non interest income came from loan documentation, legal fees, valuation, annual review fees etc. During the year, the Bank also introduces several other services to customers to enhance fee based income, which affirms the Bank's greater focus on noninterest income in a challenging interest rate environment.

INTEREST INCOME



Interest expenditure

Although the interest income has grown by 17% interest expenditure recorded an alarming increase as a result of significant upside re-pricing of deposit maturities. This has mounted a significant pressure on net interest income (NII) causing a negative pressure on the bottom line. Three to six month tenure deposits represent a greater portion of the fixed deposit portfolio as at 31st December 2016.

INTEREST EXPENDITURE**Operating expenditure and loan loss provisions**

Operating expenditure increased by 9.5% YOY, from Rs. 1,287Mn, to 1,409mn. Staff promotions and increased business development and marketing activities were the major drivers of operational expenditure over the last year. Impairment charges for loans and other losses for the period was Rs160mn, compared to Rs. 89mn in 2015. This includes Rs77.45mn collective impairment on above 18 months default EPF backed housing loans. Total collective impairment charges was Rs. 169.47mn and gain on individual impairment was Rs .9.1mn made for a few customers based on sound judgement.

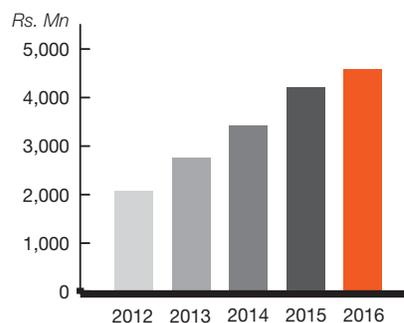
Asset Growth

HDFC Bank ended the financial year under review with total assets of Rs. 45.6bn, up from Rs. 41.9bn in the 2015. It should be noted in terms of YOY growth, the Bank's total assets have grown by 8.8%, supported by a 13% growth in the core business of loans and advances and receivables. Liquid assets and other financial investments recorded only a 0.8% growth.

Assets And Liabilities

	2013	2014	2015	2016
Loans and advances	19,701	23,357	26,685	30,259
Liquid assets and investments	6,601	9,847	14,474	14,492
Property plant and equipment	290	296	435	443
Other assets	975	918	319	415
Total assets	27,567	34,418	41,913	45,608

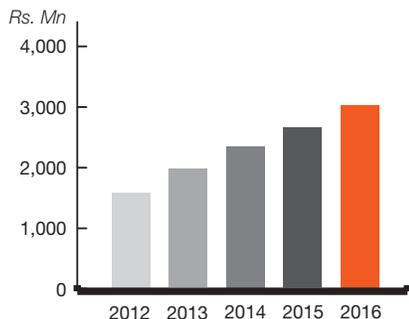
Customer deposits	18902	24479	28592	32,122
Borrowings	5257	6213	9037	8,862
Other liabilities	834	840	920	896
Shareholders' funds	2574	2886	3364	3,728
Total liabilities	27567	34418	41913	45,608

TOTAL ASSET GROWTH**Loans and advances**

Our loan books were expanded to Rs. 30.259bn in 2016, compared to Rs. 26.684bn in 2015. The loan portfolio was mainly driven by the core business of housing finance, which accounts for 85% of the loan book as at 31st December 2016. Leasing, micro finance and business loans also made a substantial contribution to the growth of the loan portfolio. The loan book is concentrated throughout the island backed by diverse collaterals.

FINANCIAL REVIEW OF 2016 CONTD.

LOANS AND ADVANCES



Investment portfolio

The record financial performance was further supported by other strategic investments. Other than the compulsory liquid assets portfolio, the Bank took a strategic decision to diversify its investment portfolio via investing in listed corporate debentures, government bonds, commercial papers etc.

Investment Portfolio Rs.Bn

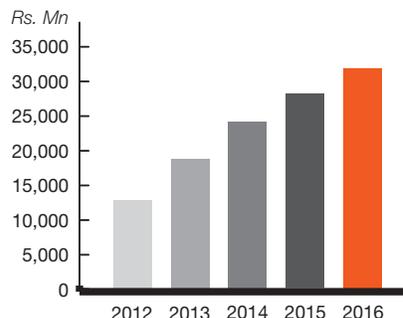
	2016	2015
Government securities	831.54	55.68
Financial assets available for sale	2,053.27	2,043.35
Financial assets- held to maturity	10,737.17	11,588.34
Investment properties	870.55	786.35
	14,492.53	14,473.72

HDFC has, historically been burdened with a mismatch between its long term lending and short term liabilities. Realising the need to increase short term assets to manage the asset and liability maturity gap, we accelerated prudent short term investments during the period under review. The gains accruing from our short term investments thus far, have gone a long way in helping us address and manage the hitherto negative maturity gap in assets and liabilities.

Deposit Mobilisation

The Bank successfully expanded its deposit base from 28.59Bn, to 32.12bn during the year, representing a YOY growth of as much as 12.3% by maintaining a strong focus on attracting fixed deposits. Savings deposits which represented 14% of the total deposits in 2015, has grown up to 16% in 2016. During the year, the savings based recorded a successful growth of 24% YOY. HDFC mobile banking operations, which contribute largely towards savings mobilization, recorded a successful year mobilising low cost funds from peripherals regions by targeting lower and middle income groups. Customer deposits include Rs. 4.2bn in savings representing 14% of total deposits. The Bank extends a continued effort to enhance the savings base. In 2016, the YOY savings growth was recorded as 27%.

DEPOSIT GROWTH



Borrowings and corporate debentures

The Bank floated a successful debenture in 2013 and once again was poised for another debenture this year amounting to Rs. 4bn in 2015. Rs 500mn worth of debentures which were issued in 2013 were resettled in 2016 on the due date.

Capital adequacy and minimum capital requirement Value creation for our shareholders was our top priority and shareholder funds increased by 10.4% in the period under review. Asset value per share grew from Rs. 51.98 to Rs. 57.68 in 2016, which marks a 10% increase. However earnings per share declined from Rs. 7.87 to Rs.6.10 during the year due to weakened earnings.

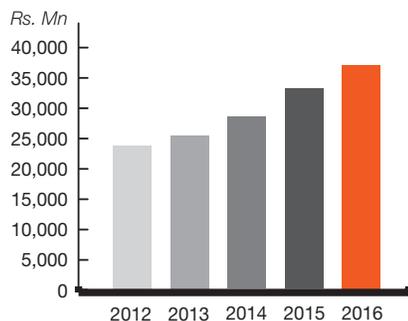
Core Capital Ratio (Tier 1) and total Capital Ratio (Tier 2) remains above the minimum requirement at 13.11% and 11.76% respectively, as against the regulatory requirements of 5% and 10%. However, as per the Central Bank (CBSL) direction No. 02/17/402/0073/002, issued in conjunction with the Master Plan on Consolidation of the Financial Sector, dated 17th January 2014, the Bank should maintain Rs. 5,000 mn as its core capital balance as on 1st January 2016. However, by a letter dated 30th July 2015, CBSL had given an extension for fulfilment of the minimum capital, with a time bound action plane upon request of the Bank. Accordingly the Bank had to meet Rs. 4,000mn capital by 1st January 2017 and Rs 5000mn by 1st January 2018. Since the Bank could not meet Rs. 4,000mn core capital requirement by 1/1/2017, the CBSL has given a further extension until 1/1/2018 to meet the full requirement of Rs.5,000mn on the request of the Bank dated 21/12/2016. Presently the Bank is exploring possible options for capital enhancement whilst improving internal profitability, so as to increase retained earnings to cushion the minimum capital base. The Government being the 51% shareholder of the Bank the matter has been brought to the notice of the Ministry of Public Enterprise Development and the Ministry of the Finance.

to identify its adequacy under extreme scenarios. The Bank maintained a healthy Statutory Liquid Assets Ratio (SLAR) of above 30% throughout the year, as against the regulatory requirement of 20%. Meanwhile, the Bank maintained a Liquidity Coverage Ratio (LCR) well above the regulatory requirement through the year. In addition, the Bank maintains over Rs. 1 bn in unutilised approved credit lines from other banking institutions as an additional liquidity cushion.

Asset Quality

The basis of classifying Non-Performing Loans (NPL) was revised in line with the CBSL directions in September 2014, which resulted in an approximate 3% deterioration against the reported level. However, with additional efforts in 2015 and 2016 the Bank made progress and recorded an improvement from 11.33% to 6.78% in the loan portfolio other than the EPF-backed loans. The Management is highly committed towards reducing the NPLs going forward, and tackling NPLs was decentralised rather than concentrated in a single department. The Bank's overall NPL is 17.58% as at 31/12/2016. The high NPL is due to excessive non-payment levels in the EPF balances backed loan portfolio, which is recovered on a yearly basis from the Central Bank.

EQUITY



Liquidity

The Bank's liquidity is measured and evaluated by the Assets and Liability Committee regularly in order to identify its adequacy in line with the prudential limits imposed by the CBSL and on the stress tests in order

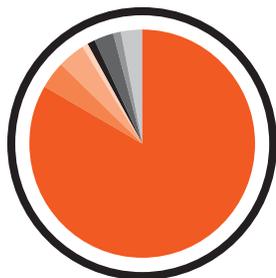
PERFORMANCE OF OUR PRODUCTS 2016

Composition of lending portfolio, year 2016

all as at 31.12.2016

Credit line	Value Rs. Mn	% of lending
Housing loans	25,548	84.73%
Micro finance	1,176	3.90%
Business loans	1,191	3.95%
Vehicle loan - Staff	63	0.21%
Gold	252	0.83%
Leasing	1,023	3.39%
Project	10	0.03%
Other	888	2.95%
Grand Total	30,151	100.00%

COMPOSITION OF LENDING PORTFOLIO YEAR 2016



■ Housing loans	84.73%
■ Micro finance	3.90%
■ Business loans	3.95%
■ Vehicle loan - Staff	0.21%
■ Gold	0.83%
■ Leasing	3.39%
■ Project	0.03%
■ Other	2.95%



HDFC Bank joins the LankaPay Common ATM Network



Entrepreneurship development programmes for the small and medium scale entrepreneurs in the Polonnaruwa District



Peliyagoda branch relocation



HDFC Bank Teams up with NEDA for SME Development



HDFC BANK signs MOU with the CBSL for Self Employment Promotion Initiative (SEPI) loan scheme



Scholarship Seminars for grade 05 students

CHANGES TO CAPITALS IN 2016

HDFC Bank does not own significant land or properties. Manufactured assets are limited to furniture and vehicles, which are accounted for in the financial statements and have not changed significantly during the period under review.

HDFC Bank also does not own any natural capitals and, as a service provider, the Bank's direct environmental impacts are limited. However, the Bank acknowledges indirect environmental impacts due to land clearing, ground water extraction, energy and water consumption, and pollution, stemming from third party activities financed by the Bank via housing and business loans. However, at present the Bank does not have a mechanism to measure such impacts and has not reported on this aspect. The Bank attempts to mitigate indirect negative environmental impacts by strictly enforcing environmental regulations when granting credit.

Capitals material to HDFC

HDFC Bank has identified financial, intellectual, human and social capitals as material capitals to the Bank due to their importance to the Bank's immediate and future sustainability. During the financial year 2016, significant changes were experienced mainly to the Bank's intellectual capital base.

Intellectual capital: Our intellectual capital is the systems and processes (including computer hardware) used in the Bank and our branches and the expertise of our employees. We experienced significant changes to our intellectual capital base in the financial year 2016 with the rollout of a new, modern core banking system. The new system will enhance our intellectual capital by making it possible to capture customer and market trends and by improving existing processes. The new system has directly impacted our human capital through automation and necessitating IT skill upgrades. We believe new technology will also contribute towards our social capital by enhancing brand equity of the HDFC Bank by positioning it as a modern, technology based bank and by helping to develop customised new products.

Human capital : HDFC Bank is a non-discriminatory, equal opportunity employer. The Bank is in the process of improving its human resource management policies. However, there were no significant changes to recruitment processes, employee benefits and the grievance handling processes. The Bank did not have any legal action filed against it in court or the labour tribunal for any alleged violation of labour laws or employee rights. Currently 99% of the Bank's employees are unionised and a new collective agreement will be signed in 2017. The Bank did not experience work disruptions due to trade union action during the year.

Social capital: Our social capital comprises:

- ▲ Our social credibility through our legal license to operate and compliance with regulations
- ▲ Our reach and presence in society achieved through our service delivery network
- ▲ Our brand presence
- ▲ Our relationships with our stakeholders, including strategic partnerships

Although HDFC is a small bank compared to other banks in the country, we enjoy strong social recognition in the under serviced communities that we have traditionally worked in. We include our CSR activities as well as marketing, brand building, advertising and other external communications, including the annual report , when defining our social capital as these activities all contribute towards the HDFC brand equity. HDFC Bank does not make any donations or provide political funding. The Bank did not have any legal action filed against it in court for non compliance with any regulations during the year.

Financial capital: This refers to our revenues, investments, equity assets. Please refer the Financial Highlights for key changes during the year and the financial statements, for details. This report also contains a Financial Review explaining the financial status of the Bank.

CHANGES TO CAPITALS IN 2016 CONTD.

HDFC Bank's material capitals and changes to capitals in 2016

Intellectual capital

All skills, systems and processes (including computer hardware) used in the bank and our branches.

- ▲ Software and computers
- ▲ Processes
- ▲ Research and development

Human capital

HDFC employees

- ▲ Permanent
- ▲ Contract
- ▲ Probationers
- ▲ Training and development

Social capital

Our social presence from operating licenses, delivery network, stakeholder engagements and brand equity.

- ▲ Service delivery reach
- ▲ Brand ranking
- ▲ Advertising and marketing
- ▲ Stakeholder engagements
- ▲ CSR activities
- ▲ Strategic partnerships

Financial capital

- ▲ Revenues
- ▲ Investments
- ▲ Equity
- ▲ Loan book

- ▲ Total investment in core banking system came to Rs. 193 mn

- ▲ New recruitments: 55
- ▲ Total employees : 679
- ▲ Permanent employees : 448
- ▲ Probationers: 23
- ▲ Contract based employees: 119
- ▲ Total expenditure on EPF and ETF : Rs 110 mn
- ▲ Total expenditure on employee benefits: Rs 692 mn
- ▲ Total value of employee salaries Rs 478 mn
- ▲ Total investment on employee training Rs 6.5 mn

- ▲ No of bank branches remained unchanged at 38 but we relocated our Peliyagoda, Piliyandala and Ampara branches to improve customer access to the bank
- ▲ Total mobile bankers: 160
- ▲ Brand ranking climbed by 7 positions from No. 58 to 51

- ▲ Total revenues increased from Rs. 4,925 mn to Rs. 5,972
- ▲ Total investments Rs. 14,078 mn
- ▲ Equity increased by Rs. 364 mn
- ▲ Total assets increased by Rs. 3,709 mn to Rs. 45,622 mn.

GROWTH STRATEGY

HDFC Bank has adopted a diversification strategy to sustain long term growth. Since 2012, the Bank has been diversifying its product portfolio beyond housing finance and has been targeting new customer segments. Over the short-to-midterm, the bank will continue to introduce new, customised products to niche customer segments.



Targets and resource allocation

HDFC Bank's latest 4-year corporate strategy will be the guiding document for the Bank's growth for the period 2017 – 2020. The new core banking system has now made it possible to monitor the performance of individual branches against targets, on a daily basis. The corporate plan will be reviewed monthly by the board of directors for progress and adjustments.

Significant outcomes

- ▲ We hope to increase our equity from the present 3,6 bn to Rs. 10 bn subject to shareholder approvals by end 2020
- ▲ More than double our balance sheet to Rs. 100 bn from the current Rs. 45 bn by end 2020
- ▲ Achieve a profit after tax of Rs. 1.5 bn by end 2020 from Rs. 360 mn in 2016
- ▲ Increase the number of HDFC branches to 60 by end 2020 from the current 39 branches
- ▲ Increase our employee base to 800 from the current 670

Performance targets for HDFC Bank 2017-2020

Target	2018	2019	2020
Balance sheet (Rs. Mn)	66,800	81,800	100,000
Profit after tax (Rs. Mn)	900	1,200	1,500
Equity (subject to shareholder approvals) (Rs. Mn)	6,300	7,500	10,000

Resource allocation under the corporate plan

- ▲ HDFC will continue to penetrate the market through branch expansion, expansion of mobile banking units (HDFC Palmtop Bankers) and strategic partnerships with state agencies and private institutions.
- ▲ Marketing and promotional campaigns will be conducted to support brand recognition in new market segments.
- ▲ Systems and processes will be modernised and upgraded continually for capacity enhancement, to accommodate new product development, and for cost and productivity improvements
- ▲ Service delivery will be strengthened through employee training, recruitment of specialised skills, and customer feedback and surveys
- ▲ Enhance policies and procedures to develop a platform to support growth

MANAGING OUR RISKS

The risk management system of the Bank was continually reviewed through the application of the 3 lines of defence. During 2016, emerging risks were identified and relevant responses taken with Board authorisation.

Key risks and Bank's response

The significant risks facing the Bank as at end 2016 were:

- ▲ Interest rate risk
- ▲ Deposit concentration risk
- ▲ Capital adequacy risk under BASL 11 requirements
- ▲ Liquidity coverage ratio
- ▲ IT system and security risks
- ▲ Human resource risks associated with new IT system

Level of risk	Type of Risk	Bank's Response
	▲ Interest rate risk	<ul style="list-style-type: none"> ▲ Loans were re-priced in response to market changes. ▲ Aggressively promoted Minor Savings and long term funds. ▲ Promoted Institutional loan scheme with refinance funding.
	▲ Deposit concentration	<ul style="list-style-type: none"> ▲ Efforts have been made to reduce concentration on FDs from a few institutions and increase share of public savings deposits
	▲ Liquidity risk management The Bank has not met the LCR of 60% for 2016 due to mismatch between short term deposits as funding which is converted into long term lending	<ul style="list-style-type: none"> ▲ Bank has been promoting shorter term loan portfolio and investments to meet the regulatory challenges.
	▲ Capital adequacy risk The bank has to be complied with minimum capital requirements of Rs. 5.00 billion by 1st of January 2018. However, Rs. 1.30 billion is spare to reach it.	<ul style="list-style-type: none"> ▲ The bank has been strategising to achieve the Capital requirements. ▲ It has been negotiating with shareholders that represents the government ownership to infuse the capital.
	▲ IT System risk The bank implemented new Core banking system replacing internally built It system.	<ul style="list-style-type: none"> ▲ The IT steering committee and Board Committees review progress of the new core banking system that is being implemented ▲ In addition, the Bank has a structured IT Division headed by an experienced and qualified DGM and a Board approved IT strategic plan and IT Policies
	▲ Information security management	<ul style="list-style-type: none"> ▲ Information security policy ▲ System audit and development undertaken by Internal Audit Division ▲ Reconciliation and day to day balancing process ▲ Regular system generated MIS for management review

MANAGING OUR RISKS CONTD.

Level of risk	Type of Risk	Bank's Response
	<ul style="list-style-type: none"> ▲ Human resources risk 	<ul style="list-style-type: none"> ▲ Commenced training of all staff on new IT system and changes to existing processes ▲ HR policies and procedures are in place ▲ Collective agreement with trade union ▲ Regular capacity maximising through training and development, rewards and recognition, work life balancing etc.
	<ul style="list-style-type: none"> ▲ Credit concentration 	<ul style="list-style-type: none"> ▲ Credit Policy and maximum credit exposure limits have been implemented. Compliance with guidelines of CBSL on single borrower limits ▲ Management of portfolio mix with particular attention to sector, scheme, income group, provincial and security wise diversity ▲ Strategic profit management through budgetary controls.
	<ul style="list-style-type: none"> ▲ Credit policy and credit recovery management 	<ul style="list-style-type: none"> ▲ The internal credit rating system and loan review systems were reviewed and improved ▲ The credit evaluation process was computerized and made available online, which will reduce loan approval time and facilitate closer monitoring. HDFC can now grant EPF loans within 1 working day. ▲ In addition, we conducted regular reviews of credit policy and procedures (Currently the Risk Officers review loans above Rs.2.5 mn) and reviewed operations of the Recovery Department to improve performance. ▲ Ensured compliance with CRIB requirements
	<ul style="list-style-type: none"> ▲ Processing or behaviour Risk (Avoiding fraudulent activities) 	<ul style="list-style-type: none"> ▲ Regular compliance review of transactions ▲ When introduce any new products and procedures a risk and compliance assessment is done too identify risks ▲ Continuous training on systems and procedures ▲ Interdepartmental internal controls ▲ Business continuity plan is available as a contingency plan
	<ul style="list-style-type: none"> ▲ Risk of inadequate risk control & management 	<ul style="list-style-type: none"> ▲ All kind of risks are being addressed with implementation of risk mitigation measures adequately. ▲ Appropriate risk culture is in place to defend against the potential risks. ▲ Review of credit policies on risk management by Board Risk Management Committee

Level of risk	Type of Risk	Bank's Response
	Legal and regulatory compliance	<ul style="list-style-type: none"> ▲ Compliance officer who reviews adherence to regulatory requirements and reports quarterly to Board Audit Committee, CBSL and CSE. ▲ Existence of separate legal department with 15 qualified lawyers headed by the AGM legal ▲ Qualified Company secretary ▲ Policies and Procedures ▲ Finance division headed by a qualified Chartered Accountant as a DGM.
	Risk of merger	<ul style="list-style-type: none"> ▲ The Bank has been improved its brand value and competencies to be far with emerging requirements of merger.

Risk appetite framework

The Risk Appetite Framework, where risk appetites and tolerance levels were defined clearly for each identified risk area, was continually implemented at all three levels and risk management was monitored within predefined tolerance levels. Stress testing was conducted to ensure the Bank can absorb future macro-economic shocks

Risk Governance Structure

Three lines of defence



MANAGING OUR RISKS CONTD.

Board Level Committees

The Bank has three Board level Committees directly involved in risk monitoring, identification and management in line with the regulatory requirement of the CBSL.

Board sub committee	Objective	Composition
Board Integrated Risk Management Committee (IRMC)	<ul style="list-style-type: none"> ▲ Define various integrated risk exposures ▲ Maintain a robust, pervasive and uniform risk management framework 	Chaired by Non Independent Non-Executive Director <ul style="list-style-type: none"> ▲ 5 Non-Executive Directors ▲ 10 senior managers
Board Audit Committee	<ul style="list-style-type: none"> ▲ Examines the adequacy and effectiveness of internal control systems ▲ Review the financial statements ▲ Assesses compliance with regulatory requirements ▲ Considers contents of internal audit reports. 	Chaired by Non Independent Non-Executive Director <ul style="list-style-type: none"> ▲ 5 Non-Executive Directors, ▲ 1 representative from the Government Auditor ▲ Members from corporate management
Related Party Transaction Monitoring Committee	<ul style="list-style-type: none"> ▲ Ensures compliance of the related party transactions according to the principles and rules required in regulatory and supervisory procedure and market best practices 	Chaired by Independent Non-Executive Director 5 Non Executive Directors

Management Level Committees

The Bank has Management Committees that advice the Board Subcommittees on risk topics. The Committees coordinate different business processes with different risk owners. These risk owners are the Internal Audit Function, the Operational Division, the Treasury Division, the Finance Division and the Compliance Division.

