



# LINE SUPPORT

HDFC BANK OF SRI LANKA | ANNUAL REPORT 2017







Every family deserves a place to call home and most importantly the financial support that takes their dreams to new heights. We at HDFC, are committed to make these, your aspirations, a reality, backed by the new and improved processes that makes it even easier to connect and grow with us. With our dynamic portfolio that caters to diverse strata as the pillars to success, we remain, in support of your dreams.



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## INTRODUCTION TO THIS REPORT

HDFC Bank's 2017 annual report continues to adopt the Integrated Reporting Framework 2013 of the International Integrated Reporting Council and covers financial and other material topics for the period 1 January 2017 to 31 December 2017. In addition, this report includes disclosures under the Colombo Stock Exchange and other relevant regulations. The Bank has not had to re-state any information from the previous annual report.

### Basis of preparation and presentation of this report

The material topics for discussion in this report were selected by reviewing the 2016 annual report for improvements and by reviewing the changes to the Bank's risk profile and good governance and compliance requirements. In doing so, the report has taken into consideration stakeholder expectations. The material topics selected for disclosure were decided by the top management, under the guidance of the

Chairman. In this regard, the Chairman's Message highlights the most material strategic topics pertaining to the current status of the Bank, and its future.

### Stakeholder engagement in formulating this report

The Chairman's Message and the Acting CEO's Review should be consulted for information on how the Bank has met key stakeholder expectations during the year under review and how the Bank plans to continue to do so. (Future oriented statements contained in this report are subject to change). Although a specific stakeholder survey was not conducted, the materiality assessment has taken into account expectations of core stakeholders.

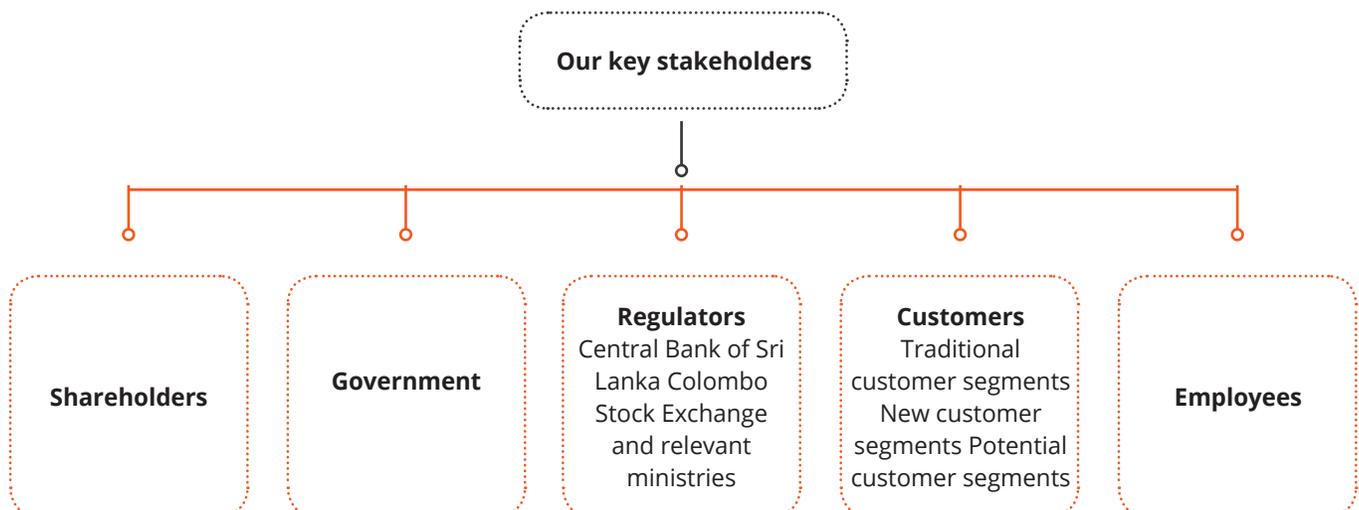
As the annual report is a key stakeholder communication tool, this report has been translated into Sinhala and Tamil. In addition, copies of this report were provided to the Ministry of Public Enterprise and the report has been uploaded onto our website ([www.hdfc.lk](http://www.hdfc.lk)) for greater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

### Meeting integrated reporting principles

The financial statements of this annual report have been verified by the Auditor General of Sri Lanka, for accuracy and all other information have been approved by relevant senior managers to ensure information accuracy and reliability. By identifying material topics for disclosure, we have attempted to present a connected and complete, but concise report that is focused on the most material matters for the year under review. In addition, through the direct involvement of the Chairman, CEO and senior management in compiling this report, we have attempted to present a strategic and future oriented picture.