Management Committees	Objectives	Composition
Asset and Liability Committee (ALCO)	<ul style="list-style-type: none"> ▲ Monitor and manage liquidity, maturity gap of assets and liabilities, pricing of loan and deposits, sensitivity to the market variables etc... according to guidelines and standards, on a regular basis 	<ul style="list-style-type: none"> ▲ Head of Treasury ▲ Members of the corporate management
Credit Committee	<ul style="list-style-type: none"> ▲ Approve credit within its limits ▲ Make recommendations to the Board if facilities exceed the authorised limit. ▲ Issue guidelines on credit evaluation, administration and recovery processes to mitigate credit risk. 	<ul style="list-style-type: none"> ▲ General Manager ▲ Deputy General Manager (Finance) ▲ Assistant General Manager (Business Development & Marketing) ▲ Chief Manager - Credit ▲ Senior Manager (Recoveries)
Investment Committee	<ul style="list-style-type: none"> ▲ Evaluate and screen investments by the Treasury Department. 	<ul style="list-style-type: none"> ▲ Members of corporate management

Management Committees	Objectives	Composition
IT Steering Committee	<ul style="list-style-type: none"> ▲ Oversee IT developments in line with the Bank's IT Corporate Plan and industry developments. 	<ul style="list-style-type: none"> ▲ Deputy General Manager IT ▲ Members from the corporate management.
Strategic Process Implementation Review Committee	<ul style="list-style-type: none"> ▲ Define the strategic process for business operations to ensure the soundness of the Bank. 	<ul style="list-style-type: none"> ▲ Corporate management including GM/CEO
ICAAP Review Committee	<ul style="list-style-type: none"> ▲ Conduct Bank's assessment of internal capital adequacy for various integrated risk exposures ▲ Maintain adequate capital facilities for such risks. 	<ul style="list-style-type: none"> ▲ Members of the corporate management including the GM/CEO
Risk Management Division	<ul style="list-style-type: none"> ▲ Conducts risk identification, monitoring and analysis ▲ Present timely evaluation reports to the IRMC ▲ Ensure implementation of IRMC recommendations effectively. 	<ul style="list-style-type: none"> ▲ Senior Manager - Risk Management ▲ Two Risk Assistants

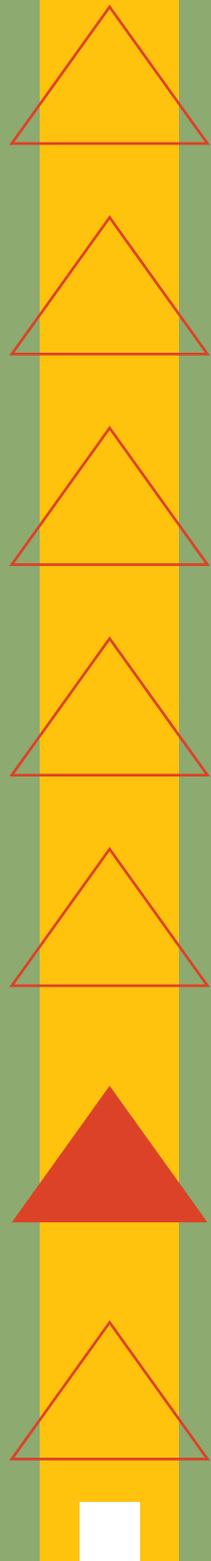
Key Risk Initiatives in 2016

The bank reviewed its Risk appetite framework covering all material risks to the bank and set appropriate risk limits ensuring better risk rewards strengthening risk management function. In parallel to the core banking implementation, Risk measures were taken to be minimised potential operational risk aspects and conducted trainings focusing risk aspects as well.

Stress test and other scenario analysis were conducted in respect of the risk stricken areas such as interest rate, NPL ratios, capital requirements etc.



**We're making
things easier
for your growth
by **upping** our
channels**



GOVERNANCE AND ETHICS

Chairman's Statement on Governance

It is with great pleasure, we present our corporate governance report 2016. This report illustrates the fundamental areas of the governance structure. The Board continued to improve our internal control mechanism to strengthen the overall governance structure of the Bank and emphasised the importance of setting up a well-defined disciplined culture with accountability and transparency for effective banking operations.

The Board wishes to place on record that, HDFC is compliant with the Banking Act, the Central Bank Corporate Governance Directives and the continuing listing requirements under section 7.10 of the listing rules of the Colombo Stock Exchange.

Further, we continued to comply voluntarily with the Code of Best Practice on Corporate Governance, developed by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

The External Auditor carried out a review of the Bank's compliance with Corporate Governance Directions of the Central Bank. All the findings of the factual findings report of the auditors, issued under "Sri Lanka Standard on Related Services Practices Statement 4400" have been incorporated in this report.

Please refer the Risk Management chapter for greater details on our governance system.



Chairman

Mr. R. J. De Silva

GOVERNANCE AND ETHICS CONTD.

Attendance at Board Meetings - 2016

Names	Directorship Status as at 31/12/2016	Number of Meetings held -2016	Number of Meetings Entitled	Number of Meetings participated
Mr. R. J. De Silva	Non - executive / Independent Director (Chairman)	21	21	21
Mr. M. Surendran	Non - executive / non Independent Director	21	21	21
Mr. Prasad Galhena	Non – executive / independent Director	21	21	18
Mr. R.H. Meewakkala	Non –executive/ Independent Director	21	21	16
Mr. L.S. Palansuriya	Non- executive / non Independent Director	21	21	16
Mr. P.S. Punchihewa	Non- executive /non Independent Director	21	21	19
Mr. S.M.G. Jayarathne (Appointed on February 2016)	Non –executive/ Independent Director	21	19	13
Mr. Lionel Jayasinghe (Appointed on June 2016)	Non –executive/ Independent Director	21	11	09
Mr. D.P. Wimalasena (Appointed on June 2016)	Non –executive/ Independent Director	21	11	08
Mrs. R.A. Chulananda (Appointed on August 2016)	Non –executive/ Independent Director	21	09	08
Mrs. B.G.S. Gunathilake (Resigned on July 2016)	Non- executive / Independent Director	21	10	09
Mr. R.M.J. Rasnayake (Resigned on June 2016)	Non- executive / Independent Director	21	10	10

Nomination Committee Meetings - 2016

Names	Directorship Status as at 31/12/2016	Number of Meetings held -2016	Number of Meetings Entitled	Number of Meetings participated
Mr. R. J. De Silva	Non- executive / Independent Director (Chairman of the Committee)	01	01	01
Mr. R H. Meewakkala	Non - executive / Independent Director	01	01	01
Mr. M. Surendran	Non - executive /non Independent Director	01	01	01
Mrs. B.G.S. Gunathilake	Non- executive / Independent Director	01	01	01
Mr. S.M.G. Jayarathne	Non - executive / Independent Director	01	01	01

Human Resource / Remuneration Committee Meetings – 2016

Names	Directorship Status as at 31/12/2016	Number of Meetings held -2016	Number of Meetings Entitled	Number of Meetings participated
Mr. M. Surendran	Non- executive/ Non Independent Director (Chairman of the Committee)	04	04	04
Mr. R. J. De Silva	Non- executive / Independent Director	04	04	04
Mr. Prasad Galhena	Non- executive / Independent Director	04	04	04
Mr. R.H. Meewakkala	Non- executive/ Independent Director	04	04	03
Mr. S.M.G. Jayarathne (Appointed on February 2016)	Non –executive/ Independent Director	04	04	04
Mr. Lionel Jayasinghe (Appointed on June 2016)	Non –executive/ Independent Director	04	02	01

GOVERNANCE AND ETHICS CONTD.

Integrated Risk Management Committee Meetings – 2016

Names	Directorship Status as at 31/12/2016	Number of Meetings held -2016	Number of Meetings Entitled	Number of Meetings participated
Mr. M. Surendran	Non- executive/ Non Independent Director(Chairman of the Committee)	02	02	02
Mr. R.J. De Silva	Non- executive / Independent Director	02	02	02
Mr. R.H. Meewakkala	Non-executive / Independent Director	02	02	02
Mr. Prasad Galhena	Non- executive / Independent Director	02	02	02
Mr. Lionel Jayasinghe (Appointed on June 2016)	Non –executive/ Independent Director	02	01	01
Mr. R.M.J. Rasnayake (Resigned on June 2016)	Non- executive / Independent Director	02	01	01

Board Audit Committee Meetings - 2016

Names	Directorship Status as at 31/12/2016	Number of Meetings held -2016	Number of Meetings Entitled	Number of Meetings participated
Mr. M. Surendran	Non- executive / Non- Independent Director (Chairman of the Committee)	08	08	07
Mr. Prasad Galhena	Non- executive / Independent Director	08	08	07
Mr. R.H. Meewakkala	Non- executive / Independent Director	08	08	03
Mr. D.P. Wimalasena (Appointed on June 2016)	Non- executive / Independent Director	08	05	03
Mr. Lionel Jayasinghe (Appointed on June 2016)	Non- executive / Independent Director	08	05	05
Mr. R.M.J. Rasnayake (Resigned on June 2016)	Non- executive / Independent Director	08	03	03
Mrs.B. G.S. Gunathilake (Resigned on July 2016)	Non - executive / Independent Director	08	03	03

Related Party Transactions Monitoring Committee Meetings - 2016

Names	Directorship Status as at 31/12/2016	Number of Meetings held -2016	Number of Meetings Entitled	Number of Meetings participated
Mr. R.J. De Silva	Non- executive / Independent Director (Chairman)	01	01	01
Mr. R.H. Meewakkala	Non- executive / Independent Director	01	01	0
Mr. M. Surendran	Non- executive / Non – Independent Director	01	01	01
Mrs. B.G.S. Gunathilake	Non- executive / Independent Director	01	01	01
Mr. P.S. Punchihewa	Non- executive / Non – Independent Director	01	01	01



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product**

THE REPORT OF THE DIRECTORS

01. GENERAL

The Board of Directors of HDFC Bank have pleasure in presenting to the shareholders the Annual Report of the Bank for the financial year ended 31st December 2016, together with the audited financial statements, and the Auditor's Report, conforming to the requirements of the Housing Development Finance Corporation Act No. 07 of 1997, Companies Act No 7 of 2007, Banking Act No 30 of 1988 and Listing Rules of the Colombo Stock Exchange.

The financial statements were reviewed and approved by the Board of Directors on 22nd May 2017 and this Annual Report is in accordance with the statutory, regulatory requirements and prevailing best accounting practices.

The Board of Directors has disclosed information of the Bank which is material and in the best interest of the Shareholders and the Bank.

02. PRINCIPAL ACTIVITIES

The Bank engaged in providing finance for housing and housing purposes as its Principal Business Activity during the period under review and continued to engage in other banking business, as a licensed specialised bank. No significant changes in the nature of the principal activities.

03. REVIEW OF BUSINESS

The Bank's Vision and Mission statements are given on page 06 of the report.

An overall financial position, performance, state of affairs and significant events that took place in the Bank during the period is given in the Chairman's Message on pages 14 to 16 and in General Manager /Chief Executive Officer's Review on pages 17 to 19.

These reports form an integral part of the Annual Report of the Board of Directors

04. FUTURE DEVELOPMENTS

The future developments of the Bank will be aligned with the aforesaid HDFC Act, and policy decisions of the state for development of housing.

For further details please refer the Chairman's Message in pages 14 to 16 and GM/CEO's review in pages 17 to 19.

05. FINANCIAL STATEMENTS

The financial statements of the Bank has been prepared in accordance with Sri Lanka Accounting Standards and conformity with the Companies Act No 7 of 2007 and Banking Act No 30 of 1988. The financial statements of the Bank for the year ended 31st December 2016, which form an integral part of the Annual Report of the Board of Directors.

06. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of Financial Statements during the year are given on pages 113 to 118 of the Annual Report. The impact of changes in equity is given on page no 111 of the Annual Report.

07. AUDITORS' REPORT

The Auditor General of Sri Lanka, who is the auditor of HDFC Bank, performed the audit on the Financial Statement of HDFC Bank for the respective financial year and the relevant Auditors Report is contained in pages 106 to 107 of the Annual Report.

08. GOING CONCERN

The Board of Directors have reviewed and 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.

09. INCOME

The income of the Bank for the year ended 31st December 2016 was LKR. 5928 million. An analysis of the income is given in Notes 01,03 and 04 to the Financial Statements.

THE REPORT OF THE DIRECTORS CONTD.

10. PROFIT AND APPROPRIATION

The profit before income tax VAT on Financial Service of the Bank for the year ended 31st December 2016 was LKR. 848 million and the profit after tax and VAT for the year ended 31st December 2016 was LKR. 390 million.

For the year ended 31st December 2016	2016 Rs. Mn	2015 Rs. Mn
VAT on financial services	162	175
Provision for taxation	270	294
Profit on ordinary activities after tax	390	509
Retained profit /(accumulated losses) b/f	2,117	1,558
Profit available for appropriation	2,549	2,091
Appropriation First & Final Dividend proposed	49	39
Transfer to Reserve Funds	59	76
Retained Profit carried forward	2,445	2,117

11. RESERVES

The Bank's total Reserves as at 31st December 2016, amounted to LKR. 2,766 million. The details are given on the statement on Changes in Equity on page 111 of the Financial Statement.

12. DONATIONS

During the year the Bank made donations amounting to LKR. 49,800/-

13. STATUTORY PAYMENTS

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

14. PROVISION FOR TAXATION

Income tax for 2016 has been provided at 28% on the taxable income arising from the operations of the Bank and has been disclosed in Note 09 of the Financial Statements on page 122 of this Annual Report.

15. DIVIDEND

In considering the Bank to meet with the mandatory capital requirement of Rupees five Billion (Rs. 5 Billion), the Board does not recommend any dividend (final) for financial year 2016

16. PROPERTY, PLANT AND EQUIPMENT, FREEHOLD PROPERTY

Capital expenditure on property, plant and equipment amounts to LKR 125 million, the details of which are given in Note 17 of the Financial Statements.

Details of freehold properties are given on Note 17 of the Financial Statements on pages 126 to 129.

17. MARKET VALUE OF FREEHOLD PROPERTIES

Details of the market value of freehold properties are given on Note 17.2 of the Financial Statements on page 129

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

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

19. STATED CAPITAL

The stated capital of the Bank as at 31st of December 2016 was LKR. 962 million consisting of 64,710,520 ordinary shares.

20. SHARE INFORMATION

Details of share related information are given on pages 149 to 151 of this Annual Report.

21. DEBENTURES

The Bank had issued listed secured redeemable debentures face value amounting to LKR. 2,000 Million in year 2013 and the details of debentures outstanding as at the date of statement of financial position are given in Note 23 of the Financial Statements on pages of 133 to 135 Further HDFC had issued listed secured redeemable debentures face value amounting to LKR 4,000 Million in year 2015 and the details of debentures outstanding as at the date of statement of financial position are given in Note 23 of the Financial Statements on pages of 133 to 135 The Bank had listed these debentures on the main board of Colombo Stock Exchange (CSE).

22. EQUITABLE TREATMENT TO ALL STAKEHOLDERS

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

23. THE BOARD OF DIRECTORS

Please refer chapter on Board of Directors on pages 90 to 95 for full list of Directors and their qualifications and experience.

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

01. Mr. S.M. Gotabaya Jayarathne – with effect from 17/02/2016
02. Mr. D.P. Wimalasena – with effect from 23/06/2016
03. Mr. Prasad Galhena – Reappointed – with effect from 30/06/2016
04. Mr. Lionel Jayasinghe – with effect from 30/06/2016
05. Mrs. R.A. Chulananda – with effect from 08/08/2016

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

01. Mr. R.M.J. Rasnayake - with effect from June 2016
02. Mrs. B.G.S. Gunathilake - with effect from 26/07/2016

24. BOARD SUB COMMITTEES

The Board while assuming the overall responsibility and accountability for the management & affairs of the Bank, appointed relevant Board Sub-Committees as stipulated under the Corporate Governance Directives of the Central Bank of Sri Lanka, Colombo Stock Exchange, etc.

The membership, duties, responsibilities and performance of the above sub-committees are given on pages 50 to 58 of the Annual Report.

25. DIRECTORS MEETINGS

Please refer the section on Board and Board Sub Committee attendance at meetings, on pages 36 to 39.

26. DIRECTOR' 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 pages 104 to 105 which form an integral part of the Annual Report of the Board of Directors.

27. ENTRIES IN THE INTEREST REGISTER

The Bank maintains the Director's Interest Register as required under the provisions of the Companies Act No 7 of 2007. Directors of the Bank made necessary declarations of their interest and have been recorded in the Interest Register.

THE REPORT OF THE DIRECTORS CONTD.

The Directors have no direct or indirect interest in a contract or a proposed contract that has to be disclosed to the shareholders, with the Bank other than those disclosed.

Directors abstained from participating at the discussions or in the approving process or voted on matters or contracts in which they were interested.

28. DIRECTORS' INTEREST IN SHAREHOLDING

Directors' shareholdings are as follows:

	31/12/2016	01/01/2016
Mr. R.J.De Silva (Chairman)	Nil	Nil
Mr. M. Surendran	1000	1000
Mr. Prasad Galhena	1000	1000
Mr. R.H. Meewakkala	Nil	Nil
Mr. L.S. Palansuriya	Nil	Nil
Mr. P.S. Punchihewa	Nil	Nil
Mr. S.M.J. Jayarathne	Nil	Nil
Mr. D.P. Wimalasena	Nil	Nil
Mr. Lionel Jayasinghe	1000	1000
Mrs. R.A. Chulananda	Nil	Nil

29. 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 2016. Further information is given on pages 141 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.

30. DIRECTORS' INTERESTS IN DEBENTURES

Individual debenture holding of Directors were as follows:

As at December 31,	2016	
	No. of Debentures	Value (Rs.)
Mr. R.J.De Silva (Chairman)	Nil	Nil
Mr. M. Surendran	Nil	Nil
Mr. Prasad Galhena	Nil	Nil
Mr. R.H. Meewakkala	Nil	Nil
Mr. L.S. Palansuriya	Nil	Nil
Mr. P.S. Punchihewa	Nil	Nil
Mr. S.M.J. Jayarathne	Nil	Nil
Mr. D.P. Wimalasena	Nil	Nil
Mr. Lionel Jayasinghe	Nil	Nil
Mrs. R.A. Chulananda	Nil	Nil
Total	Nil	Nil

31. RELATED PARTY TRANSACTIONS

The Directors have also disclosed transactions if any, that could be classified as related party transactions in terms of LKAS 24 "Related Party Disclosures" which is adopted in the preparation of the financial statements. Those transactions disclosed by the Directors are given in Note 32 to the financial statements forming part of the Annual Report of the Board of Directors. Further refer Board Related Party Transaction Committee Report

32. DIRECTORS' REMUNERATION

Directors' remuneration, for the financial year ended 31st December 2016 is given on Note 07 to the financial statement on page 121.

33. ENVIRONMENTAL PROTECTION

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

34. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

The risk Management of the Bank is a continuous process. Please refer Risk Management Report on pages 53 to 54.

The Directors on a regular basis review the above mentioned process through the Board Integrated Risk Management Committee and at the Board level.

The Board Audit Committee reviews the internal control process on a regular basis.

Relevant recommendations were directly submitted to the Board by those two committees. Accordingly the Board is ensuring the shareholders that to the best of their knowledge, the Bank has a comprehensive Internal Control and Risk control Framework, in place for smooth functioning of its operations

Please refer the Board Audit Committee Report on pages 57 to 58.

35. CORPORATE GOVERNANCE

Please refer statement from Chairman on Corporate Governance in page 35 a separate report on Corporate Governance is given on pages 59 to 89 as required by Corporate Governance Directions for Licensed specialized Banks, issued by the Central Bank of Sri Lanka along with the findings of the "Factual Findings Reports" of auditors issued under Sri Lanka Standard on Related services 4,400 (SLSRS).

36. COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

The Bank had appointed a Compliance Officer, who reports to the management and the Board Integrated Risk Management Committee, the relevant compliance status of the Bank pertaining to governing laws.

Also 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.

37. APPOINTMENT OF AUDITORS

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

38. AUDITORS REMUNERATION AND INTEREST IN CONTRACT WITH THE BANK

The Auditors were paid Rs. 507,600 /- for the year ended 31st of December, 2016 as audit fees by the Bank. The Auditors do not have any other relationship or interest in contracts with the Bank.

39. AUDIT COMMITTEE

The composition of the Audit Committee and their report is given on pages 57 to 58 of this Annual Report.

40. NOTICE OF MEETING

The 32nd Annual General Meeting of the Bank will be held on Friday 30th June 2017 at 10.00 a.m. at Booker Recreation (PVT)Ltd (Gardenia Hall) , 1st Floor, No. 10, Off Deans Road, Hedges Court, Colombo 10.

The Notice of the meeting is given on page 154 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors



Mr. R. J. De Silva
Chairman



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

DIRECTORS STATEMENT ON INTERNAL CONTROLS

This report has been issued in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Board of Directors (Board) is responsible for ensuring that an adequate and effective system of internal control is established and maintained at the Bank. However, such a system is designed to manage the Bank's significant risk areas within acceptable risk parameters, rather than eliminating the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and in compliance with the Guidance for Directors of the Bank's on the Directors Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka.

The key processes adopted in ensuring that adequate and effective system of internal control is in place

- ▲ The Board Sub-Committees namely Board Audit Committee, Integrated Risk Management Committee, Executive Information Technology Strategy Committee, Nomination Committee, Human Resources and Remuneration Committee, Recovery Committee and Related Party Transaction Review Committee have been established with defined scopes and functions to assist the Board in ensuring that the Bank's operations are in accordance with the corporate objectives, strategies, and policies and business directions that have been approved.
- ▲ Additionally Board has set up Special Review Committees namely Special Task Force, Corporate Plan Review Committee and Budget Revision Committee during the year under concern to closely monitor the operations of the Bank.
- ▲ Various Management committees including the Asset & Liability Committee, the Credit Committee, the Investment Committee and the Information Technology Steering Committee have been established with appropriate empowerment to ensure effective management and supervision of the bank's core areas of business operations.
- ▲ The Board approves and reviews the overall business strategies and significant policies of the bank, understands the major risks run by the bank and directs senior management to take necessary steps to identify, measure, monitor and control those risk.
- ▲ Policies and procedures are set out in operations manuals, guidelines and directives issued by the bank to ensure compliance with internal controls and relevant laws and regulations.
- ▲ There are proper guidelines for hiring and termination of staff, formal training programs for staff, annual performance appraisals and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their responsibilities. The Board reviewed and approved the Disciplinary Code of the Bank during the concerned financial year.
- ▲ The internal audit division provides independent assurance on the efficiency and effectiveness of the internal control systems and monitors compliance with policies and procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all branches and departments in accordance with the annual audit plan approved by the Board Audit Committee. The frequency of audits of departments and branches are determined by the level of risk assessed. Findings of the internal audit are submitted to the Board Audit Committee for review at their periodic meetings.

Confirmation

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

Review of Statement by External Auditors

The External Auditors have reviewed the above Director's Statement on Internal Control included in this Annual Report of the Bank for the year ended 31st December 2016 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board at the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their report to the Board is disclosed on pages 48 to 49 this Annual Report.

By order of the Board,



Mr. Upali Hettiarachchi
General Manager / CEO



Mr. M. Surendran
Chairman – Audit Committee



Mr. R. J. De Silva
Chairman

At Colombo
24th May 2017

ASSURANCE REPORT OF THE AUDITOR GENERAL ON INTERNAL CONTROLS



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No. }

BAF/01/C/HDFCB/IC/2016/14
Your No. }

දිනය
திகதி
Date }

23 May 2017

The Chairman,
Housing Development Finance Corporation Bank of Sri Lanka

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

Introduction

This report is to provide assurance on the Director's Statement on Internal Control ("Statement") of Housing Development Finance Corporation Bank of Sri Lanka included in the annual report for the year ended 31 December 2016.

Management's Responsibility

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

My Responsibility and Compliance with SLSAE 3050

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

Summary of Work Performed

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

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

- Reviewed the documentation prepared by or for the directors to support their Statement intended to be made.



- Reviewed the minutes of the meeting of the Board of Directors, relevant board committees and management committees.
- Considered whether the Directors' statement of internal controls covers the year under review and that adequate process are in place to identify any significant matters arising.

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

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

Conclusion

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

H.M. Gamini Wijesinghe

Auditor General

BOARD SUB COMMITTEE REPORTS

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Committee acknowledges Human Resource as the most important aspect linked with the productivity and the efficiency of the whole organisation. Accordingly consistent development of human resource through employee skill assessment, capacity building/training / development and rewarding will be continued as salient features of the Bank's HR Policy.

In addition, employee discipline, relationship management with external, internal customers & third parties, recruitment of right candidates, employee retention and succession arrangements were considered as the other prime important factors associated with Human Resource of the Bank.

The FY2016 was a challenging year for the Bank, since the Bank upgraded its IT system through its new core banking implementation project during the said period. In order to ensure that employees have the right knowledge, skills and competencies to serve the Bank's stakeholders with the new upgraded systems, the importance of training and development was elaborated by the Committee on various occasions. Accordingly the Bank on periodic basis will continue in assessing its staff and apprise their proficiency levels to work in a challenging environment. The Bank will continue with different methods for the said evaluation purpose, such as conducting close / open book tests, viva voce/ interviews or any other mode suitable for driving this process, depending on the applicable HDFC's employee segment and the necessity.

In addition to the desired competency levels owing on new core banking project, all formal Training requirements were covered beforehand with the adoption of Training Calendar- 2016 by the Committee. Thus, different training programs were offered to employees during the period under review, depending on their job requirements. The Committee acknowledges that, "On the Job Training Programs" as an essential element of its training calendar, in addition to the other formal

employee training methods such as nominating employees for external training, seminars and conferences.

The Committee further offered numerous foreign training programs to the staff and the management in addition to the local training, in view of broadening their professional exposure.

The benefits offered for employees to obtain academic and professional qualifications were further enhanced during the current reporting period with necessary amendments made to the prevailing Honorarium Policy of the Bank.

In line with the Bank's policy on recognising and rewarding the best performers, the Banks Promotion policy was amended to include merit promotions, during the period under review. The Committee acknowledges that, Employee performance as the core criteria for all future rewarding arrangements of the Bank. The Committee further recognised the importance of rewarding the best staff who are deserving correct recognition and the committee confirms that, during year 2016 promotions and other rewards were purely based on merit.

In addition, the Committee highly considered the importance of instilling a discipline culture, strengthening the auditing and risk evaluation functions. Accordingly, a new Disciplinary Code was adopted by the Bank and Audit and Risk Divisions were further strengthened.

The Committee further took initiatives to hire an experienced person as the Consultant Human Resource Management and the entire HR Division will be reorganised in due course, with the advice of the consultant. This is in addition to the other two consultants that Bank recruited to strengthen the Treasury and Corporate credit areas, in accordance with the Banks short term Plan on efficiency / productivity drive and capital augmentation.

Further the Committee done a systematic study on Palm Top operations in view of resolving few issues that curtailed the profitability of Palm Top operations from its inception (year 2007 onwards), and was successful in deciding the way forward for its operations.

In addition the committee had recommended to absorb 14 Palm Top trainees who had successfully attributed to the corporate and individual goals pre-defined by the management. The Palm Top is the Banks main deposit mobilisation arm.

Also the Committee ensures that the Remuneration Policy of the Bank for the CEO and the Key Management is sufficiently competitive to retain and attract proper talented staff to the Bank. The Committee evaluates the Key Management, against a set criteria based on the annual budgetary targets and other performance targets relevant for each Key Management members.

The Committee is empowered to recommend to the Board on any matter that has an impact on the Human Resources Management of the Bank, in accordance with the Terms of Reference(TOR) and any other matter that is referred to the Committee by the Board.

In general, the Committee also reviews all significant Human Resource Policies and initiatives, and terms and conditions relevant to staff matters. The Committee deliberates upon and recommends to the Board, annual increments for Key Managers and other staff.

Finally, the Committee wish to place on record that, the Bank constantly improving its Human Resource practices, policies and procedures to be in line with the desired 8th sustainability development goals related to “Decent Work” and further ensure that committee will provide assistance and fullest support to the Board to set up a well-defined discipline culture within HDFC, with due recognition to corporate governance structure acceptable to the HDFC Bank.

Composition of The Committee and How It Discharge It Duties

The Committee met four (04) times during 2016. The membership of the Committee and attendance of the Committee members at the meeting is given on Page No. 37 of the Annual Report.



Mr. M. Surendran
Chairman



Mrs. Dharshani De Silva
Company Secretary

At Colombo, On 24th May 2017

BOARD SUB COMMITTEE REPORTS CONTD.

BOARD NOMINATION COMMITTEE

The Nomination Committee is vested with the powers and the relevant authority to make necessary recommendations pertaining to the nominations of the HDFC's shareholder director appointments.

The committee is bound to consider the relevant experience, skills, expertise knowledge and competencies of the individuals being considered to be so nominated through the Board approved procedure for selection and appointment of directors and assessment of the identified candidates against the timely requirements of the Board and the relevant regulatory requirements and compliance with the fit and properness of the directors to be so appointed.

The Committee further vested with the powers and the relevant authority to adopt suitable policies and procedures, both through the Nomination and Human Resource and Remuneration Committees, pertaining to the selection / appointment of GM/CEO and KMPs.

In addition the Committee held responsible for discharging following functions as and when required.

Namely;

01. Implementation of a suitable procedure to select / appoint new directors, CEO and key management personnel.
02. Recommending (or not recommending) the re-election of current directors, taking into account the performance and contribution made by the directors, concerned towards the overall discharge of the board's responsibilities.
03. Formulating a proper criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.
04. Ensure that directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in CBSL Directions and as set out in the statutes.

05. Making recommendations to the Board from time to time, the requirements of additional / new expertise and the succession arrangements for retiring directors and key management personnel.
06. The committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors.

Accordingly the committee is discharging its duties, as defined and relevant policies procedures are in place as defined above. In addition, the HR. Consultant was given an assignment to review some of the existing policies, in view of updating the same and suggest any revisions, if necessary.

Composition of the Committee and how it discharge it duties

The Committee met a once (01) during 2016. The membership of the Committee and attendance of the Committee members at the meeting is given on Page No. 37 of the Annual Report.



Mr. R. J. De Silva
Chairman



Mrs. Dharshani De Silva
Company Secretary

At Colombo
On 24th May 2017

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Risk Management Committee is a statutory committee of the Board of Directors. The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to oversight of HDFC bank's risk management framework, including the significant policies and practices used in managing credit, market, operational and certain other risks. The committee oversees the bank's policies and practices relating to the liquidity risk which derives in funding for the core functions and risk pertaining to capital management as well.

The Bank has deployed appropriate strategies and measures in mitigating potential risks during the implementation process of new core banking system ensuring smooth functioning of the system and advanced Information security management. During year 2016, The committee focuses on strategic risk of meeting minimum capital requirements, risk on concentration deposit and loan while setting up appropriate risk minimizing measures. The Committee ensured implementation of sound risk management practices by redefining risk appetite framework, stress testing models, risk tolerance limits etc.

The scope of the Risk Management Committee extended to:

- (a) Evaluating Credit, Market, Liquidity, Operational and Strategic Risk by applying appropriate risk indicators and management information received.
- (b) Reviewing the adequacy and effectiveness of management level Committees.
- (c) Apply risk mitigating strategies and mechanisms for controlling specific risks which are at levels beyond the prudent levels, as per the Banks policies and regulatory and supervisory requirements. The Committee ensures that the Bank is aligned with compliance requirements and applicable laws, directions regulations, and guidelines of the regulator, internal controls and approved policies.
- (d) Taking 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.
- (f) Establishing an overall risk evaluation framework, covering the Credit risk, Operational risk, Market Risk and Strategic risk etc.
- (i) Review of Compliance Officer's reports to the IRMC in connection with regulatory concerns. New regulations and level of bank compliance to them and all other matters in compliance function.
- (j) A Compliance Officer has been appointed and effective and efficient operations of compliance function, has been ensured.
- (k) In some instances, IRMC has directed management to take disciplinary action against the Officers who were involved in the risk deriving events.

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.

Committee Meetings and how it discharged its Duties

The Committee was appointed by the Board of Directors. The Committee held 02 Committee Meetings during the period under review. Notwithstanding, The committee ensured adequate risk policies procedures and practices are implemented by senior management. Overall risk dash board was available for the committee to assess bank's overall risk position on quarterly basis in addition

BOARD SUB COMMITTEE REPORTS CONTD.

to the risk alerts issued by risk division on emerging risk matters.

The membership of Directors of the Committee and attendance of the Committee Directors at the meeting is given on Page No. 38 of the Annual Report, and attended the meetings by invitation Mr. Upali Hettiarachchi (General Manager/CEO), Mr. S. Dissanayeke (Chief Operations Officer), Mr. D. V. Pathirana (Chief Financial Officer), Mr. A. J. Athukorala (Chief Internal Auditor), Mr. C. R. P. Balasooriya (AGM- Treasury), Mrs. W.W.D.S.C. Perera (AGM- Legal), Mrs. H.S. Gunathilake (AGM- BD & M), Mr. D. M. D. M. K. Dissanayake (Chief Manager Credit), Mr. K. R. M. A. Bandara (Compliance Officer), Mr. I. Nishantha (Risk Officer)



Mr. M. Surendran
Chairman



Mrs. Dharshani De Silva
Company Secretary

At Colombo
On 24th May 2017

BOARD RELATED PARTY TRANSACTIONS MONITORING COMMITTEE

The main objective of the committee is to review all related party transactions of the HDFC Bank to ensure that the bank complies with the Related Party Transaction governing rules as applicable to the Bank as defined by the Central Bank, Securities and Exchange Commission, Colombo Stock Exchange, etc. The committee is entrusted with powers to review and evaluating the terms and conditions applicable for such transactions of related parties and ensure that no such favourable treatments will be offered to related parties. The committee is responsible for recommending to the Board the advisability of such transactions, nature of action that has to be taken and fairness of the terms offered for the best interests of the bank and its stakeholders. The Committee can obtain expertise opinion (if and when necessary).

The Committee wishes to place on record that, during the period under review the Bank has not entered into any non-recurrent nature transaction with related parties which require disclosure in the Annual Report in accordance with the Rule 9.3.2(a) of the CSE listing rules or prior sanction of the Board in accordance with the Clause 3(7)(iv) of the CBSL direction or any transaction giving more favourable terms to related parties as described under the Clause 3(7)(iii) of the said direction.

Furthermore the Committee wishes to place on record that, during the period under review that HDFC has made the following recurrent nature transactions with Perpetual Treasuries Limited (where the director of HDFC Bank Mr. M. Surendran had been functioning as a director during the transaction periods). These investments were made by the investment committee within the Board approved investment policy based on the comparative better yield received and prior approval of the Board was not required. Perpetual Treasuries Ltd is one of the primary dealers the Board has granted approval the Bank to deal with. Even though the Bank has not invested at Perpetual Treasuries Ltd, it is require to be disclosed under Rule 9.3.2 (b) of the CSE listing rules, since the aggregate value of investments exceeds 10% of the gross revenue of the Bank in 2016.

Name	Relationship *	Nature of the transaction	Value of the transactions entered into during the period	Aggregate Transaction value as a% of net revenue/ income	Terms and conditions of the related party transaction
Perpetual Treasuries Ltd	cross directorships	T- Bills 1/4/16 - 15/7/16	Rs 450 Mn		Yield to maturity 8.75%
Perpetual Treasuries Ltd	cross directorships	T- Bills 22/4/16 - 21/10/16	Rs. 200Mn		Yield to maturity 9.35%
Perpetual Treasuries Ltd	cross directorships	T- Bond 15/6/16 – 15/7/16	Rs. 200Mn		Yield to maturity 10%
Perpetual Treasuries Ltd	cross directorships	T- Bills 22/4/16-21/10/16	Rs 200Mn		Yield to maturity 9.30%
Aggregate Value			Rs.1050Mn	17.78%	

For further related party transactions given on note 32 of the financial statement on Page No 141 of the Annual Report.

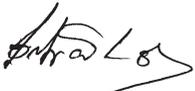
BOARD SUB COMMITTEE REPORTS CONTD.

The Committee meetings and how it discharged its duties

During the period under reviewed the Committee held a one meeting. The membership of the Committee and attendance of the Committee members at the meeting is given on Page No. 39 of the Annual Report.



Mr. R. J. De Silva
Chairman



Mrs. Dharshani De Silva
Company Secretary

At Colombo
On 24th May 2017

BOARD AUDIT COMMITTEE REPORT

The Audit Committee presents the above report for the financial year ended 31st December 2016 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, the Securities and Exchange Commission of Sri Lanka and to comply with the Corporate Governance requirements of Central Bank of Sri Lanka.

Composition of the Audit Committee

The Board appointed Audit Committee, comprised of five (5) Non-Executive Directors and is in line with the composition requirements specified in the Banking Act Direction No 12 of 2007. The Chairman of the Audit Committee Mr. M Surendran, is a Non-Executive Director and also having specialist financial/auditing background. The following directors served on the Audit Committee during the year:

Name of the BAC member	Directorship Status
Mr. M Surendran	Non-Independent
Mr. Prasad Galhena	Independent
Mr. R H Meewakkala	Independent
Mr. L Jayasinghe	Independent
Mr. D P Wimalasena	Independent

Profiles of the members are given on pages 92 to 95.

Charter of the Audit Committee

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments and concerns are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in the second quarter of 2016.

The Audit Committee is responsible to the Board of Directors and reports its activities to the Board regularly. The functions of the Audit Committee are geared to assist the Board of Directors in its general oversight

responsibility on financial reporting, internal controls and functions relating to internal and external audits.

Audit Committee Meetings

The Committee held eight meetings during the financial year ended December 31st, 2016. The attendance of the members at meetings are given in the Corporate Governance section of the Annual Report.

Chief Internal Auditor and Chief Finance Officer normally attends meetings. The Chief Internal Auditor functioned as the Secretary to the Committee. The General Manager / Chief Executive Officer, Chief Operating Officer, Risk Officer and Compliance Officer attended the meetings by invitation. Other officials were invited to attend the meetings on need basis. On the invitation of the Committee, the Bank's External Auditor, attended 06 meetings during the year.

Methodology used by the Committee

- ▲ Review the Interim Financial statements and the Bank's annual Financial Statements in order to ensure the integrity of such statements prepared for disclosure, prior to submission to the Board of Directors.
- ▲ Examine any matter relating to the financial and other connected affairs of the Bank.
- ▲ Ensure that efficient and sound financial reporting systems are in place and are well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and Other Stakeholders.
- ▲ Ensure the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good corporate governance practices.
- ▲ Review the appropriateness of Accounting policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.

BOARD SUB COMMITTEE REPORTS CONTD.

- ▲ Review internal audit reports and liaise with Management in taking precautionary measures to minimize control weaknesses, procedure violations, frauds and errors.
- ▲ Review External Audit and Statutory inspection reports and follow up on their findings and recommendations.

Summary of Activities

Performed following activities during the year.

▲ Financial Reporting

The Committee monitored the integrity of the financial statements, including the annual and interim statements and any other formal announcements relating to financial performance, by reviewing significant financial reporting issues, changes in accounting policies and practices and any other concerns relevant to financial reporting.

▲ Internal Controls, Risk Management systems and Compliance requirements

The Bank's internal controls and risk management systems were kept under review by the Committee ensuring the procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards and to identify and manage all significant risks faced by the Bank. The committee also oversaw compliance with the mandatory requirements and the systems and procedures to ensure fulfillment of such requirements.

▲ Internal Audit

The Committee reviewed the adequacy of the scope, functions and resources of the internal audit division in the context of the bank's overall risk management system. The committee ensured that the internal audit function is independent of the activities it audits.

The Committee reviewed, assessed and approved the internal audit plan. Appraisals of Head of Internal Audit and senior staff were done to comply with the statutory requirements.

▲ External Audit and other statutory audits

The Committee reviewed findings of external auditors and statutory examinations conducted by the Central Bank of Sri Lanka and liaise with corporate management for taking proactive actions to obviate violations, frauds and errors.

Ethics and Good Governance

The committee promotes the good governance among the internal audit staff by reviewing and approving the internal audit charter and 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 any wrong doing 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 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 of the board.



M Surendran
Chairman

Board Audit Committee
24th May 2017

COMPLIANCE REVIEW

The corporate governance framework of the Bank is focused on endorsing transparency, fairness and accountability of the Banking functions. Therefore our corporate governance structure is built on three pillars, namely (1) ethics & values, (2) internal control systems and (3) leadership & employee contribution to achieve the corporate governance standards setup by the bank.

We report our compliance status as defined below, pertaining to regulatory requirements derives from the Corporate Governance frame work setup by the Central Bank of Sri Lanka and Colombo Stock exchange for listed companies and the securities and exchange commission of Sri Lanka.

In this report, applicable governance frameworks are assessed separately in 3 sections.

SECTION - 1

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

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(1) The Responsibilities of the Board			
Board Function			
3(1) (i) The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:			
a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the bank;	Complied with Strategic Plan Corporate plan effective period- 2014 -2016.		None
b) Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied with Please refer the factual finding of Auditor in this regard. Relevant Risk Policy Manuals are in place with Board approvals.		None
c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied with Risk management structure is in place including BIRMC and all principal risk are being monitored with risk dash-Boards backed with risk appetite and tolerance limits.		None

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Guideline	Complied Status	Not applicable	Factual Findings of Auditor
d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied with		None
e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied with		None
f) Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with		None
g) Define the areas of authority and key responsibilities for the Board of Directors themselves and for the key management personnel;	Complied with		None
h) Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy;	Complied with		None
i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied with		None
j) Ensure that the Bank has an appropriate succession plan for key management personnel;	Complied with This will be further reviewed and updated.		Succession plan for the year 2017 had been available
k) Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied with		None
l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied with		None

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
m) Exercise due diligence in the hiring and oversight of external auditors.	Complied with		None
3(1) (ii) The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3(5) of CBSL.	Complied with		None
Board Meetings			
3(1) (iii) The Board shall meet regularly and Board Meetings shall be held at least twelve times a year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with		None
3(1) (iv) That arrangements shall in place to enable all Directors to include matters and proposals in the agenda for regular Board Meetings.	Complied with		None
3(1) (v) That notice of at least 7 days is given of a regular Board Meetings. For all other Board Meetings, reasonable notice may be given.	Complied with		None
3(1) (vi) That a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' Meetings through an alternate Director shall, however, be acceptable as attendance.	Complied with		None
3(1) (vii) Shall appoint a Company Secretary who has satisfied the provisions of section 43 read with section 76H of Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with		None

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Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(1) (viii) All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with		None
3(1) (ix) The Company Secretary shall maintain the minutes of Board Meetings and such minutes shall be open for inspection or reasonable time on reasonable notice by any Director.	Complied with		None
3(1) (x) Minutes of Board Meetings shall be recorded in sufficient details as required under the Banking Act directions on Corporate Governance.	Complied with		None
3(1) (xi) There shall be a procedure to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/ their duties to the Bank.	Complied with		None
3(1) (xii) Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organizations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board Meeting, where Independent Non-Executive Directors [refer to Direction 3(2)(iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board Meeting.	Complied with		None

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(1) (xiii) The Board shall have a formal schedule of matters specifically reserved for its decision to ensure that the direction and control of the bank is firmly under its authority.	Complied with		None
3(1) (xiv) The Board shall, if it considers that the Bank is or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	Complied with		None
3(1) (xv) The Board shall, ensure that the Bank shall capitalize at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with Please refer Page No 147 for Capital Adequacy as at 31/12/2016.		None
3(1) (xvi) Shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied with		None
3(1) (xvii) The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied with		None
3(2) The Board's Composition			
3(2) (i) The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with (a) Three categories of directors in the Board, as in accordance with HDFC Act. (i) Ex-officio Directors- Representing the Secretary to the Treasury and Ministry of Housing. (ii) Nominated Directors -Representing the Ministry of Finance, Labour and Minister of Housing. (iii) Shareholding Directors		None

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Guideline	Complied Status	Not applicable	Factual Findings of Auditor
	<p>(b) During the period under review, the Board consisted with 12 Directors (from time to time) as given below.</p> <p>01. Mr. R. J. De Silva 02. Mr. M. Surendran 03. Mr. Prasad Galhena 04. Mrs. B.G.S. Gunathilake (resigned -26/07/2016) 05. Mr. R. M. J. Rasnayake (resigned - June 2016) 06. Mr. R. H. Meewakkala 07. Mr. L. S. Palansuriya 08. Mr. P. S. Punchihewa 09. Mr. S. M. G. Jayarathne 10. Mr. D. P. Wimalasena 11. Mr. L. Jayasinghe 12. Mrs. R. A. Chulananda</p> <p>(c) The Profiles of the present Director Boards available in pages 92 to 95 of the Annual Report.</p>		
3(2) (ii)(a) The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with		None
3(2) (ii)(b) In the event of any director serving more than 9 years, that the transitional Provisions have been applied with	Complied with		None
3(2) (iii) An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (Executive Directors)	Complied with The Board of the HDFC Bank comprises only with Non-Executive Directors.		None

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(2) (iv) The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher.	<p>Complied with</p> <p>During the period under review, the constitution of the director Board with regard to independency of directors, were as follows.</p> <p>(a) Independent / Non-Executive Directors</p> <p>01. Mr. R. J. De Silva (Chairmen)</p> <p>02. Mr. Prasad Galhena</p> <p>03. Mrs. B.G.S. Gunathilake (resigned -26/07/2016)</p> <p>04. Mr. R. M. J. Rasnayake (resigned - June 2016)</p> <p>05. Mr. R. H. Meewakkala</p> <p>06. Mr. S. M. G. Jayarathne</p> <p>07. Mr. D. P. Wimalasena</p> <p>08. Mr. L. Jayasinghe</p> <p>09. Mrs. R. A. Chulananda</p> <p>(b) Non-Independent / Non-Executive Directors.</p> <p>01. Mr. M. Surendran</p> <p>02. Mr. L. S. Palansuriya</p> <p>03. Mr. P. S. Punchihewa</p>		None
3(2) (v) In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	No appointments	N/A	N/A
3(2) (vi) Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied with		None

COMPLIANCE REVIEW 2016 CONTD.

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(2) (vii) A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. This sub-direction shall be applicable from 01st January 2011 onwards.	Complied with		None
3(2) (viii) The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	Complied with		None
3(2) (ix) There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with (In accordance with HDFC Act)		None
3(2) (x) All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.		N/A	N/A
3(2) (xi) If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied with		None

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(2) (xii) A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another Bank.	Complied with		None
3(3) Criteria to Assess the Fitness and Propriety of Directors (In addition to provision of section 42 read with section 76H of the Banking Act, No. 30 of 1988 the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a Bank.)			
3(3) (i) The age of a person who serves as Director shall not exceed 70 years.	Complied with		None
3(3) (ii) A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank of such 20 companies / entities / institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.	Complied with		None
3(4) Management Functions Delegated by the Board			
3(4) (i) The Directors shall carefully study and clearly understand the delegation arrangements are in place.	Complied with		None
3(4) (ii) The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with		None
3(4) (iii) The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with		None
3(5) The Chairman and Chief Executive Officer			
3(5) (i) The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with The Chairman and GM/ CEO positions are separately defined in HDFC Act.		None

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Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(5) (ii) The Chairman shall be a Non-Executive Director and preferably an Independent Director as well.	Complied with		None
3(5) (iii) The Board shall disclose in its Corporate Governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with No relationship whatsoever		None
3(5) (iv) The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with		None
3(5) (v) The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board Meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied with		None
3(5) (vi) The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with		None
3(5) (vii) The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied with		None

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(5) (viii) The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.	Complied with		None
3(5) (ix) The Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with		None
3(5) (x) The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with (a) The presence and participation of its shareholders at the Annual General Meeting. (b) The annual report is the main document with details about the affairs of the Company.		None
3(5) (xi) The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with		None

COMPLIANCE REVIEW 2016 CONTD.

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(6) Board Appointed Committees			
3(6) (i) Each Bank shall have at least five Board Committees as defined in CBSL Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) each Committee shall report directly to the Board. All Committees shall appoint a Secretary to arrange the Meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	<p>Complied with</p> <p>Following Committees are functioning.</p> <p>(i) Board Nomination Committee</p> <p>(ii) Board Audit Committee</p> <p>(iii) Board Human Resource and Remuneration Committee</p> <p>(iv) Board Integrated Risk Management Committee</p> <p>(v) Board Related Party Transaction Monitoring Committee</p> <p>(vi) Board Recovery Sub Committee</p> <p>(vii) Treasury Management Advisory Committee</p>		None
Board Audit Committee			
3(6) (ii) The relevant responsibilities related to Board Audit Committee, is separately defined under 3(6)(ii) of the Directions.	<p>Complied with</p> <p>For further details please refer Board Audit Committee Report on Pages 57 to 58 and for the membership refer page 57.</p>		None
Board Human Resource and Remuneration Committee			
3(6) (iii) The relevant responsibilities related to Board Human Resource and Remuneration Committee, is separately defined under 3(6)(iii) of the Directions.	<p>Complied with</p> <p>For further details please, refer to the Board Human Resource and Remuneration Committee Report, on Pages 50 to 51 and for the membership refer page 37.</p>		None

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
Board Nomination Committee			
3(6) (iv) The relevant responsibilities related to Board Nomination Committee, is separately defined under 3(6)(iv) of the directions.	<p>Complied with</p> <p>The existing policies of the Bank for evaluation, selection and eligibility criteria for KMPS and CEO will be further improved.</p> <p>For further details please refer the Board Nomination Committee Report on Page 52 for the membership refer page 37.</p>		None
Board Integrated Risk Management Committee			
3(6) (v) The relevant responsibilities related to Board Integrated Risk Management Committee, is separately defined under 3(6)(v) of the Directions.	<p>Complied with</p> <p>For further details, please refer the Integrated Risk Management Report on Pages 53 to 54. For membership of directors refer page 38 and in addition GM/ DGM/ AGM/ CIA/ CM (Treasury)/ Head of Credit / Compliance Officer/ Risk Officer are in the Comitee.</p>		None
Board Related Party Transaction Monitoring Committee			
	<p>For further details, please refer to the Board Related Party Transaction Monitoring Committee Report on Pages 55 to 56 for the membership refer page 39.</p>		

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Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(7) Related Party Transactions			
<p>3(7) (i) and 3(7)(ii) The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction (defined under 3(7)(ii) of the directions) of the Bank with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <ul style="list-style-type: none"> a) Any of the bank’s subsidiary companies; b) Any of the bank’s associate companies; c) Any of the directors of the bank; d) Any of the bank’s key management personnel; e) A close relation of any of the bank’s directors or key management personnel; f) A shareholder owning a material interest in the bank; g) A concern in which any of the bank’s directors or a close relation of any of the bank’s directors or any of its material shareholders has a substantial interest. 	<p>Complied with</p> <p>For further details refer Related Party Transaction Committee Report note 32 and the financial statement on Page 141.</p>		<p>Related Party Policy had been issued during the year 2017</p>
<p>3(7) (iii) The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the Bank carrying on the same business.</p>	<p>Complied with</p>		<p>None</p>
<p>3(7) (iv) A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>Complied with</p>		<p>None</p>

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(7) (v) a) Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the bank, steps shall be taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with		None
b) Where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.	Complied with		None
c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of director and the Bank shall disclose such fact to the public.	Complied with		None
d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.	Complied with		None
3(7) (vi) A Bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3(7)(v) above.	Complied with		None

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Guideline	Complied Status	Not applicable	Factual Findings of Auditor
3(7) (vii) No accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.		N/A	N/A
3(8) Disclosures			
3(8) (i) The Board shall ensure that: (a) annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that	Complied with		None
(b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with		None
3(8) (ii) The Board shall ensure that the minimum disclosures are made in the Annual Report: a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with Please refer to Directors Responsibility Statement for Financial Reporting on Pages 104 to 105 of the Annual Report.		None
b) A report by the Board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with Please refer to Pages 46 to 47 of the Annual Report		None
c) The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above, in respect of any statements prepared or published after 31st December 2008.	Complied with		None

Guideline	Complied Status	Not applicable	Factual Findings of Auditor
d) Details of Directors, including names, fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Complied with		None
e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Complied with		None
f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied with Please refer Note 6.1 of the Financial Statements given on Page 121 of the Annual Report.		None
g) The external auditor's certification of the compliance with these directions in the annual corporate governance reports published after 01st January 2016.	Complied with		None
h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied with Please refer to the Report of the Directors, Statement on the Board of director's responsibility for financial reporting and statement on internal controls published on Pages 41 to 45, 104 to 105 and 46 to 47 respectively, of this Annual Report.		None
i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the bank to address such concerns.		N/A	N/A

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SECTION TWO

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

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A. Directors				
A.1 The Board	<p>Complied with</p> <p>The Board comprises only with Non-Executive Directors.</p> <p>The Board maintains a balance mix and comprise of highly reputed Individuals to give the correct leadership. Please refer director profiles.</p>			
A 1.1 1. Meeting	<p>Complied with</p> <p>Please refer status of compliance for 3(1)(iii) of CBSL Rules</p>			
A 1.2 2. Board Responsibilities	<p>Complied with</p> <p>The overall responsibility for the good governance of the Bank is vested with the Board. Including,</p> <p>Creation and execution of a sustainable business strategy maintain effective internal control systems, hiring a senior Management Team with professional and expertise knowledge, experience, Compliance with laws, regulations and ethical standards, Transparent mechanism to address stakeholder interests in corporate decisions, etc..</p>			
A 1.3 3. Access to Independent Professional Advice	<p>Complied with</p>			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A 1.4 4. Board Secretary	Complied with The Board Secretary plays an intermediary role between the Company and the stakeholders and Advice and services is available for all directors for ensuring that Board procedures are correctly adhered in line with applicable laws of the Bank and she is an Attorney-at-Law.			
A 1.5 5. Independent Judgment	Complied with			
A 1.6 6. Dedication of adequate time and effort by the Board and Board Committee	Complied with			
A 1.7 7. Training for new Directors	Complied with			
A.2 Chairman & Chief Executive Officer				
A 2.1 8. Division of Responsibilities of the Chairman & GM/CEO	Complied with			
A.3 Chairman's Role				
A 3.1 9. Role of the Chairman	Complied with The Board and shareholder meetings chaired by the Chairman.			
A 4. Financial Acumen				
A 4 10. Availability of sufficient financial acumen and knowledge	Complied with			
A 5. Board Balance				
A 5.1 11. Presence of a strong independent element on the Board	Complied with			

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Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A 5.2 A 5.3 12. Independent Directors	Complied with			
A 5.4 13. Signed declaration of independence by the Non-executive Directors	Complied with			
A 5.5 14. Determination of independence of the Directors by the Board	Complied with During the period under review, Independent Non-Executive Directors are as follows. 01. Mr. R. J. De Silva (Chairman) 02. Mr. Prasad Galhena 03. Mrs. B.G.S. Gunathilake (resigned -26/07/2016) 04. Mr. R. M. J. Rasnayake (resigned - June 2016) 05. Mr. R. H. Meewakkala 06. Mr. S. M. G. Jayarathne 07. Mr. D. P. Wimalasena 08. Mr. L. Jayasinghe 09. Mrs. R. A. Chulananda			
A 5.6 15. Senior Independent Director				N/A
A 5.7 16. Confidential discussion with the Senior Independent Director				N/A
A 5.8 17. Meeting of Non-executive Directors	Complied with			
A 5.9 18. Recording of concerns in Board Minutes	Complied with			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A 6. Supply of Information				
A 6.1 19. Information to the Board by the management	Complied with That a set of timely, accurate, relevant and comprehensive information is provided to the Directors before the Board meeting with adequate time to review and discussions.			
A 6.2 20. Adequate time for Board meeting	Complied with			
Appointment to the Board				
Appointment to the Board	Complied with			
A 7.1 21. Nomination Committee	Complied with For further details Please refer the Board Nomination Committee Report on Page 52.			
A 7.2 22. Assessment of Board composition	Complied with The Nomination Committee reviews the composition of the Board and makes necessary recommendations.			
A 7.3 23. Disclosure of details of new Directors to Shareholders	Complied with All Director profiles are published in the Annual Report.			
Re-election				
A 8 Re-election	Complied with			
A 8.1 24. Appointment of Non- Executive Directors	Complied with The Board of Director should be in accordance with the HDFC Act No. 07 of 1997(amendment Act No. 15 of 2003 and Act No. 45 of 2011).			
A 8.2 25. Election of Directors by the Shareholders	Complied with According to the HDFC Act, each shareholder directors, once in every three years required to stand for re-election.			

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Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
Appraisal of Board performance				
A 9 Appraisal of Board performance	Complied with			
A 9.1 26. Appraisal of Board performance	Complied with			
A 9.2 27. Annual self-evaluation of the Board and its Committees	Complied with Please refer comments mentioned under A 9.1, above.			
A 9.3 28. Disclosure of the appraisal of Board and Board Sub Committee Performance	Complied with Please refer comments mentioned under A 9.1, above.			
Disclosure of information in respect of Directors				
A 10 Disclosure of information in respect of Directors	Complied with			
A 10.1 29. Details in respect of Directors	Complied with The relevant details of the Directors are given under the Director's Profile of the Annual Report, on Pages 92 to 95.			
Appraisal of the GM/CEO				
A.11 Appraisal of the GM/CEO	Complied with			
A 11.1 30. Financial targets for GM/ CEO	Complied with In line with Corporate Plan of the bank.			
A 11.2 31. Evaluation of the performance of the GM/CEO	Complied with			
B. Directors Remuneration				
B 1 Remuneration Procedures	Complied with The Directors of the Bank are not entitle for remuneration and they get an allowance as directed by the Ministry of Finance.			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
B 1.1 32. Remuneration / Human Resources Committee	Complied with The Human Resource and Remuneration Committee are responsible for assisting the Board with regard to the remuneration policy.			
B 1.2 33. Composition of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on Pages 50 to 51 of the Annual Report for details.			
B 1.4 34. Remuneration of the Non-executive Directors				N/A Please refer B.1
B 1.5 35. Consultation of the Chairman and access to professional advice	Complied with External professional advice is sought, on need basis.			

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Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
Level and make-up of the Remuneration				
B 2 Level and make-up of the Remuneration				N/A Please refer comments for B 1.
B 2.1				
36. Level and make-up of the remuneration of both Executive and Non-Executive Directors				
B 2.2				
37. Comparison of remuneration with other companies				
B 2.3				
38. Comparison of remuneration with other companies in the group				
B 2.4				
39. Performance related payment to Executive and Non-executive Directors				
B 2.5				
40. Executive share option for Directors				
B 2.6				
41. Designing the Executive Directors remuneration				
B 2.7				
42. Early termination benefits of Directors				
B 2.8				
43. Early termination benefits of Directors (not included in the initial contract)				
B 2.9				
44. Level of remuneration of the Non-Executive Directors.				

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
B 3. Disclosure of Remuneration				
B 3.1 45. Disclosure of remuneration	Complied with Please refer comments for B 1.			
C Relations with Shareholders				
C 1 Constructive use of the Annual General Meeting and conduct of General Meetings.				
C 1.1 46. Use of proxy votes	Complied with The bank has a method of recording all proxy votes and proxy votes lodged by the shareholders on each resolution.			
C 1.2 47. Separate resolution for all separate issues	Complied with			
C 1.3 48. Availability of all Board Sub Committee Chairman at the AGM	Complied with			
C 1.4 49. Adequate notice of the AGM	Complied with			
C 1.5 50. Procedures of voting at General Meeting	Complied with			
Major transactions				
C 2 Major transactions				
C 2.1 51. Major transactions	Complied with There were no major transactions as defined by section 185 of Companies Act No. 07 of 2007 which materially affected the HDFC's net asset base.			
D. Audit and Accountability				
D 1 Financial Reporting.				
D 1	Complied with			

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Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D 1.1 52. Statutory and regulatory reporting	<p>Complied with</p> <p>HDFC reports a balanced and fair assessment of its' financial position for the year ended 31st December and at the end of each quarter of 2016.</p> <p>The financial statements for the year ended 31st December 2016 and for the respective quarters ended have been published in newspapers as required.</p> <p>The Auditor General of Sri Lanka is the external Auditor of HDFC.</p>			
D 1.2 53. Directors' report in the Annual Report	<p>Complied with</p> <p>The Director's Report is given on Pages 41 to 45 of this Annual Report.</p>			
D 1.3 54. Statement of Directors' responsibility for the financial statement	<p>Complied with</p> <p>The Statement of Directors' Responsibility for Financial Reporting is given on Pages 104 to 105 of the Annual Report.</p>			
D 1.4 55. Management discussions and analysis	<p>Complied with</p> <p>Please refer pages 17 to 23.</p>			
D 1.5 56. Declaration by the Board that the business as a going concern	<p>Complied with</p> <p>This is given on the Directors' Reports on Pages 41 to 45 of the Annual Report.</p>			
D 1.6 57. Summoning an EGM to notify serious loss of capital				N/A
Internal Control				
D.2 Internal Control	<p>Complied with</p> <p>Please refer pages 46 to 47 for report on Directors' Statement on Internal Control.</p>			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D 2.1 58. Annual evaluation of the internal control system	Complied with Please refer pages 46 to 47 for report on Directors' Statement on Internal Control.			
D 2.2 59. Need for internal audit function	Complied with Please refer Pages 57 to 58 for Audit committee.			
Audit Committee				
D 3 Audit Committee	Complied with Please refer pages 57 to 58 for Audit Committee Report.			
D 3.1 60. Composition and terms & conditions of the Audit Committee	Complied with Please refer pages 57 to 58 for Audit Committee Report.			
D 3.2 61. Duties of the Audit Committee	Complied with Please refer pages 57 to 58 for Audit Committee Report.			
D 3.3 62. Terms and reference of the Audit Committee	Complied with Please refer the Report of Audit Committee, on Pages 57 to 58			
D 3.4 63. Disclosures of the Audit Committee	Complied with Please refer Page 57 for membership.			
Code of business conduct & ethics				
D 4 Code of business conduct & ethics	Complied with The Bank had adopted many policies which cover the conduct of Business and ethics.			
D 4.1 64. Code of business conduct and ethics	Complied with			

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Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D 4.2 65. Affirmation of the code of conduct & ethics				N/A As mentioned above in D 4.2
E Institutional Shareholders				
E1 Shareholding voting	Complied with Institutional shareholders are required to make use of their votes and translate their voting intentions into practice.			
E 1.1 66. Institutional Shareholders	Complied with Institutional shareholders are encouraged to use their votes. Further they are encouraged to execute their votes and also seek independent advice on investing or divesting decisions.			
E 2 Evaluation of Corporate Governance initiatives	Complied with			
E Other Investors				
F1 Investing / Divesting Decision Advising caution to individual shareholders, the Bank recommends that if they are investing directly in shares of companies, they should conduct exhaustive analysis or seek independent advice in investing or divesting decisions.	Complied with			
F 2 Shareholder Voting	Complied with The Bank appreciates participation of individual customers in General Meetings and they are exercising their voting rights.			
F 2.1 67. Individual Shareholder Voting	Complied with			

SECTION THREE

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

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable
7.10.1 (a) to (c) (i) Confirmation to the correct number of Non-Executive Directors In the Board	Complied with			
7.10.2 (a) (ii) Confirmation to correct number of Independent Non-Executive Directors in the Board	Complied with			
7.10.2 (b) (iii) Directors Annual Declaration of his / her Independence or Non- Independence to the Board of Directors.	Complied with			
7.10.3 (a) (iv) Annual determination of the Board as to the Independency or Non-Independency of the Directors.	Complied with			
7.10.3 (b) (v) The qualifications not met by the Directors				N/A
7.10.3 (c) (vi) Brief resume of each Director	Complied with Please refer Directors' profiles on Pages 92 to 95			
Disclosures relating Remuneration & the Remuneration Committee				
7.10.5 (a) (vii) The correct number of Independent Non-Executive Directors in the Remuneration Committee	Complied with Please refer Page 37			
7.10.5 (a) (viii) Separate Remuneration Committee	Complied with			
7.10.5 (c) (ix) Names of the Directors in the Remuneration Committee	Complied with Please refer Page 37			

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Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable
7.10.5 (b) (x) Functions of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on Pages 50 to 51			
7.10.5.(a) (xi) Chairman of the Remuneration Committee	Complied with Mr. M. Surendran (a Non-Executive, Non-Independent Director)			
7.10.5 (c) (xii) Remuneration Policy	Complied with Please refer the report of the Human Resource and Remuneration Committee on Pages 50 to 51			
7.10.5 (c) (xiii) Aggregate Remuneration paid to the Executive and Non-Executive Directors (including cash and all non-cash benefits)	Complied with Please refer the note No. 7 of the Financial Statement on Page 121			
Contents under the Audit Committee Report				
7.10.6 (a) (xiv) The correct number of Independent Non-Executive Directors	Complied with HDFC confirms that, Audit Committee comprises of the required number of Independent Non-Executive Directors in accordance with Rule 7.10.6(a).			
7.10.6 (a) and 7.10.6 (c) (xv) Separate Audit Committee	A separate Audit Committee was formed for HDFC Bank.			

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable
7.10.6 (c) (xvi) Names of the Directors in the Audit Committee	Complied with Please refer Pages 57 to 58			
7.10.6 (b) (xvii) Functions of the Audit Committee	Complied with Audit Committee engages in the functions mandated under Rule 3(6) of the CBSL and Finance Circulars			
7.10.6.(a) and 7.10.6 (c) (xviii) Chairman of the Audit Committee	Complied with Mr. M. Surendran (a Non-Executive, Non-Independent Director).			
7.10.6 (a) and 7.10.6 (c) (xix) Chairman's qualifications	Complied with Please refer Directors profiles on pages 92 to 95			
7.10.6 (a) and 7.10.6 (c) (xx) Attendance of CEO and CFO for the Committee Meetings	Complied with			
7.10.6 (c) (xxi) External Auditors independency				N/A The External Auditor of the Bank is the Auditor General of Sri Lanka.

BOARD OF DIRECTORS



1 Mr. R.J. De Silva (Chairman)
(Non-Executive, Independent Director)

2 Mr. M. Surendran
(Non-Executive, Non - Independent Director)

3 Mrs. R.A. Chulananda
(Non-Executive, Independent Director)

4 Mr. R.H. Meewakkala
(Non-Executive, Independent Director)

5 Mr. L. Jayasinghe
(Non-Executive, Independent Director)

6 Mr. L.S. Palansuriya
(Non-Executive, Non Independent Director)

7 Mr. Prasad Galhena
(Non-Executive, Independent Director)

8 Mr. D.P. Wimalasena
(Non-Executive, Independent Director)

9 Mr S.M. Gotabaya Jayarathne
(Non-Executive, Independent Director)



PROFILES OF THE BOARD OF DIRECTORS

Mr. R.J. De Silva (Chairman)

(Non – Executive, Independent Director)

Mr. De Silva is an Attorney at Law. He practiced in the fields of criminal and labour law since passing out as an Attorney –at-Law in 1977, with first class honours.

He was appointed Chairman of HDFC Bank in February 2015.

Mr. De Silva held several key posts since 1982, such as Chairman, National Lotteries Board (1982-1989), Chairman of the National Insurance Corporation (1989-1990) and the State Distilleries Corporation (1990-1992). He was the Director General, Public Investment Management Board (1992-1994) with a mandate on behalf of the Secretary to the Treasury to oversee management and instill private sector practices in 37 corporations converted to fully Government owned companies, prior to eventual privatisation. Further, he served as a legal advisor to the Treasury in 1994. He was instrumental in setting up the first life insurance company in Sri Lanka in 1994 and worked as the company's first Managing Director till end 1998. After successfully navigating Janashakthi Life Insurance Company Ltd, Mr. De Silva worked as a consultant for legal and HR development at Hutchison Telecom from 1999 to 2001. He also served as the Chairman of the Geological Survey & Mines Bureau (GSMB) and the Chairman GSMB Technical Services (Pvt.) Ltd. from 2002 to 2004. Mr. De Silva re entered the unofficial Bar in 2004.

Mr. M. Surendran

(Non – Executive, Non - Independent Director)

Mr. M. Surendran is a member of the Board of Directors of HDFC since June 2013. Since then, he has made tremendous contributions to the Bank in many areas of business, bringing in a multitude of positive changes to the betterment of the institute.

Mr. Surendran holds a Diploma in Marketing and an MBA. He started his career at KPMG Sri Lanka and counts 25 years of experience in the field of finance.

Mr. Surendran joined Free Lanka Trading Company (Pvt.) Ltd., as an Investment Analyst. During his career, he has gained exposure to every aspect of business and finance functions within the Free Lanka Group as well as outside. In addition to assisting the Group in its businesses, he has been instrumental in turning-around several other companies from liquidation, and improving many other establishments in their day-to-day business.

While he was functioning as Director – Finance of the Perpetual Group, he single-handedly turned around the entire operation of W. M. Mendis & Company Ltd. to be a viable profit-making organisation. In addition, his prowess in negotiation gave the company the opportunity to be partners of Bacardi in their manufacturing and bottling lines and to establish foreign markets in the West.

Mr. Surendran has extensive experience in the private sector, in strategic advisory work, business concepts and project evaluation, due diligence, corporate turnarounds, privatisation, restructuring, valuations and mergers and acquisitions.

Mrs. R.A. Chulananda

Non-Executive, Independent Director

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

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

Thereafter she held many posts as an Assistant Divisional Secretary of the Divisional Secretariats Kahawaththa and Imbulpe, Assistant District Secretary of District Secretariat Anuradhapura, Divisional Secretary of the Divisional Secretariats Soranathota and Thimbirigasyaya, and the Director of the Women's Bureau of Sri Lanka of the Ministry of Women and Child Affairs.

She holds a Bachelor of Arts Degree from the University of Sri Jayewardenepura, a Post Graduate Diploma in

Business Administration from the Rajarata University of Sri Lanka and a Master of Public Administration from the Post Graduate Institute of Management of the University of Sri Jayewardenepura.

Mr. R.H. Meewakkala

(Non – Executive, Independent Director)

Mr. Meewakkala was appointed as a Board Member of the HDFC Bank in June 2015.

Mr. Meewakkala is a professional marketer, has a PG Dip from the Chartered Institute of Marketing, an MSC in International Marketing from the University of Stratchclyde along with a Phd from the University of Honalulu. His career in the marketing profession spans 25 years of which 19 years was at the Ceylon Tobacco Company (CTC), where he was the Marketing Director and also sat on the Executive Committee of the company. His international experience covers a 3 years stint working as the Head of Brand Marketing, for British American Tobacco, Cambodia and Laos. He was also a member of the South Asia Marketing Leadership team for British American Tobacco. He left the Ceylon Tobacco Company in September 2015, and in October 2015 was appointed CEO of Lanka Sathosa by the Minister of Industry and Commerce to manage the biggest retail operation run by the Government, which has 309 stores island wide. He left Lanka Sathosa in November 2016 and started his own marketing consultancy company.

Mr. L. Jayasinghe

(Non –executive, Independent Director)

Mr. Lionel Jayasinghe was appointed as a Board Member of the HDFC Bank in June 2016.

Mr. Jayasinghe is an IS consultant with 35 years of experience in the ICT field. He is a project management professional, Certified Information Systems Auditor (CISA) and past president of the Information Systems Audit and Control Association (ISACA), Sri Lanka chapter. He was a Director of the Board of Info Lanka Societies which is an umbrella organisation of IT societies in Sri Lanka. He has managed national level IT projects including the Sri Lanka Telecom billing system

and electricity billing systems. Mr. Jayasinghe has specialised in software quality assurance and software engineering standards and he managed the first project of implementation of CMMI level 4 in Sri Lanka. He has conducted many public lectures and presentations in IT audit, IT project management, software quality assurance and information security in national and international conferences.

He obtained his Master Degree in Business Administration, specialising in data warehousing and IS audit. He has a Postgraduate Diploma in Business Administration (University of Colombo) in 1996.

Mr. Jayasinghe is a member of the Project Management Institute (USA), Sri Lanka chapter, Information Systems Audit & Control Association (USA) and British Computer Society. In the recent past he served as IT audit professional in the Central Bank of Oman.

Mr. L.S. Palansuriya

(Non – Executive, Non Independent Director)

Mr. Luckvijaya Sagara Palansuriya has been worked in the housing and settlement sector for the last 3 decades. He was appointed a Manager of the National Housing Development Authority in 1984 and was promoted to Senior Manager, Deputy General Manager and General Manager positions.

From 1985 onwards he was a member of the Sri Lankan delegation for the UN Habitat Annual Conference and he worked in the housing and settlement sector for the last 30 years. In 2011 Mr. Palansuriya was appointed as a Consultant to the Ministry of Construction, Engineering Services, Housing and Common Amenities and later he was appointed as a Consultant for the National Housing Secretariat. During that period he worked as a Senior Editor in the Editorial Panel of Documentation of National Housing Policy.

Currently he is working as the Chairman of the National Housing Development Authority and the Board of Directors of the Urban Development Authority, Oceanview Development Company (Pvt.) Ltd., Tea, Rubber

PROFILES OF THE BOARD OF DIRECTORS CONTD.

& Coconut Estates Control of Fragmentation Board and Sevana Board of Management.

Mr. Palansuriya holds a general Degree from the University of Peradeniya (1972) and he received a Higher Diploma from the University of Philippines, Manila on industrial development information in 1982 when he worked in the Industrial Development Board of Sri Lanka.

In 2005 he received a Diploma from the Civil College of Singapore.

Mr. Palansuriya has written various publications, articles and reports on housing and settlement in Sri Lanka since 1985 to date.

Mr. Prasad Galhena

(Non – Executive, Independent Director)

Mr. Prasad Galhena was appointed as a Board Member of the HDFC Bank in June 2013.

Mr. Galhena is a fellow member of the Chartered Institute of Management Accountants (CIMA) of UK, and a past finalist of the Chartered Institute of Marketing in UK. He graduated from University of Colombo (BBA Honors) and possesses an MBA (Merit) obtained from the same University. He is presently serving as the Chairman of AAICO Property Development Limited while functioning as a Board Member of the Ceylon Petroleum Corporation, a Commission Member of the Public Utilities Commission of Sri Lanka and as a Director of SLT Vision Com (Private) Limited. Previously he has worked as Chairman for the Sri Lanka Sustainable Energy Authority, the National Gem & Jewellery Authority, the Ceylon Shipping Corporation Limited and the Sri Lanka Handicraft Board – Laksala. Also, he has wide exposure into renewable energy, corporate restructuring, finance and business modelling and has worked as a team member in several foreign funded consultancy projects.

Mr. D.P. Wimalasena

(Non-Executive, Independent Director)

Mr. D. P. Wimalasena was appointed as a Board Member of the HDFC Bank in June 2016.

Mr. Wimalasena (Class 1 SLACS Officer) has been working as the Chief Accountant of the Ministry of Finance since 2015. At present he is engaged in overall supervision of financial management of the Ministry of Finance. Also he Assists the Secretary for efficient and effective management of financial resources of the Ministry of Finance and institutions under the purview of the Ministry.

Mr. Wimalasena holds a B.Com. (Special) Degree from the University of Colombo. He is a Chartered Licentiate of the Institute of Chartered Accountants of Sri Lanka. Presently he is following a Master of Arts (MA Economics) Degree at the University of Kelaniya.

Mr S.M. Gotabaya Jayarathne

(Non – Executive, Independent Director)

Mr. Gotabaya Jayarathne was appointed as a Board Member of the HDFC Bank in February 2016.

Presently Mr. Gotabaya Jayarathne is functioning as the Secretary to the Ministry of Labour and Trade Union Relations. His career in the public service is over 32 years, and comprises different roles, such as an Assistant Commissioner of the Department of Labour, Assistant Director-District Secretariat (Anuradhapura), Assistant Secretary- Chief Ministry (NCP), Assistant Director (Planning), Coordinator/ Change Agent (Anuradhapura), Assistant Director (Planning)/Rural Department of Training and Research, Assistant Director (Planning)- District Secretariat (Anuradhapura), Management Consultant -World Bank Project, Deputy Director (Planning)-Ministry of Plan Implementation, Additional District Secretary-District Secretariat (Anuradhapura),

Provincial Secretary- Chief Ministry (NCP), Director General (SLIATE)- Ministry of Higher Education, Government Agent/District Secretariat (Kandy), Secretary-Ministry of Construction, Engineering Services, Housing and Common Amenities, Secretary-Ministry of Education and Secretary- Ministry of Telecommunication and Information Technology.

His academic qualifications comprise a Bachelor of Commerce (Special) Degree from the University of Kelaniya, Master of Science in Regional Planning from the Asian Institute of Technology, Bangkok, Thailand (1992), Postgraduate Diploma from the Dortmund University of West Germany (1991), Certificate of Public Administration, Sri Lanka from the Institute of Development Administration (SLIDA) – 1984.

He also possess the following awards :-

- ▲ ISO 9001 Certificate (SLSI) – for the performance of district administration, District Secretariat, Kandy – 2008
- ▲ Best Productivity Certificate (Productivity Secretariat) – for the performance of efficiency and effectiveness of the District Secretariat, Kandy – 2008
- ▲ Asian Award of Public Sector – Outstanding Professional and Technical Achievement Certificate 2007 – Asian Institute of Technology, Bangkok, Thailand.

CORPORATE MANAGEMENT



Mr. Upali Hettiarachchi
GM / Chief Executive Officer



Mr. S. Dissanayake
Chief Operating Officer



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



Mr. D.Vidana Pathirana
Chief Finance Officer



Mr. A.J. Atukorala
Chief Internal Auditor



Mrs. W.W.D.S.C. Perera
Assistant General Manager – Legal



Mrs. H.S. Gunathilake
Assistant General Manager
Business Development & Marketing



Mr. C.R.P. Balasooriya
Assistant General Manager
– Treasury



Mr. D.M.D.M.K. Dissanayake
Chief Manger – Credit



Ms. K.T.D.D. De Silva
Bank/Board Secretary
/ Chief Manager



Mr. H.A. Anura
Chief Manager – Finance



Ms. W.N.D. Botejue
Chief Manager – HR and Administration



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

PROFILES OF THE CORPORATE MANAGEMENT

Mr. Upali Hettiarachchi

GM / Chief Executive Officer

M.Com, FCPM, B.Com. (Special), Attorney-at-Law, LLB

Date of appointment-01st February 2016

Mr Hettiarachchi is a Central Banker and has been released on secondment to the HDFC Bank. He has an unblemished career of 32 years at the Central Bank in different disciplines. Before joining HDFC, he was the Provincial Manager of Southern Province Regional Office from 2013 to 2016. He has a wide experience having been a Senior Assistant Director /on-site Supervision Division of Non-Banking Supervision Department in 2013, a Senior Assistant Director /Off-site Surveillance Division of Non-Banking Supervision Department from 2012-2013, a Senior Assistant Director/ Head of Project Finance Division/Regional Development Department from 2010-2012, a Senior Assistant Director /Head of Credit Guarantee Division – Regional Development Dept. from 2006-2010, a Dealer/Asst. Director – International Operations Dept. Central Bank of Sri Lanka from 2004-2006, an Accountant in the Finance Department during 2002-2004, at the Secretariat Department (1998-2002), at the EPF Department (1992-1998) and at the Provincial Office-Matara from 1989 to 1992.

Mr. S. Dissanayake

Chief Operating Officer

ACA, Bsc.(Management)

Date of appointment-01st December 1995

Mr Dissanayake counts more than 29 years experience in the field of accounting and finance in organisations in the public and private sector. He had been the head of the Finance Section of the state sector institutions for several years. He joined HDFC as Assistant General Manager (Finance) and had been the head of the Finance since the assumption of the portfolio as Deputy General Manager (Finance) for over 11 years. He was appointed as Chief Operating Officer with effect from 01st January 2013.

Mr. W.M.A. Bandara

Chief Information Officer

BSc, PGDIP-IT (UK)

Date of appointment-15th August 1997

Mr Bandara has over 23 years of experience as an IT professional with over 7 years experience in senior managerial capacity. He has extensive experience in installing, configuring and maintaining a wide range of UNIX based system, specialised in configuring and Maintaining Databases, Network administration and Project Management. He had also worked in NEC Corporation in Japan for one year.

Mr. D. Vidana Pathirana

Chief Finance Officer

BSc, MBA, FCA, FCMA, FCPM

Date of appointment-15th September 2004

Mr Pathirana has over 32 years' experience in the fields of Auditing, Accounting, Financial Management, Projects and Investment Promotion, Management Accounting, Project Finance, Business Development and Marketing, Banking, Treasury Management both in Sri Lanka and overseas. He is currently responsible for Finance and Planning Department of the Bank.

Mr. A.J. Atukorala

Chief Internal Auditor

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

Date of appointment-01st July 2009

Mr Atukorala counts over 29 years of executive experience in banking industry specializing in audit function. He has the exposure to both private and public sector banks.

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

Assistant General Manager – Legal

Attorney at Law and Notary Public

Date of appointment -16th November 1992

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

She counts over 24 years of professional experience in the field of law, specialising in housing finance, banking and litigation.

Mrs. H.S. Gunathilake**Assistant General Manager - Business Development & Marketing**

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

Date of appointment-20th June 1991

Mrs Gunathilake counts over 32 years' experience in the field of housing both in public and private sector.

Mr. C.R.P. Balasooriya**Assistant General Manager – Treasury**

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

Date of appointment-22nd March 2004

Mr Balasooriya has over two decades of professional career experience in the merchant and specialised banking sector.

Mr. D.M.D.M.K. Dissanayake**Chief Manger – Credit**

ACA

Date of appointment-18th June 2012

Mr Dissanayake has over 18 years' experience in the field of Credit and Finance. Prior to joining HDFC Bank he served as Credit Officer, Account Manager, Senior Account Manager, Accountant and Senior Manager Credit and Operations in major private sector financial institutions. He has experience in the field of Auditing, Financial Management, Taxation, Operations and Credit Management.

Ms. K.T.D.D. De Silva**Bank/Board Secretary / Chief Manager**

Attorney at law. Having two masters ; business administration (MBA) and law (LLM- Master of laws with a distinction and awarded performance excellence award)In addition, possess post Attorneys higher diploma in Banking Finance and insurance.

Date of appointment -1999

Ms De Silva possesses more than 23 years' experience as a lawyer attached to Banking and Finance. She possesses experience in many areas namely, Litigation, Recovery, Human Resources etc. in addition to her present exposure in the Company Secretarial field.

Mr. H.A. Anura**Chief Manager – Finance**

MBA,PGDM (RJT), B.Sc. Accy & Fin. MGT (Sp) Degree (USJ), MIPA (Au),MIFA(UK), MAAT, Intermediate of CA Sri Lanka,

Date of appointment-1st Oct 2004

Mr Anura has two decades of work experience in Banking, Credit, Recovery, Fund Mobilization, Branch Operation, Accounting, Financial Management, Taxation, Auditing, Treasury Management, Compliance, Corporate Financial Reporting and Annual Reports, Budgeting and Financial Planning.

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

Ms. W.N.D. Botejue**Chief Manager – HR and Administration**

B.Sc. Business Administration (Special), CBA(CA Sri Lanka), CBF

Date of appointment - 01st July 1995

Ms. Botejue counts over 22 years' experience in private and banking sector in the field of management, finance, HR and other disciplines

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

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

Date of appointment-03rd May 1999

Mr Bandara counts more than 27 years' experience in the field of Auditing, Accounting in organizations in the public & private sectors. Prior to joining HDFC bank he served as specialising in auditing of public corporations and forging funded projects. He was appointed Head of Compliance with effect from 02nd January 2012.

REGIONAL MANAGERS



Mrs. R. R. Gunawardena
Regional Manager
Western South



Mr. R. M. Sugathapala
Regional Manager
Uva



Mr. W. D. K. Senevirathne
Regional Manager
North Western



Mr. N. C. Ranjith
Regional Manager
Southern



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



Mr. B.W.M.C. Kumarasiri
Regional Manager
Western North

SENIOR MANAGERS



Mrs. L. Gunathilaka
Senior Manager
Recoveries



Mrs. L. A. S. C. Wijetunga
Senior Manager
Property



Mr. P. S. Pitawela
Senior Manager
Administration



Mrs. K. Dissanayake
Senior Manager
Legal



Mrs. K. W. Iresha
Senior Manager
Legal



Mrs. K. W. Y. Indira
Senior Manager
Legal



Mrs. M. R. S. Fernando
Senior Manager
Legal



Mrs. D. W. W. Kodithuwakku
Senior Manager
Legal



Mrs. E. R. L. K. Perera
Senior Manager
Legal

SENIOR MANAGERS CONTD.



Mrs. K. L. S. Malkanthie
Senior Manager
Legal



Mr. A. M. Neelachandra
Senior Manager
IT (Application System & Core Bank)



Mr. I. Nishantha
Senior Manager
Risk Officer



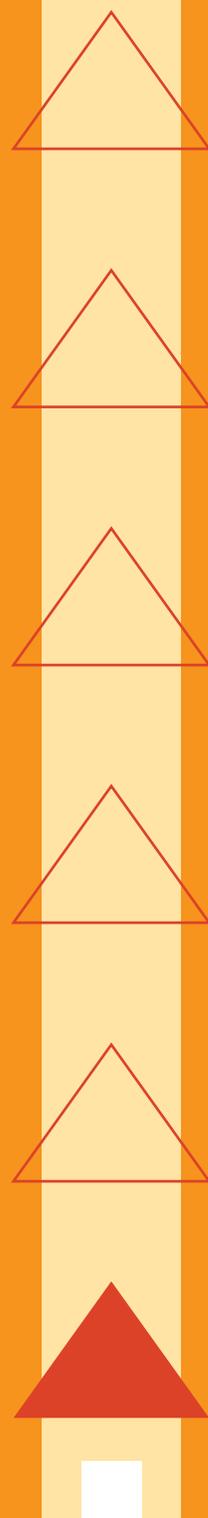
Mr. T. H. K. P. De Silva
Senior Manager
IT (IT Operations, User Support &
System Security)



Mr. D. N. Dharmaratna
Senior Manager
Leasing

Financial Statements

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DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

This statement sets out the responsibility of the Directors in relation to the Financial Statements of Housing Development Finance Corporation Bank of Sri Lanka (the HDFC Bank). The Directors are required by relevant statutory provisions to prepare and table at a General Meeting of the Bank, such Financial Statements as may be necessary, which give a true and fair view of the state of affairs of the Bank.

In accordance with the statutory requirements, we present our Financial Statements for the period under review, and the Annual Report contains the Statement of Financial Position as at 31st December 2016, Comprehensive Income statements, Statement of Changes in Equity and Statement of Cash Flow for the year then ended and notes thereto.

Accordingly, Financial Statements of the Bank are prepared in a manner to give a true and fair view of the state of affairs of the Company as at the date of the Statement and the Financial Performance of the Company for the period under review; financial year ended 31st December 2016. 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), Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.

With regard to the Financial Statements, Directors are required to ensure that:

Appropriate accounting policies selected and applied in a consistent manner and material departures (if any) disclosed and explained, relevant Judgments and estimates are reasonable and prudent; all applicable accounting standards as relevant have been followed; and Information required to publish under law or regulatory requirements were provided and financial statements were prepared in compliance with the relevant laws such as Companies Act, No. 07 of 2007,

Listing Rules of the Colombo Stock Exchange (CSE) or required under any other regulatory authority are provided in full, in addition to the accounting standards.

The Directors are also ensure that the Company has adequate resources to continue its operations and justify and apply the "Going concern Basis" in preparation of these Financial Statements. Also we ensure that, sufficient accounting records are maintaining by the Bank and financial position of the Company was disclosed with reasonable accuracy.

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.

The 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 in their Audit Report on the Financial Statements.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies and all 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.

The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the Auditors given on pages 106 to 107 of the Annual Report.

By Order of the Board



Mr. R. J. De Silva
Chairman

24th May 2017
Colombo

AUDITOR'S REPORT



විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

BAF/01/C/HDFC/1/16/34

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

22 May 2017

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 2016 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 2016 comprising the statement of financial position as at 31 December 2016 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 26 (2) of the Housing Development Finance Corporation Bank of Sri Lanka Act, No.7 of 1997 as amended by Act, No.15 of 2003 and Act, No.45 of 2011.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes



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හාච්චිකාරී කාර්යාල - මහලක්ෂ්මි
Auditor-General's Department

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.

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

Opinion

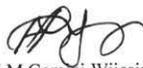
In my opinion, the financial statements give a true and fair view of the financial position of the Housing Development Finance Corporation Bank of Sri Lanka as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on other Legal and Regulatory Requirements

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

Report to Parliament

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



H.M. Gamini Wijesinghe
Auditor General

INCOME STATEMENT

For the Year Ended 31st December 2016
(Figures in Rupees)

	Notes	2016	Bank 2015 (Restated)
INCOME		5,927,598,728	4,925,332,898
Interest Income	1	5,472,894,291	4,660,182,745
Interest Expenses	2	(3,509,295,782)	(2,539,343,452)
Net Interest Income		1,963,598,509	2,120,839,292
Fee and Commission Income	3	346,974,232	253,108,354
Fee and Commission expenses		-	-
Net Fee and Commission Income		346,974,232	253,108,354
Net Trading Income/(Expense)		-	-
Net gain/(loss) from Financial Instruments designated at Fair Value Through Profit or Loss	4	-	-
Net gain/(loss) from financial Investments		-	-
Other Operating Income(net)	5	107,730,205	12,041,800
Total Operating Income		2,418,302,946	2,385,989,446
Less: Impairment Charges for Loans and Other Losses	6	160,431,754	89,230,366
Net Operating income		2,257,871,192	2,296,759,080
Less : Expenses			
Staff Costs	7	895,271,314	828,657,754
Amortisation and Impairment of Intangible Assets		-	-
Other Expenses	8	514,106,630	459,093,247
Total Expenses		1,409,377,945	1,287,751,001
Operating Profit/(loss) Before VAT and NBT		848,493,247	1,009,008,080
Less : VAT & NBT On Financial Services	9	188,399,073	205,741,623
Operating Profit/(loss) after VAT & NBT		660,094,175	803,266,457
Share of Profits of Associates and Joint Ventures		-	-
Profit/(Loss) before tax		660,094,175	803,266,457
Less:Tax Expenses	10	269,838,313	294,012,069
Profit/(Loss) for the year		390,255,862	509,254,388
Earnings Per Share on Profits			
Basic Earning per Ordinary Share (Rs.)	11	6.03	7.87
Diluted earnings per ordinary share (Rs.)		-	-

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31st December 2016
(Figures in Rupees)

	2016	Bank 2015 (Restated)
Profit for the Year	390,255,862	509,254,388
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	40,857,717	10,716,906
Gains and Losses (Arising from Translating the Financial Statements of a Foreign Operation)	-	-
Gains and Losses on Re-measuring Available-for-Sale Financial Assets	(17,763,091)	(16,263,402)
Gains and Losses on Cash Flow Hedges Others	-	-
Other comprehensive income for the year, net of tax	23,094,626	(5,546,496)
Total Comprehensive Income for the Year	413,350,488	503,707,892
Attributable to:		
Shareholders	413,350,488	503,707,892
Non-Controlling Interest	-	-
Total	413,350,488	503,707,892

STATEMENT OF FINANCIAL POSITION

For the Year Ended 31st December 2016

(Figures in Rupees)

	Notes	2016	Bank 2015 (Restated)
Assets			
Cash and Balances with Central Banks	12	144,695,297	145,099,998
Sri Lanka Government Securities	13	831,544,707	55,687,587
Balances with Banks	14	93,925,495	63,070,732
Financial Assets Available for Sale	15	2,053,279,082	2,043,353,937
Loans and Receivables to other Customers	16	30,259,872,371	26,684,610,922
Financial Investments - Held-to-Maturity	17	10,737,304,235	11,588,341,144
Property, Plant and Equipment	18	457,323,210	413,425,368
Intangible Assets	18	20,793,892	21,467,750
Investment Properties	19	870,549,500	786,350,000
Differed Tax Assets	20	-	-
Other Assets	21	152,718,042	111,546,873
Total Assets		45,622,005,832	41,912,954,310
Liabilities			
Due to banks and Other Institutes	22	3,318,510,754	3,031,112,418
Due to other customers	23	32,122,526,537	28,592,674,990
Debt securities issued	24	5,544,534,335	6,005,671,318
Current Tax liabilities	25	189,337,098	257,247,956
Deferred tax liabilities	20	36,440,869	18,310,267
Other Liabilities	26	682,889,401	644,112,754
Total Liabilities		41,894,238,993	38,549,129,704
Equity			
Stated Capital	27	962,092,936	962,092,936
Statutory Reserve Fund	28	134,943,779	115,430,986
Retained Earnings	29	2,444,951,364	2,117,457,931
Other Reserves	30	185,778,760	168,842,753
Total Shareholders' Equity		3,727,766,839	3,363,824,605
Non-Controlling Interests			
Total Equity		3,727,766,839	3,363,824,605
Total Equity and Liabilities		45,622,005,832	41,912,954,310
Contingent Liabilities and Commitments	31	694,721,449	742,928,019
Contingent Liabilities and Commitments		694,721,449	742,928,019
Book Value Per Share (Rs.)		57.61	51.98

The significant accounting policies and notes on pages 113 to 141 form an integral part of these financial statements. These financial statements have been prepared in accordance with the Sri Lanka Accounting Standards.



D.V. Pathirana
Chief Financial Officer



Upali Hettiarachchi
CEO/General Manager

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



R.J. De Silva
Chairman



M. Surendran
Director

Date : 18/05/2017
Colombo

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31st December 2016

(Figures in Rupees)

	Number of voting shares	Stated Capital	General Revaluation Reserve	Revaluation reserve	Statutory Reserve Fund	Special Reserve	Investment Fund	AFS Reserve	Retained earnings	Total	Non- controlling interest	Total equity
Balance as at 01-01-2015	64,710,520	962,093	106,337	32,388	89,969	3,451	140,449	(7,121)	1,558,301	2,885,866	-	2,885,866
Total comprehensive income for the year	-	-	-	-	-	-	-	-	13,952	13,952	-	13,952
Profit/(loss) for the year	-	-	-	-	-	-	-	-	509,254	509,254	-	509,254
Other comprehensive income (net of tax)	-	-	-	-	-	-	-	(16,263)	10,717	(5,546)	-	(5,546)
Total comprehensive income for the year	-	-	-	-	-	-	140,449	(16,263)	533,923	517,660	-	517,660
Transactions with equity holders, recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital	-	-	-	-	-	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-	-	-	-	-	-
Right issue	-	-	-	-	-	-	-	-	-	-	-	-
Investment Fund transfer	-	-	-	-	-	-	(140,449)	-	140,449	-	-	-
Transfers to reserves during the period	-	-	50,925	-	25,463	-	-	-	(76,388)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(38,826)	(38,826)	-	(38,826)
Profit transferred to head office	-	-	-	-	-	-	-	-	-	-	-	-
Gain/(loss) on revaluation of property, plant and Equipment (if cost method is adopted)	-	-	-	(875)	-	-	-	-	-	(875)	-	(875)
Others	-	-	-	-	-	-	-	-	-	-	-	-
Total transactions with equity holders	-	-	50,925	(875)	25,463	-	(140,449)	-	25,235	(39,702)	-	(39,702)
Balance as at 31-12-2015	64,710,520	962,093	157,261	31,513	115,431	3,451	-	(23,385)	2,117,458	3,363,824	-	3,363,824

(Figures in Rupees)

	Number of voting shares	Stated Capital	General Revaluation Reserve	Revaluation reserve	Statutory Reserve Fund	Special Reserve	Investment Fund	AFS Reserve	Retained earnings	Total	Non- controlling interest	Total equity
Balance as at 01-01-2016	64,710,520	962,093	157,261	31,513	115,431	3,451	-	(23,385)	2,117,458	3,363,825	-	3,363,825
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	-	390,256	390,256	-	390,256
Other comprehensive income (net of tax)	-	-	-	-	-	-	-	(17,763)	40,858	23,095	-	23,095
Total comprehensive income for the year	-	-	-	-	-	-	-	(17,763)	431,114	413,350	-	413,350
Transactions with equity holders, recognized directly in equity	-	-	-	-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital	-	-	-	-	-	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-	-	-	-	-	-
Right issue	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	-	-	39,026	-	19,513	-	-	-	(58,538)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(48,533)	(48,533)	-	(48,533)
Profit transferred to head office	-	-	-	-	-	-	-	-	-	-	-	-
Gain/(loss) on revaluation of property, plant and Equipment (if cost method is adopted)	-	-	-	(875)	-	-	-	-	-	(875)	-	(875)
Others	-	-	-	-	-	(3,451)	-	-	3,451	-	-	-
Total transactions with equity holders	-	-	39,026	(875)	19,513	(3,451)	-	-	(103,620)	(49,408)	-	(49,408)
Balance as at 31-12-2016	64,710,520	962,093	196,287	30,637	134,944	-	-	(41,148)	2,444,952	3,727,766	-	3,727,766

STATEMENT OF CASH FLOWS

For the Year Ended 31st December 2016

	2016 LKR	Bank 2015 LKR
Cash Flows From Operating Activities		
Interest Received	5,430,478,452	4,579,998,884
Interest payments	(2,941,656,367)	(2,506,970,442)
Receipt from other operating activities	349,350,831	244,523,942
Cash payments to employees & suppliers	(932,692,526)	(883,019,340)
Payments on other operating activities	(568,635,999)	(419,276,894)
Operating profit before changes in operating assets	1,336,844,392	1,015,256,150
(Increase)/Decrease In Operating Assets		
Funds Recovered from customers	8,377,143,783	6,709,440,844
Funds advanced to customers	(12,118,244,173)	(10,089,546,808)
Other Assets	(14,351,170)	21,539,149
	(3,755,451,560)	(3,358,566,815)
Increase / (Decrease) In Operating Liabilities		
Deposits from customers	2,963,951,624	4,125,887,291
Others	2,184,168	40,285,609
	2,966,135,792	4,166,172,900
Net cash from operating activities before income tax	547,528,624	1,822,862,235
Income Tax & Deemed Dividend Tax Paid	(222,084,614)	(314,780,629)
Net cash from operating activities	325,444,009	1,508,081,606
Cash Flows From Investing Activities		
Dividends received	58,500	54,000
(Purchase)/Sale of Investment Securities	47,491,552	(4,113,558,346)
Purchase of property, plant and equipment	(123,072,083)	(202,158,051)
Disposal of property, Plant and equipment	4,538,775	-
Net cash from Investing activities	(70,983,256)	(4,315,662,397)
Cash Flows From Financing Activities		
Issue/(Redemption) of Shares	-	-
Redemption of Contribution towards Share Capital	-	-
Repayment of Borrowings	(1,344,755,960)	(2,093,723,558)
Proceeds from Borrowings	1,169,278,160	4,875,210,006
Dividends paid	(48,532,890)	(38,826,312)
Net cash from financing activities	(224,010,689)	2,742,660,136
Net increase in cash & cash Equivalents	30,450,064	(64,920,656)
Cash & cash equivalents at beginning of the period	208,170,729	273,091,386
Cash & cash equivalents at the end of the period	238,620,792	208,170,729
Reconciliation of Cash and Cash Equivalents		
Cash In Hand	144,695,297	145,099,998
Cash at Bank	93,925,495	63,070,732
	238,620,792	208,170,729

ACCOUNTING POLICIES

1. Corporate Information

1.1 Reporting Entity

HDFC Bank of Sri Lanka has been incorporated in Sri Lanka as a Building Society in 1984 under section 11 of the National Housing Act of 1956. Subsequently converted to a corporation under the Housing Development Finance Corporation of Sri Lanka Act.No.7 Of 1997 and obtained the status of a 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 Basis of Preparation

2.1 The Statement of Compliance

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

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

2.2 Functional and Preparation Currency

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

Responsibility for Financial Statements

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

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

2.3 Format of Accounts and Prior year Figures

Financial statements are presented in accordance with the format of accounts prescribed by the Central Bank of Sri Lanka and the Accounting Policies adopted by the bank is consistent with those of the previous financial year as permitted by the Sri Lanka Accounting Standard (LKAS) No .01 "Presentation of Financial Statements".

Presentation of Financial Statements

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

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

Materiality and Aggregation

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

ACCOUNTING POLICIES CONTD.

Comparative Information

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

3. Significant Accounting Judgments, Estimates and Assumptions

3.1 Going Concern

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

3.2 Valuation of Assets

3.2.1 Loans and Advances to Customers

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

3.2.1.1 Provision for Impairment Losses

Provision for possible impairment losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Accounting Standard (LKAS) No. 39 on 'Financial Instruments : Recognition and measurement in the Financial Statements of the Banks. The following valuation techniques were used to calculate fair value of loans as it is necessary which are as follows.

- 1. Collective Impairment Method**
- 2. Individual Impairment Method.**

3.2.1.1.1 Collective Impairment Provisions

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

3.2.1.1.1.1 Mortgage & Guarantor Loans

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

3.2.1.1.1.2 Cash Margin Loans

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

3.2.1.1.1.3 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 is greater than 18 months, the bank used rolling rate applicable to relevant category.

3.2.1.1.2 Individual Impairment Provisions

3.2.1.1.2.1 Acquired Properties for Sale

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

3.2.1.1.2.2 Project Loans

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

3.2.2 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.

3.2.3 Property, Plant & Equipment

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

3.2.3.1 Basis of Recognition

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

3.2.3.2 Basis of Measurement

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

3.2.3.3 Depreciation Policy

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

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

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

Intangible Assets

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

Basis of Recognition

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

Basis of Measurement

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

Useful Economic Life and Amortisation

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

De-recognition

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

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

Class of Assets	% per Annum
Computer software -Foreign	25.00
Computer software -Local	25.00
Core Application Software	10.00

ACCOUNTING POLICIES CONTD.

3.2.4 Investment Property

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

3.2.5 Financial Assets Fair Value through Profit & Loss

These include investments which are for the purpose of trading whenever necessary. If the investments trade during the Last week of the considering period, trading price considered as the fair value of that investments. If the investments is not trade during the considering period one month interest loss has been considered as the fair value adjustment.

Financial Instruments – Available for Sale

Fair value of the AFS portfolio is recognised in the other comprehensive income (OCI – Equity) until the assets derecognized in which case the price sensitivity does not have a direct impact to the bank's statement of Profit or Loss. AFS consists of quoted debentures and units trust . the valuation techniques is as same as about 3.2.5

Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) price in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

3.3 Liabilities and Provisions

3.3.1 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.

3.3.2 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.

3.3.3 Retirement Benefits

3.3.3.1 Retirement Benefits

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

3.3.3.2 Retirement Benefits – Defined Contribution plans

3.3.3.2.1 Employee provident fund

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

3.3.3.2.2 Employees' Trust Fund

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

3.3.4 Other Liabilities

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

3.4 Revenue Recognition

3.4.1 Interest Income on Loans and Advances

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

3.4.2 Overdue Interest Income

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

3.5 Expenses

3.5.1 Interest on Deposits, Borrowings

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

3.5.2 Other Expenses

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

3.5.3 Taxation

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

3.5.3.1 Current Taxation

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

3.5.3.2 Deferred Taxation

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

3.5.3.3 Value Added Tax on Financial Services

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

3.6 The Statement of Cash Flow

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

3.7.1 Statutory Reserve Fund

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

3.7.2 General Reserve Fund

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

3.8 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

ACCOUNTING POLICIES CONTD.

of the Shareholders at the Annual General Meeting are disclosed separately to the Financial Statements.

3.9 Earnings per Share

Basic EPS is calculated by dividing the profit or loss attributable to Ordinary Shareholders of the Bank by the weighted average number of Ordinary Shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to the Ordinary Shareholders by the weighted average number of Ordinary Shares outstanding adjusted for the effects of all dilutive potential Ordinary Shares.

3.10 Inventory Valuation

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

3.11 Interest in Other Entities

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

3.12 Standards issued but not yet effective

SLFRS 09 - Financial Instruments

SLFRS 15 – Revenue from contracts with Customers

SLFRS 16 – Leases

Amendments to LKAS 12 Income Taxes

Amendments to LKAS 07 Statement of Cash Flows

NOTES TO THE FINANCIAL STATEMENTS

01 Interest Income

In Rupees	2016	2015
Interest Income		
Sri Lanka government securities	81,662,505	39,694,272
Balance With Banks	-	-
Derivatives	-	-
Financial assets Available for Sale	197,207,866	87,172,274
Financial assets designated at Fair Value through Profit or Loss	-	-
Loans and receivables to banks	-	-
Loans and receivables to other customers	4,129,595,337	3,914,187,244
Financial investments - Held -to- maturity	1,064,428,583	619,128,955
Financial investments - Available-for-sale	-	-
Others	-	-
Total interest income	5,472,894,291	4,660,182,745

02 Interest Expenses

In Rupees	2016	2015
Due to Banks	87,391,923	97,624,960
Derivatives	-	-
Financial liabilities at Fair Value through Profit or Loss	-	-
Due to other customers	2,594,159,744	1,998,587,384
Debt securities issued	294,475,409	307,960,169
Other Borrowings	533,268,707	135,170,939
Total interest expenses	3,509,295,782	2,539,343,452

3 Fee Commission Income and Other

In Rupees	2016	2015
Fee and Commission income	346,974,232	253,108,354
Others	-	-
Fee and Commission Income	346,974,232	253,108,354
Comprising		
Loans	271,077,176	216,813,756
Cards	-	-
Trade and remittances	-	-
Investment banking	-	-
Deposits	-	-
Guarantees	-	-
Others	75,897,056	36,294,598
Fee and Commission Income	346,974,232	253,108,354

NOTES TO THE FINANCIAL STATEMENTS CONTD.

4 Other Operating Income (net)

In Rupees	2016	2015
Revaluation gain (Loss) Investment Property	111,019,500	12,481,500
Profit (Loss) on sale of investment properties	(3,289,295)	(439,700)
Others	-	-
Other Operating Income (net)	107,730,205	12,041,800

5 Impairment Charges for Loans and Other Losses

In Rupees	2016	2015
Loans and Receivables		
To banks	-	-
To Other Customers	160,431,754	89,230,366
Others	-	-
Total	160,431,754	89,230,366

5.1 To Other Customers

Individual Impairment	(9,077,330)	255,382
Collective Impairment	169,509,084	88,974,983
Total	160,431,754	89,230,366

6 Staff Costs

In Rupees	2016	2015
Salary and Related Expenses		
Salary and Bonus	630,790,948	599,910,289
Staff Loan Benefits	47,823,026	42,956,900
Staff Medical	34,643,138	28,984,670
Overtime & Officers Allowance	16,169,049	12,332,920
Encashment of Annual Leave	23,387,872	14,552,470
Incentive Payments	21,973,311	11,958,132
Sub total	774,787,345	710,695,380
Retirement Benefits		
Contributions to defined contribution plans	71,816,470	69,574,757
Contributions to defined benefit plans	48,667,499	48,387,617
Sub total	120,483,969	117,962,374
Total	895,271,314	828,657,754

6.1 Remuneration to Key Management

In Rupees	2016	2015
Remuneration to Key Management	52,131,039	50,459,298
Total	52,131,039	50,459,298

7 Other Expenses

In Rupees	2016	2015
Directors' emoluments	2,997,880	1,766,320
Auditors' remunerations	507,600	685,200
Professional expenses	2,778,258	2,977,831
Legal expenses	925,894	514,135
Depreciation of Property, Plant and equipment	71,634,219	68,133,701
Amortisation of Leasehold property	364,642	364,642
Electricity & Water	26,022,661	25,467,491
Telephone Charges	23,697,332	23,733,588
Computer Maintenance	36,177,860	24,335,569
Rent	69,747,950	62,692,471
Repair & Maintenance	6,540,691	6,404,211
Business Dev. & Advertising	52,617,011	52,085,291
Other Office admin. and establishment expenses	220,094,633	189,932,798
Total	514,106,630	459,093,247

8 VAT On Financial Services

In Rupees	2016	2015
Total Value Addition	1,442,124,129	1,615,048,507
Value Addition Attributable for Financial Services	1,356,088,817	1,536,954,427
Finance VAT % (Average due to rate change)	11.89%	11.00%
VAT on Financial Services For Current year	161,491,016	169,064,987
Under (Over) Provision in Previous Years	-	5,913,674
Total for VAT on Financial Services	161,081,452	174,978,662
NBT on Financial Services	27,317,620	30,762,962
Total	188,399,073	205,741,623

NOTES TO THE FINANCIAL STATEMENTS CONTD.

9 Tax Expenses

In Rupees	2016	2015
Current Tax Expense		
Current Year	248,996,146	266,812,673
Prior years' Provision	2,711,566	-
Differed Tax Expenses	18,130,601	27,199,396
Total	269,838,313	294,012,070

9.1 Reconciliation of tax expenses

In Rupees	2016	2015
Accounting Profit	848,493,247	1,009,008,080
Add :Disallowable Expenses	471,251,385	308,318,155
Less :Allowable Expenses	430,500,080	364,423,830
Adjusted Profit Before Tax	889,244,552	952,902,405
Income Tax @ 28%	248,996,146	266,812,673
Accounting Profit After VAT	660,094,175	803,266,457
Effective Tax Rate	29.35%	26.44%
Effective Tax Rate with Differed Tax	31.48%	29.14%

9.2 Relationship Between Tax Expense and Accounting Income

Profit Before Tax as per the Income Statement	848,493,247	1,009,008,080
Add :Disallowable Expenses	471,251,385	308,318,155
Less :Allowable Expenses	430,500,080	364,423,830
Taxable Income	889,244,552	952,902,405
Tax @ 28%	248,988,475	266,812,673
Under (Over) Provision	2,711,566	-
Less : Differed Tax Adjustments	18,130,601	27,199,396
Provision for Income Tax	269,830,642	294,012,070

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

Deferred tax assets	1,178,340	9,022,831
Deferred tax Liabilities	19,308,941	36,222,228
Other temporary differences	-	-
Differed tax (credit)/ Charges to income Statement	18,130,601	27,199,396

10 Earning Per Share

In Rupees	2016	2015
Net profit attributable to ordinary equity holders	390,255,862	509,254,388
Net profit attributable to ordinary equity holders adjust for the effect of dilution	390,255,862	509,254,388
Weighted average number of ordinary shares for basic earnings per share	64,710,520	64,710,520
Basic earning per ordinary share (Rs.)	6.03	7.87
Diluted earnings per share (Rs.)	-	-

11 Cash and Balances with Central Banks

In Rupees	2016	2015
Cash in Hand	144,695,297	145,099,998
Total	144,695,297	145,099,998

12 Sri Lanka Government Securities

In Rupees	2016	2015
Held-to-maturity		
Treasury Bonds/ Treasury Bills	531,544,707	35,687,587
Treasury Bills Under Repurchase Agreements	300,000,000	20,000,000
Others	-	-
Total	831,544,707	55,687,587

13 Balance With Banks

In Rupees	2016	2015
Placements	93,925,495	63,070,732
Others	-	-
Total	93,925,495	63,070,732

14 Financial Assets Available for Sale

In Rupees	2016	2015
Investment in Trading Debentures	2,031,029,082	2,019,603,937
Investment in Unit Trust	22,250,000	23,750,000
Total	2,053,279,082	2,043,353,937

NOTES TO THE FINANCIAL STATEMENTS CONTD.

15 Loans and receivables to Other Customers

In Rupees	2016	2015
Gross loans and receivable	31,051,604,933	27,315,911,730
(less) :Individual impairment charges	(20,983,178)	(30,060,507)
Collective impairment charges	(770,749,384)	(601,240,300)
Of Which: Loans and receivables	30,259,872,371	26,684,610,923
Net loans and Receivables	30,259,872,371	26,684,610,923

a. Analysis

In Rupees	2016	2015
By Product		
Overdrafts	-	-
Trade Finance	-	-
Credit Cards	-	-
Gold	251,567,151	206,385,738
Staff Loans	1,176,956,121	1,007,209,856
Leasing And Hire Purchase	1,022,779,151	749,265,915
Term Loans	-	-
Short-term	-	-
Long-term	28,600,302,510	25,353,050,220
Reverse Repo agreements	-	-
Others	-	-
Gross Total	31,051,604,933	27,315,911,730
By Currency		
Sri Lanka Rupee	31,051,604,933	27,315,911,730
United State Dollar	-	-
Great Britain Pound	-	-
Others	-	-
Gross Total	31,051,604,933	27,315,911,730
By industry		
Agriculture and fishing	-	-
Manufacturing	-	-
Tourism	-	-
Transport	-	-
Construction	-	-
Traders	-	-
New economy	1,006,937,932	496,824,323
Housing	30,044,667,001	26,819,087,407
Gross Total	31,051,604,933	27,315,911,730

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

In Rupees	2016	2015
Individual impairment charges		
Opening Balance at 01-01	30,060,508	29,805,125
Charge for the Year(Addition)	598,515	3,188,349
Charge(Write back) to income	(9,675,846)	(2,932,966)
Other movements	-	-
Closing balance 31-12	20,983,178	30,060,508
Collective impairment charges		
Opening Balance at 01-01	601,240,299	512,265,316
Charge for the Year(Addition)	177,730,571	108,580,581
Charge(Write back) to income	(8,221,486)	(19,605,598)
Closing balance 31-12	770,749,384	601,240,299
Total Impairment	791,732,562	631,300,807

15.1 Loan portfolio

In Rupees	2016		2015	
Housing Loans	25,548	84.73%	23,532	89.10%
Micro Finance	1,176	3.90%	772	2.92%
Business Loans	1,191	3.95%	497	1.88%
Vehicle Loan - Staff	63	0.21%	25	0.10%
Gold	252	0.83%	206	0.78%
Leasing	1,023	3.39%	744	2.82%
Project	10	0.03%	24	0.09%
Other	888	2.90%	610	2.31%
Gross Loan & Advances (without Interest receivable)	30,151	100.00%	26,410	100.00%

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

In Rupees	2016	2015
Equity securities	30,600	30,600
Debt Securities	-	-
Fixed Deposit	10,485,476,913	10,687,740,340
Overnight Deposit	-	-
Commercial Paper	251,796,723	857,065,203
Trust Certificates	-	43,505,001
(Less) Impairment charges	-	-
Net Total	10,737,304,235	11,588,341,144
Of Which : Held-To-Maturity Investments designated at Fair Value through Profit or Loss	-	-
Held-To-Maturity Investments	10,737,304,235	11,588,341,144

NOTES TO THE FINANCIAL STATEMENTS CONTD.

17 Property, Plant and Equipment

In Rupees

2016	Land & Buildings	Leasehold Properties/ Vehicle	Intangible Assets	Computer Hardware/ ATM	Office Equipment, Furniture & Fittings	Others	Total
Cost/Fair Value							
Opening Balance							
at 01-01-2016	17,575,000	55,592,631	72,423,220	101,159,521	268,247,072	218,457,777	733,455,222
Additions	-	37,060,493	13,166,794	8,842,792	35,271,373	31,238,770	125,580,221
Disposals/Write off	-	875,364	4,469,576	16,759,781	7,226,454	29,331,175	-
Exchange rate Variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
Closing Balance							
at 31-12-2016	17,575,000	91,777,760	85,590,013	105,532,737	286,758,664	242,470,093	829,704,268
(less) : Accumulated Depreciation							
Opening Balance							
at 01-01-2016	2,074,816	5,104,995	50,955,470	104,976,098	111,066,670	72,782,704	298,562,105
Charge for the year	-	5,297,220	13,840,651	11,935,041	28,646,321	10,655,179	70,374,411
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	2,080,365	8,042,530	7,226,454	17,349,350
Exchange rate Variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
Closing Balance							
at 31-12-2016	2,074,816	10,402,215	64,796,121	114,830,774	131,670,460	76,211,429	351,587,166
(less): Impairment charges							
	-	-	-	-	-	-	-
Net Book Value							
at 31-12-2016	15,500,184	81,375,545	20,793,892	(9,298,037)	155,088,205	166,258,664	478,117,102

In Rupees

2015	Land & Buildings	Leasehold Properties/ Vehicle	Intangible Assets	Computer Hardware/ ATM	Office Equipment, Furniture & Fittings	Others	Total
Cost/Fair Value							
Opening Balance at 01-01-2015	17,574,999	56,467,996	65,215,288	86,116,900	211,187,018	92,473,231	529,035,433
Additions	-	-	7,207,932	16,589,393	61,081,401	131,231,146	216,109,872
Disposals	-	-	875,363	1,546,772	4,021,346	5,246,600	11,690,081
Exchange rate Variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
Closing Balance at 31-12-2015	17,574,999	55,592,633	72,423,220	101,159,521	268,247,072	218,457,777	733,455,223
(less) : Accumulated Depreciation							
Opening Balance at 01-01-2015	1,556,122	6,907,323	41,632,884	42,095,590	85,068,851	55,884,720	233,145,490
Charge for the year	518,695	754,493	9,322,586	12,838,287	28,745,099	16,911,984	69,091,144
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	913,248	2,747,280	14,000	3,674,528
Exchange rate Variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
Closing Balance at 31-12-2015	2,074,817	7,661,816	50,955,470	54,020,629	111,066,670	72,782,704	298,562,106
(less):Impairment charges	-	-	-	-	-	-	-
Net Book Value							
at 31-12-2015	15,500,182	47,930,817	21,467,750	47,138,893	157,180,403	145,675,073	434,893,117

NOTES TO THE FINANCIAL STATEMENTS CONTD.

17.1 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.

2016	Fully Depreciated	Depreciating	Total
Free hold PPE			
Land and Buildings	-	17,575,000	17,575,000
Computer Hardware	12,429,026	93,103,711	105,532,737
Intangible Assets	35,957,973	49,632,040	85,590,013
Office Equipment, Furniture and Fittings	16,056,177	270,702,488	286,758,664
Plant and Machinery	28,198,933	3,023,775	31,222,708
Tools	49,425	47,270	96,695
Motor Vehicle	25,613,599	41,403,741	67,017,340
Working Progress	-	144,133,350	144,133,350
Free hold PPE Total	118,305,132	619,621,375	737,926,508
Leased hold PPE			
Land and Buildings	-	80,127,760	80,127,760
Motor Vehicle	-	11,650,000	11,650,000
Leased hold PPE Total	-	91,777,760	91,777,760
Total PPE	118,305,132	711,399,136	829,704,268

2015	Fully Depreciated	Depreciating	Total
Free hold PPE			
Land and Buildings	-	17,574,999	17,574,999
Computer Hardware	37,624,568	63,534,953	101,159,521
Intangible Assets	15,182,580	57,240,640	72,423,220
Office Equipment, Furniture and Fittings	12,913,990	255,333,083	268,247,072
Plant and Machinery	28,034,033	3,125,988	31,160,020
Tools	51,925	-	51,925
Motor Vehicle	25,362,100	36,525,458	61,887,558
Working Progress	-	-	125,358,273
Free hold PPE Total	119,169,195	433,335,121	677,862,589
Leased hold PPE			
Land and Buildings	-	55,592,633	55,592,633
Motor Vehicle	-	-	-
Leased hold PPE Total	-	55,592,633	55,592,633
Total PPE	119,169,195	488,927,754	733,455,222

17.2 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	17,575,000	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

17.3 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.(Note 01)	P 31	1150	81,375,545	116,000,000
Ampara Branch (Note 02)			22,680,345	-
Total			104,055,890	116,000,000

Note 01

Date of Valuation : 13th 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

Note 02

Properties at cost, constructions completed on September 2016

NOTES TO THE FINANCIAL STATEMENTS CONTD.

18 Investment Properties

a. Investment Properties at Cost/fare Value

In Rupees	2016	2015
Cost/fare value		
Opening Balance at 01-01	786,350,000	777,648,500
Additions	-	-
Disposals	(26,820,000)	(3,780,000)
Exchange rate Variance	-	-
Adjustments/Revaluation	111,019,500	12,481,500
Closing Balance at 31-12	870,549,500	786,350,000
(less) : Accumulated Depreciation	-	-
Opening Balance at 01-01	-	-
Charge for the year	-	-
Additions	-	-
Disposals	-	-
Exchange rate Variance	-	-
Adjustments	-	-
Closing Balance at 31-12	-	-
(less):Impairment charges	-	-
Net Book Value at 31-12	870,549,500	786,350,000
Market Value at 31-12	870,549,500	786,350,000

The investment properties which do not generate rental income, incurred operating expenses including repair and maintenance

18.1 Investment Properties Valuation details

Location	Extent (perches)	Deed No.	2016	2015
No; 441 Sangarajah Mw,Kotahena, Aluthkade East	59.20	1127	222,000,000	207,000,000
No.192 Srimath Bandaranayake Mw, Kotahena Colombo 13.	123.20	1124	493,000,000	431,000,000
No.192 (Part) Sri Sangarajah Mawatha, Kotahena Colombo 13.	15.00	1126	60,000,000	52,500,000
Avissawella -Housing Project			95,549,500	95,850,000
Total			870,549,500	786,350,000

18.2 Revaluation of Lands

No 192 Sri Sangaraja 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 : M A Ananda Sarath

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

Valuation Date : 9th January 2017

18.3 Revaluation of Avissawella -Housing Project

Name of the Valuer : W D Siripala

Qualification of the Valuer : Incorporated Valuer

Valuation Date : 16th January 2017

18.4 Pending Court Case Investment Property

The BMC has made an application for Leave to Appeal to the Supreme Court on 06th April 2016. This application has been made against the Order delivered on 25th February 2016, in favour of the HDFC Bank by the High Court of Civil Appeals of the Western Province holden in Colombo in Case No:WP/HCCA/COL/180/2012(F). The case was called on 11th of January 2017 for supporting of the application made by the Building Material Corporation and this application was dismissed by the Supreme Court.

19 Deferred Tax Assets/Liabilities

In Rupees	2016	2015
Deferred tax assets	88,860,959	87,682,619
Deferred tax Liabilities	(125,301,828)	(105,992,887)
Net Total	(36,440,869)	(18,310,267)

NOTES TO THE FINANCIAL STATEMENTS CONTD.

19.1 Details for Differed Tax Assets /Liabilities

In Rupees	2016	2015
Differed Tax Assets		
Building	-	-
Furniture	-	-
Computer Software Foreign	-	-
Plant & Machinery	-	61,745
Gratuity Provision	88,860,959	87,620,874
Total	88,860,959	87,682,619
Differed Tax Liabilities		
Office Equipments	8,937,299	7,299,117
Fittings	7,477,548	5,110,445
Plant & Machinery	27,864	-
ATM	307,364	548,061
Computers	6,898,909	7,387,037
Computer Software Local	1,451,353	482,320
Furniture	7,080,690	7,498,743
Specific Provision	93,120,800	77,667,164
Total	125,301,828	105,992,887

20 Other Assets

In Rupees	2016	2015
Cost		
Receivables	39,853,581	8,238,234
Deposits and Prepayments	43,088,645	37,704,452
Loan Related Receivable	53,357,933	48,866,788
Others	16,417,884	16,737,400
Total	152,718,042	111,546,873

21 Due to Banks and Other institutes

In Rupees	2016	2015
Borrowings from Banks	1,661,716,072	1,283,634,282
Borrowings from Other Institutes	1,656,794,682	1,747,478,136
Total	3,318,510,754	3,031,112,418

22 Due to Other Customers

In Rupees	2016	2015
At amortised cost	32,122,526,537	28,592,674,990
Total	32,122,526,537	28,592,674,990

a. Analysis

In Rupees	2016	2015
By Product		
Savings deposits	5,202,952,736	4,183,309,414
Fixed deposits	26,919,573,801	24,409,365,576
Total	32,122,526,537	28,592,674,990
By Currency		
Sri Lanka Rupee	32,122,526,537	28,592,674,990
Total	32,122,526,537	28,592,674,990

23 Debt Securities Issued

In Rupees	2016	2015
Issued by the bank	5,544,534,335	6,005,671,318
Issued by the Other Subsidiaries	-	-
Total	5,544,534,335	6,005,671,318
Due within 1 year	-	-
Due after 1 year	5,544,534,335	6,005,671,318
Total	5,544,534,335	6,005,671,318

NOTES TO THE FINANCIAL STATEMENTS CONTD.

23.a .Details of Debt Securities Issued

Type	Face Value In Rupees	Interest Rate	Issue Date	Maturity Date	2016	2015
Issued by Bank						
Listed , secured, Redeemable & Rated 3 Year Debenture	476,460,000	14.50%	24-Oct-2013	23-Oct-2016	-	475,332,477
Listed , secured, Redeemable & Rated 4 Year Debenture	443,540,000	15.00%	24-Oct-2013	23-Oct-2017	442,839,667	441,704,329
Listed , secured, Redeemable & Rated 5 Year Debenture	1,080,000,000	15.50%	24-Oct-2013	23-Oct-2018	1,077,412,873	1,075,193,483
Listed , secured, Redeemable & Rated 5 Year Debenture (Fixed Semi)	2,012,990,000	10.50%	20-Nov-2015	20-Nov-2020	583,910,751	578,966,517
Listed , secured, Redeemable & Rated 5 Year Debenture (Floating Qtr)	578,240,000	AWPLR+1.5	20-Nov-2015	20-Nov-2020	2,023,460,953	2,018,993,653
Listed , secured, Redeemable & Rated 10 Year Debenture (Fixed Annual)	1,408,770,000	12.00%	20-Nov-2015	20-Nov-2025	1,416,910,092	1,415,480,858
Total	6,000,000,000				5,544,534,335	6,005,671,318

Interest Rate of comparable government Securities

Debenture Type	Interest rate %		Gov. security Interest rate %	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Debenture 3 years	14.50	14.50	0	8.91
Debenture 4 Years	15.00	15.00	10.61	N/A
Debenture 5 Years	15.50	15.50	11.76	9.79
Debenture - 5Years- 2015(Floating Qtr 2020)	AWPLR+1.5%	AWPLR+1.5%	11.76	9.79
Debenture - 5Years- 2015(Fixed Semi 2020)	10.50	10.50	11.76	9.79
Debenture - 10Years- 2015(Fixed Annu. 2025)	12.00	12.00	11.06	10.94

Interest Cover

Debenture Type	Interest Cover Ratio (Times)	
	31.12.2016	31.12.2015
Debenture 3 years	33.65	23.08
Debenture 4 Years	28.44	24.11
Debenture 5 Years	11.35	9.59
Debenture - 5Years- 2015(Floating Qtr 2020)	28.38	267.30
Debenture - 5Years- 2015(Fixed Semi 2020)	8.92	65.98
Debenture - 10Years- 2015(Fixed Annu. 2025)	11.02	82.32

Debt/Equity

Debenture Type	Debt/Equity Ratio	
	31.12.2016	31.12.2015
Debenture 3 years	0%	14%
Debenture 4 Years	12%	13%
Debenture 5 Years	29%	32%
Debenture - 5Years- 2015(Floating Qtr 2020)	16%	17%
Debenture - 5Years- 2015(Fixed Semi 2020)	54%	60%
Debenture - 10Years- 2015(Fixed Annu. 2025)	38%	42%

Market Price of Debentures during the Year

Type of Debentures	2016			2015		
	Highest Price	Lowest Price	Last Trading Price	Highest Price	Lowest Price	Last Trading Price
Debenture 3 years	N/T	N/T	N/T	106.71	105.00	106.71
Debenture 4 Years	105.33	103.00	105.33	111.89	100.00	106.00
Debenture 5 Years	-	-	-	119.74	109.16	109.16
Debenture - 5Years- 2015(Floating Qtr 2020)	N/T	N/T	N/T	N/T	N/T	N/T
Debenture - 5Years- 2015(Fixed Semi 2020)	N/T	N/T	N/T	N/T	N/T	N/T
Debenture - 10Years- 2015(Fixed Annu. 2025)	N/T	N/T	N/T	N/T	N/T	N/T

N/T=Not Traded

NOTES TO THE FINANCIAL STATEMENTS CONTD.

24 Current Tax Liabilities

In Rupees	2016	2015
Taxation - current	341,885,533	308,034,687
VAT Payable	20,424,139	9,911,220
WHT Received	(177,181,893)	(64,615,053)
Crop Insurance Levey	201,437	1,173,913
NBT Payable	4,007,881	2,743,190
Total	189,337,098	257,247,956

25 Other Liabilities

In Rupees	2016	2015
Sundry creditors	172,819,790	131,138,140
Contributions to defined benefit plans (Note 26.1)	317,360,569	312,931,694
Long Term Funds & Deposits	17,819,752	17,770,257
Charges recovered in advance	174,889,290	182,272,663
Total	682,889,401	644,112,754

25.1 Contributions to defined benefit plans

Actuarial Valuation of Gratuity Liabilities as at 31 December 2016

Accounting Disclosures :	Normal Gratuity Rs.	Special Gratuity Rs.	Total Rs.
Change in the Present Value of The Defined Benefit Obligation (PV-DBO)			
Provision for PV-DBO as at 01 January 2016	183,359,890	129,571,804	312,931,694
Interest Cost for the period	17,419,190	12,309,321	29,728,511
Current Service Cost for the period	11,374,756	7,564,232	18,938,988
Gratuity paid/payable for those who left during the period	(2,395,646)	(985,261)	(3,380,907)
Actuarial (Gain)/Loss on PV-DBO	(24,369,952)	(16,487,765)	(40,857,718)
Provision for PV-DBO as at 31 December 2016	185,388,237	131,972,331	317,360,568

Amounts Recognized in the Statement of Financial Position and Income Statement

Liability recognised in the balance sheet

Provision for Gratuity as at 31 December 2016	185,388,237	131,972,331	317,360,568
Unrecognised actuarial Gains/(Losses) as at 31 December 2016	-	-	-
Liability recognised in the balance sheet as at 31 December 2016	185,388,237	131,972,331	317,360,568

Accounting Disclosures :	Normal Gratuity Rs.	Special Gratuity Rs.	Total Rs.
Expenses recognised in the Income Statement			
Interest Cost	17,419,190	12,309,321	29,728,511
Current Service Cost	11,374,756	7,564,232	18,938,988
Net Actuarial (Gain)/Loss recognised immediately	(24,369,952)	(16,487,765)	(40,857,718)
Expenses recognised in the Income Statement	4,423,993	3,385,788	7,809,781
Movements in the Net Liability Recognised in the Statement of Financial Position			
Opening Net Liability as at 01 January 2016	183,359,890	129,571,804	312,931,694
Expenses recognised in the Income Statement	4,423,993	3,385,788	7,809,781
Gratuity paid/payable for those who left during the period	(2,395,646)	(985,261)	(3,380,907)
Closing Net Liability as at 31 December 2016	185,388,237	131,972,331	317,360,568

Valuation Assumptions:

Mortality : A 1967/70 Mortality Table

Disability : Standard

Staff Turnover Rates : 0%

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

Rate of Discount : 11% p.a.

Salary Escalation Rates :

Basic Salary - 15.00% p.a. once in three years with next revision due in January 2018

Salary Increment Scale revision - 15.00% p.a. once in three years with next revision due in January 2018

COLA - 15.00% p.a. once in three years with next revision due in January 2018

Retiring Gratuity Formula : Normal Gratuity - Half month's consolidated Salary for each completed year of service for those with at least 5 years service and two month's consolidated Salary for each completed year of service subject to minimum of 6 month's salary as death benefits

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

Table 2: A Summary Results (Category wise)

Category	Normal Gratuity Provision (Rs.)	Special Gratuity Provision (Rs.)	Total PV-DBO (Rs.) (Normal+Special Gratuity)
Permanent	184,973,654	131,699,193	316,672,847
Trainee	220,113	149,353	369,466
Contract	194,470	123,785	318,255
Total	185,388,237	131,972,331	317,360,568

NOTES TO THE FINANCIAL STATEMENTS CONTD.

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

Assumption changed (while all other assumptions remain unchanged)	Total PV-DBO (Rs.) (Normal+Special Gratuity)
1% increase in discount rate (i.e. 12%)	291,322,367
1% decrease in discount rate (i.e. 10%)	347,327,185
1% increase in Salary Escalation rate (i.e. 16% once in every three years)	326,295,084
1% decrease in Salary Escalation rate (i.e. 14% once in every three years)	308,716,271

Detailed Accounting Disclosures :

Normal Gratuity
+ Special Gratuity

Break up of actuarial (gain)/loss on the defined benefit obligation (Rs.)

Experience adjustment (Financial and Demographic)	=	2,069,564
Due to changes in financial assumptions	=	(42,927,282)
Due to changes in demographic assumptions	=	-
Total	=	(40,857,718)

Distribution of Present Value of Defined Benefit Obligation In Future Years (Rs.)

During fiscal year ending December 31, 2016	=	6,349,956
During fiscal year ending December 31, 2017	=	24,475,151
During fiscal year ending December 31, 2018	=	17,079,842
During fiscal year ending December 31, 2019	=	24,109,833
During fiscal year ending December 31, 2020	=	16,613,306
Beyond next 5 years	=	228,732,480
	=	317,360,568

Weighted Average Duration of Defined Benefit Obligation (Years) = **9.69**

Name of the Actuary	M Poopalanathan
Date of the Actuarial Computation	10th January 2017
Method of Valuation	Projected Unit Credit Method

26 Stated Capital

In Rupees	2016	2015
Authorised 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

27 Statutory Reserve Fund

In Rupees	2016	2015
Opening balance as at 01-01	115,430,986	89,968,266
Transfer During the Period	19,512,793	25,462,719
Closing Balance 31-12	134,943,779	115,430,986

28 Retained Earnings

In Rupees	2016	2015
Other reserves (P & L Accounts)	2,161,593,595	1,845,528,825
Revaluation Reserve Investment Property	251,798,812	140,779,312
Actuarial gain	31,558,957	(9,298,760)
Investment Fund Account	-	140,448,554
Closing Balance 31-12	2,444,951,364	2,117,457,931

29 Other Reserves

Bank-2016

In Rupees	Opening Balance 01-01-2016	Movement /transfers	Closing balance as at 31-12-2016
General reserve	157,263,470	39,025,586	196,289,056
Revaluation Reserve	31,512,862	(875,364)	30,637,498
Investment Fund	-	-	-
Available-for-sale reserve	(23,384,704)	(17,763,091)	(41,147,795)
Cash flow reserve	-	-	-
Foreign currency translation reserve	-	-	-
Special Reserve	3,451,125	(3,451,125)	-
Actuarial Gain/Loss	-	-	-
Total	168,842,753	16,936,007	185,778,760

Bank-2015

In Rupees	Opening Balance 01-01-2015	Movement /transfers	Closing balance as at 31-12-2015
General reserve	106,338,031	50,925,439	157,263,470
Revaluation Reserve	32,388,226	(875,364)	31,512,862
Investment Fund	-	-	-
Available for-sale reserve	(7,121,302)	(16,263,402)	(23,384,704)
Cash flow reserve	-	-	-
Foreign currency translation reserve	-	-	-
Special Reserve	3,451,125	-	3,451,125
Actuarial Gain/Loss	-	-	-
Total	135,056,080	33,786,673	168,842,753

NOTES TO THE FINANCIAL STATEMENTS CONTD.

30 Contingent Liabilities & Commitments

	31.12.2016	31.12.2015
1.Commitments secured by 100% securities(Credit Guaranties)	7,170,000	5,370,000
2.Self Liquidatable Commitments (Pending Loan Disbursements)	687,551,449	737,558,019
Total	694,721,449	742,928,019

31. Maturity Gap Analysis

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

As at 31st December 2016 (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	144,695	-	-	-	-	144,695
Due from Banks	93,925	-	-	-	-	93,925
Investments	10,159,873	3,403,066	36,909	22,281	-	13,622,128
Loans & Advances	1,057,408	2,514,713	5,204,215	4,300,436	17,183,099	30,259,872
Fixed Assets	-	-	-	-	478,117	478,117
Other Assets	74,813	35,945	33,640	4,071	874,799	1,023,268
Total Assets	11,530,715	5,953,724	5,274,764	4,326,788	18,536,015	45,622,006
Percentage 31st Dec 2016	25.27	13.05	11.56	9.48	40.63	100.00
Percentage 31st Dec 2015	23.53	19.43	16.40	15.61	25.04	100.00
Liabilities						
Total Capital Fund	-	-	-	-	3,727,767	3,727,767
Deposits	15,925,080	10,797,683	3,172,848	445,147	1,781,769	32,122,527
Borrowings	456,112	896,335	2,396,909	2,895,667	2,218,022	8,863,045
Other Liabilities	852,488	279,001	5,620	19,503	310,057	908,667
Total Liabilities	17,233,680	11,415,017	5,575,377	3,360,317	8,037,615	45,622,006
Percentage 31st Dec 2016	37.77	25.02	12.22	7.37	17.62	100.00
Percentage 31st Dec 2015	31.41	29.30	22.19	3.33	13.77	100.00

Related Party Transactions**32. Directors Interest in Contracts with the Bank**

Name	Related Party	Office Holding	Transactions	Nature of Transactions	% Regulatory Capital
Mr.L.S.Palansuriya	National Housing Development Authority	Chairman	23Mn	Rent for Head office Building	0.73%
Mr.R.J.De Silva	Chairman HDFC	Chairman	2Mn	Savings Deposit	0.06%
Mr.Prasad Galhena	Director HDFC	Director	0.08Mn	Savings and Fixed Deposit	0.00%
Mr.M.Surendran	Director HDFC	Director	0.05Mn	Savings Deposit	0.00%
Mr.R,H,Meewakkala	Director HDFC	Director	0.05Mn	Savings Deposit	0.00%
Mr.P.S.Punchihewa	Director HDFC	Director	0.04Mn	Savings Deposit	0.00%
Mr.S.M.G.Jayarathne	Director HDFC	Director	0.03Mn	Savings Deposit	0.00%
Mrs.R.A.Chulananda	Director HDFC	Director	0.05Mn	Savings Deposit	0.00%
Mr.Lionel Jayasinghe	Director HDFC	Director	0.01Mn	Savings Deposit	0.00%

33.Events Occuring 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 Pledge

Type of Facility Rs Mn	Amount of facility Rs Mn	Nature of Security Rs Mn	Value of Security Rs Mn	Balance as at 31-12-2016
(1) Overdraft (Sampath Bank)	300	Part of Portfolio	150	-
(2) Borrowing (Term Loan) (Sampath Bank)	2,550	Part of Portfolio	1,915	1,362
(3) Borrowing (Term Loan) (NTB)	500	Part of Portfolio	-	100
Type of Facility Rs Mn	Amount of facility Rs Mn	Nature of Security Rs Mn	Value of Security Rs Mn	Balance as at 31-12-2016
(1) Listed ,Secured ,Redeemable Debenture	6,000	Part of Portfolio	3,100	5,545

VALUE ADDED STATEMENT

For the period ended 31st December

LKR "000"	2016	Bank	2015
Interest Income	5,472,894		4,660,183
Other Income	454,704		265,150
Gross Income	5,927,599		4,925,333
Cost of Service	3,938,500		2,917,667
Total Value Additions	1,989,099		2,007,666

LKR "000"	%	2016	%	Bank	2015
Value Distributed To Employees (Remuneration & Benefits)	45.0	895,271	41.3		828,658
To Government	23.7	471,506	25.1		512,390
Income Tax	13.6	269,838	14.6		294,012
Value Added Tax & NBT Fs	9.5	188,399	10.2		205,742
Nation Building Tax	0.4	7,922	-		5,119
Crop insurance Levy	0.2	4,523	-		3,402
Stamp Duty	0.0	823	0.2		4,116
To Share Holders (Dividend)	-	-	2.4		48,533
Retained in the Business	31.3	622,322	33.6		618,086
Retained Income	19.6	390,256	22.9		460,721
Depreciation	3.6	71,634	3.4		68,134
Loan Loss Provision	8.1	160,432	4.4		89,230
Total Value Distributions	100.0	1,989,099	100.0		2,007,666

VALUE DISTRIBUTED 2016



■ To Employees	45%
■ To Government	24%
■ To Share Holders	0%
■ Retained Profit	31%

VALUE DISTRIBUTED 2015



■ To Employees	42%
■ To Government	25%
■ To Share Holders	2%
■ Retained Profit	31%

TEN YEAR STATISTICAL SUMMARY

Year ended 31st December

(LKR. Mn)

OPERATING RESULTS

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Income	1,286	1,741	1,974	2,269	2,250	2,386	2,744	3,803	4,566	4,925	5,928
Interest Income	1,203	1,696	1,941	2,216	2,165	2,261	2,635	3,528	4,378	4,660	5,473
Interest Expense	699	1,247	1,602	1,582	1,339	1,354	1,805	2,469	2,535	2,539	3,509
Other Income	82	46	33	52	85	82	110	275	188	265	455
Operating Expenses	272	359	385	439	513	620	762	938	1,123	1,288	1,409
Provision for Loss	5	43	54	79	107	10	1	87	131	89	160
Profit Before Tax	309	93	(67)	168	291	402	176	309	777	1,009	848
Income Tax & Finance VAT	136	72	25	112	156	186	120	151	402	500	458
Profit After Taxation	172	21	(92)	56	135	216	56	158	375	509	390

LIABILITIES AND SHAREHOLDERS' FUNDS

Customer Deposits	2,501	4,960	5,777	6,929	8,526	12,336	14,695	18,902	24,479	28,593	32,123
Borrowings	5,783	6,067	5,840	4,336	3,629	3,556	3,214	5,257	6,213	9,037	8,863
Other Liabilities	621	666	867	1,315	1,383	1,699	500	834	840	920	909
Shareholders' Funds	1,800	1,789	1,697	1,721	1,849	2,337	2,391	2,575	2,886	3,364	3,728
Total	10,705	13,482	14,181	14,301	15,387	19,927	20,801	27,567	34,418	41,913	45,622

ASSETS

Loans and Advances	10,134	11,869	12,149	11,913	12,519	14,888	15,966	19,701	23,357	26,685	30,260
Cash, short term funds and statutory	352	1280	1091	1410	1,920	3,960	3,679	6,601	8,997	11,852	11,807
AFS Investments	-	-	-	-	-	-	-	-	850	2,043	2,053
Property, plant and equipment	85	111	671	721	756	250	288	290	296	435	478
Other assets	134	222	270	257	192	830	868	975	918	898	1,023
Total	10,705	13,482	14,181	14,301	15,387	19,927	20,801	27,567	34,418	41,913	45,622

RATIOS

Return on Average Shareholders Funds (%)	10.0	1.2	(5.3)	3.3	7.6	10.3	2.35	6.36	13.72	16.30	11.01
Income Growth (%)	21.8	35.4	13.4	14.9	(0.8)	6.0	15.0	38.6	20.1	7.9	20.30
Return on Average Assets(%)	1.8	0.2	(0.7)	0.4	0.9	1.2	0.27	0.65	1.21	1.33	0.89
Advance to Deposits and Borrowings (%)	81.7	92.9	95.6	94.6	97.1	106.7	112.2	122.6	131.4	141.0	135.4
PPE on Shareholders Funds (%)	4.7	6.2	39.5	41.9	40.9	10.7	12.0	11.2	10.3	12.9	12.80
Total Assets to shareholders funds (times)	5.95	7.54	8.36	8.31	8.32	8.53	8.70	10.70	11.93	12.46	12.24

TEN YEAR STATISTICAL SUMMARY CONTD.

Year ended 31st December

(LKR. Mn)

SHARE INFORMATION

Market Value per Share (Rs)	For Rs 100/= Shares					For Rs 10/= Shares					
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
High (Rs)	235.3	192.0	135.0	191.8	600.0	1,900.0	119.0	52.5	52.5	76.5	70.00
Lower (Rs)	153.0	125.8	54.0	49.5	135.0	546.0	44.0	48.2	48.2	58.5	46.50
Close (Rs)	174.8	128.0	56.0	147.8	550.0	1,400.3	50.6	49.6	49.6	67.1	47.20
Earnings per Share (Rs)	2.74	0.33	(0.39)	1.69	2.63	3.34	0.86	2.44	5.79	7.87	6.03
Price Earnings Ratio	63.80	392.64	142.13	87.22	209.13	419.47	58.84	20.31	8.57	8.53	7.83
Net Assets per Share(Rs) **	27.82	27.64	26.23	26.60	28.56	36.11	36.95	39.80	44.60	51.98	57.61

PROFILE

Ownership - Government %	51	51	51	51	51	51	51	51	51	51	51
- Private %	49	49	49	49	49	49	49	49	49	49	49
No of employees	300	286	289	364	425	505	488	488	477	561	570
No of branches	20	21	21	26	28	31	32	33	36	38	38
No of ATM (Access)*	-	-	4	10	225	255	360	652	775	854	3,000+

* Including Lanka Pay ATM Network

MEASUREMENT OF FINANCIAL INSTRUMENTS

a Bank-Current year -2016

Figures in LKR "000"	Designated						Total
	HFT	at FVTPL	HTM	L&R	AFS	Others	
Assets							
Cash and balances with Central Banks	-	-	-	-	-	144,695	144,695
Sri Lanka Government securities	-	-	831,545	-	-	-	831,545
Balances with banks	-	-	93,925	-	-	-	93,925
Derivatives	-	-	-	-	-	-	-
Financial assets held-for-trading	2,053,279	-	-	-	-	-	2,053,279
Financial assets designated at fair value through profit or Loss	-	-	-	-	-	-	-
Loans and receivable to the Banks	-	-	-	-	-	-	-
Loans and Receivables to other customers	-	-	-	30,259,872	-	-	30,259,872
Financial Investments	-	-	10,737,304	-	-	-	10,737,304
Other assets	-	-	-	-	-	-	-
Total Financial Assets	2,053,279	-	11,662,774	30,259,872	-	144,695	44,120,621
Other Assets	-	-	-	-	-	1,501,385	1,501,385
Total Assets	2,053,279	-	11,662,774	30,259,872	-	1,646,080	45,622,006

Figures in LKR "000"	Designated						Total
	HFT	at FVTPL	HTM	L&R	AFS	Others	
Liabilities							
Due to banks	-	-	3,318,511	-	-	-	3,318,511
Derivatives	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Due to other customers	-	-	32,122,527	-	-	-	32,122,527
Debt securities issued	-	-	5,544,534	-	-	-	5,544,534
Other Liabilities	-	-	-	-	-	-	-
Total financial Liabilities	-	-	40,985,572	-	-	-	40,985,572
Other Liabilities	-	-	-	-	-	908,667	908,667
Total Liabilities	-	-	40,985,572	-	-	908,667	41,894,239
Share Holder Fund	-	-	-	-	-	3,727,767	3,727,767
Share Holder Fund & Liabilities	-	-	40,985,572	-	-	4,636,434	45,622,006

MEASUREMENT OF FINANCIAL INSTRUMENTS CONTD.

a Bank-Previous year -2015

Figures in LKR "000"	Designated			L&R	AFS	Others	Total
	HFT	at FVTPL	HTM				
Assets							
Cash and balances with Central Banks	-	-	-	-	-	145,100	145,100
Sri Lanka Government securities	-	-	55,688	-	-	-	55,688
Balances with banks	-	-	63,071	-	-	-	63,071
Derivatives	-	-	-	-	-	-	-
Financial assets held-for-trading	2,043,354	-	-	-	-	-	2,043,354
Financial assets designated at fare value through profit or Loss	-	-	-	-	-	-	-
Loans and receivable to the Banks	-	-	-	-	-	-	-
Loans and Receivables to other customers	-	-	-	26,684,611	-	-	26,684,611
Financial Investments	-	-	11,588,341	-	-	-	11,588,341
Other assets	-	-	-	-	-	-	-
Total Financial Assets	2,043,354	-	11,707,099	26,684,611	-	145,100	40,580,164
Other Assets	-	-	-	-	-	1,332,790	1,332,790
Total Assets	2,043,354	-	11,707,099	26,684,611	-	1,477,890	41,912,954

Figures in LKR "000"	Designated			L&R	AFS	Others	Total
	HFT	at FVTPL	HTM				
Liabilities							
Due to banks & Other Financial Institutes	-	-	3,031,112	-	-	-	3,031,112
Derivatives	-	-	-	-	-	-	-
Financial liabilities designated at fare value through profit or loss	-	-	-	-	-	-	-
Due to other customers	-	-	28,592,675	-	-	-	28,592,675
Debt securities issued	-	-	6,005,671	-	-	-	6,005,671
Other Liabilities	-	-	-	-	-	-	-
Total financial Liabilities	-	-	37,629,459	-	-	-	37,629,459
Other Liabilities	-	-	-	-	-	919,671	919,671
Total Liabilities	-	-	37,629,459	-	-	919,671	38,549,130
Share Holder Fund	-	-	-	-	-	3,363,825	3,363,825
Share Holder Fund & Liabilities	-	-	37,629,459	-	-	4,283,496	41,912,954

CAPITAL ADEQUACY

As at 31st December

Capital Base 2016 2015
As at 31st December (Rs.000') (Rs.000')

Core Capital (Tier 1)

Paid-up Ordinary Shares/Common Stock/Assigned Capital	647,105	647,105
Share Premium	314,988	314,988
Statutory Reserve Fund	134,370	115,153
Published Retained Profits/(Accumulated Losses)	2,138,209	2,096,513
General and Other Reserves	210,085	159,087
Sub Total	3,445,331	3,332,845

Deductions/Adjustments-Tier 1

Net Deferred Tax Assets	-	-
Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	1,468	1,468
50% investments in the capital of other banks and financial institutions	414,845	421,043
Total Core Capital (Tier 1)	3,029,017	2,910,334

Additions

General Provisions	119,671	103,961
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Deductions

50% investments in the capital of other banks and financial institutions	414,845	421,043
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Tier II Capital (295,174) (317,082)

Capital Base 2,738,629 2,593,253

Total risk adjusted balances (credit risk, market risk, operational risk) 21,607,118 21,295,850

Risk Adjusted Capital Ratios

Tier 1 (Eligible Tier 1 capital / Total risk adjusted balances) *	14.02%	13.67%
Tier 11(Capital base / Total risk adjusted balances) **	12.65%	12.18%

* Statutory minimum 5% ** Statutory minimum 10%

RISK ADJUSTED ON - BALANCE SHEET EXPOSURE

As at 31st December RS.000'	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2016	2015		2016	2015
Exposures					
Cash- Local Currency	144,695	145,100	0%	-	-
Sri Lanka Govt Treasury Bills & Bonds Central Bank of Sri Lanka	859,945	55,688	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	11,114,707	6,224,422	50%	5,557,354	3,112,211
Claims that not qualify for regulatory capital purposes	544,368	2,386,973	100%	544,368	2,386,973
Housing loans against EPF	7,848,229	8,598,265	0%	-	-
Cash Margin Loans	967,749	779,307	0%	-	-
Gold Loans	267,078	209,671	0%	-	-
Trading Investment	2,053,248	1,543,354	-	-	-
Retail claims that qualify for regulatory capital purposes	7,978,495	6,804,341	75%	5,983,871	5,103,255
Claims Secured by Real State	9,799	24,321	100%	9,799	24,321
Non Performing Assets					
Past Due Residential Mortgage Loans					
Specific provisions are more than 20%	12,792	25,218	50%	6,396	12,609
Specific provisions are less than 20%	796,143	828,540	100%	796,143	828,540
Housing loans on Guarantors & others					
Specific provisions are more than 20%	105,429	83,748	100%	105,429	83,748
Specific provisions are less than 20%	259,316	208,127	150%	388,974	312,191
Due From local Commercial Banks Less Than Three Months (AAA to BBB-)	5,165,483	3,883,616	20%	1,033,097	776,723
Due From local Commercial Banks Less Than Three Months (BB+ to B-)	1,086,153	1,521,710	50%	543,076	760,855
Due From local Commercial Banks More than Three Months (AAA to AA-)	789,531	756,357	20%	157,906	151,271
Due From local Commercial Banks More than Three Months (A+ to BBB-)	1,560,955	1,455,804	50%	780,478	727,902
Due From local Commercial Banks More than Three Months (BB+ to B-)	-	1,574,235	100%	-	1,574,235
Claims on Financial Institutions/Primary Dealers/Finance Companies (AAA to AA-)	1,449,347	1,344,159	20%	289,869	268,832
Claims on Financial Institutions/Primary Dealers/Finance Companies (A+ to BBB- and unrated)	558,343	1,009,249	50%	279,171	504,625
Claims on Financial Institutions/Primary Dealers/Finance Companies (unrated)	221,260	101,317	100%	221,260	101,317
Fixed Assets	478,117	437,161	100%	478,117	437,161
Other Assets	992,653	930,273	100%	992,653	930,273
Retail claims that qualify for regulatory capital purposes					
- Off Balance Sheet					
Total Risk Weighted Assets On Balance Sheet	45,263,868	40,930,987	-	18,167,993	18,097,073
Retail claims that qualify for regulatory capital purposes					
- Off Balance Sheet	7,170	5,370	100%	7,170	5,370
Total Risk Weighted Assets	45,271,038	40,936,357	-	18,175,163	18,102,443
Total risk adjusted balance for operational risk				3,410,382	2,873,314
Total risk adjusted balance for Market risk				21,574	320,093
Total Risk Adjusted Balances (Credit Risk, Market Risk, Operational Risk)				21,607,118	21,295,850

SHARE INFORMATION

As at 31-12-2016

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

Shareholders	December 31,2016								
	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	1,550	927,902	1.43	6	2,613	0.00	1,556	930,515	1.43
1,001-10,000	479	1,785,897	2.76	4	19,750	0.03	483	1,805,647	2.79
10,001-100,000	123	3,215,425	4.97	0	0	0.00	123	3,215,425	4.97
100,001-1000,000	17	3,084,807	4.77	1	133,180	0.21	18	3,217,987	4.98
Over 1,000,000	3	46,385,946	71.68	1	9,155,000	14.15	4	55,540,946	85.83
Total	2,172	55,399,977	85.61	12	9,310,543	14.39	2,184	64,710,520	100.00

Shareholders	December 31,2015								
	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	1,538	954,074	1.47	3	2,100	0.00	1,541	956,174	1.48
1,001-10,000	493	1,831,641	2.83	5	25,750	0.04	498	1,857,391	2.87
10,001-100,000	127	3,412,375	5.27	1	20,000	0.03	128	3,432,375	5.30
100,001-1000,000	17	2,916,012	4.51	1	130,000	0.20	18	3,046,012	4.71
Over 1,000,000	4	46,263,568	71.49	1	9,155,000	14.15	5	55,418,568	85.64
Total	2,179	55,377,670	85.58	11	9,332,850	14.42	2,190	64,710,520	100.00

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

	December 31,2016				December 31,2015			
	No of Share holders	%	No of Shares	%	No of Share holders	%	No of Shares	%
Individuals	2,052	93.96	6,035,653	9.33	2,061	94.11	5,985,510	9.25
Institution	132	6.04	58,674,867	90.67	129	5.89	58,725,010	90.75
Total	2,184	100.00	64,710,520	100.00	2,190	100.00	64,710,520	100.00

SHARE INFORMATION CONTD.

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

	Name Of Shareholder	No. of Shares 2016	Percentage (%) 2016	No. of Shares 2015	Percentage (%) 2015
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
4	Sampath Bank PLC/ Dr. T. Senthilverl	4,498,206	6.95	2,034,390	3.14
5	Condominium Management Authority	300,000	0.46	300,000	0.46
6	Urban Development Authority	300,000	0.46	300,000	0.46
7	Dr. R.R. De Silva	295,126	0.46	295,126	0.46
8	Sampath Bank PLC/Mr. A. Sithampalam	258,054	0.40	258,054	0.40
9	Seylan Bank PLC/Dr. Thirugnanasambandar Senthilverl	210,974	0.33	2,341,438	3.62
10	Finco Holding (Pvt.) Ltd.	185,000	0.29	185,000	0.29
11	Dr. T. Senthilverl	184,198	0.28	-	-
11	The Associated Newspapers of Ceylon Ltd.	180,000	0.28	180,000	0.28
12	Miss. S.C. Perera	171,000	0.26	171,000	0.26
13	Mr. D. A. De Soysa	170,000	0.26	170,000	0.26
15	Dr. Y. Sena	133,180	0.21	130,000	0.20
16	Richard Peiris Financial Services (Pvt) Ltd/M.A.A. Karim	124,000	0.19	97,656	0.15
17	Union Bank of Colombo PLC/ Mr. S. Abishek	120,209	0.19	120,209	0.19
18	State Engineering Corporation	120,000	0.19	120,000	0.19
19	National Water Supply & Drainage Board	120,000	0.19	120,000	0.19
20	Road Development Authority	120,000	0.19	120,000	0.19
	Total	58,532,687	90.45	57,985,413	89.62

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

	2016 Rs.	2015 Rs.
Highest	70.00	76.50
Lowest	46.50	58.50
Year end	47.20	67.10

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

	2016	2015
Dividend per share (Rs.)	-	0.75
Dividend pay out ratio (%)	-	9.53
Net Assets value per share (Rs.)	57.61	51.98
Earning per Share (Rs.)	6.03	7.87

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

Name	2016	2015
Mr. R.J. De Silva (Chairman)	Nil	Nil
Mr. M. Surendran	1,000	1,000
Mr. Prasad Galhena	1,000	1,000
Mr. R.H. Meewakkala	Nil	Nil
Mr. L.S. Palansuriya	Nil	Nil
Mr. P.S. Punchihewa	Nil	Nil
Mr. S.M.G. Jayarathne	Nil	Nil
Mr. D.P. Wimalasena	Nil	Nil
Mrs. R.A. Chulananda	Nil	Nil
Mr. L. Jayasinghe	1,000	Nil
Mr. Upali Hettiarachchi (GM/CEO)	Nil	Nil

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

	2016	2015
Number of Public Shareholders	2170	2177
Public shareholding	23,040,160	22,993,838
percentage of public holding	35.60%	35.53%

CORPORATE INFORMATION

Name and Address:

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

Registered Head Office:

Address: P.O. Box 2085, Sir Chittampalam A Gardiner Mawatha, Colombo 02.
Telephone : 2356800, 2446241, 2446239, 2447354
Fax : 2446392, 2356829, 2356827
Web Site : www.hdfc.lk
E-mail : hdfc@hdfc.lk

Legal Form:

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

Stock Market Listing:

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

Board of Directors:

Mr. R.J. De Silva (Chairman)
Mr. M. Surendran (Director)
Mrs. R.A. Chulananda (Director)
Mr. R.H. Meewakkala (Director)
Mr. L. Jayasinghe (Director)
Mr. L.S. Palansuriya (Director)
Mr. D.P. Wimalasena (Director)

Company Secretary:

Mrs. Dharshani De Silva
Attorney - at - Law & Notary Public,
MBA & LLM
Tel. 2423362
E-mail secretary@hdfc.lk

Registrars:

SSP Corporate Services (Pvt.) Limited
Address: 101, Inner Flower Road, Colombo 03.
Telephone : 2573894
Fax : 2573609
E-Mail : sspsec@sltnet.lk

Year of Incorporation as a Building Society:
1984

As a Licensed Specialised Bank:
2003

Auditor:
Auditor General

Credit Rating:
The Bank has been assigned BBB Stable (lka) by Fitch Rating Lanka (Pvt) Ltd

Bankers:
Bank of Ceylon Corporate Branch, Echelon Square, Colombo 01.

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

People's Bank No. 75, Sir Chittampalam A Gardiner Mawatha, Colombo 02.

Commercial Bank of Ceylon Limited Commercial House, Union Place
Branch, Colombo 02.

Corporate Management

Mr. Upali Hettiarachchi - Chief Executive Officer/General Manager

Mr. S. Dissanayake - Chief Operating Officer (COO)

Mr. D. V. Pathirana - Chief Financial Officer (CFO)

Mr. W. M. A. Bandara - Chief Information Officer (CIO)

Mr. A. J. Athukorala - Chief Internal Auditor

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

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

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

Mr. D. M. D. M. K. Dissanayake - Chief Manager (Credit)

Ms. K. T. Dharshani Deepika De Silva - Bank /Board Secretary /Chief Manager

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

Ms. W. N. D. Botheju - Chief Manager (HR)

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

Investor Information

Mr. D. Vidana Pathirana

Chief Financial Officer

T.P. 2356800, 244624, 2446239

D/L 4717864 Fax : 2356829

E-mail - cfo@hdfc.lk

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty Second (32nd) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka is convened on Friday the Thirtieth (30th) day of June 2017 at Booker Recreation (Pvt.) Ltd. (Gardenia Hall), 01st Floor, No. 10, Off Deans Road, Hedges Court, Colombo 10 at 10.00 a.m. and the following Ordinary Business will be transacted.

Ordinary Business

1. To read the notice convening the meeting.
2. To receive, consider and adopt the Annual Report of the Bank and the Audited Accounts of the Bank for the year ended 31st December 2016 together with the Report of the Auditor thereon.
3. To appoint two Shareholding Directors.
4. To re-appoint the Auditor General of Sri Lanka, as Auditor of the HDFC Bank and authorize the Board of Directors to determine and approve their remuneration.
5. To transact any other business of which due notice shall be given.

By order of the Board



Dharshani De Silva
Company Secretary

HDFC Bank
Colombo

24th May 2017

FORM OF PROXY

I/We.....of.....

.....Being a member / members of Housing Development Finance Corporation Bank of Sri Lanka herby 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 30th of June 2017 at 10.00 a.m. and at any adjournment thereof, and at every poll which any be taken in consequence thereof.

Signed this day of 2017.

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.

FORM OF PROXY CONTD.

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.



**HDFC Bank Colombo Head Office, P.O. Box 2085,
Sir Chittampalam A Gardiner Mawatha, Colombo 02.**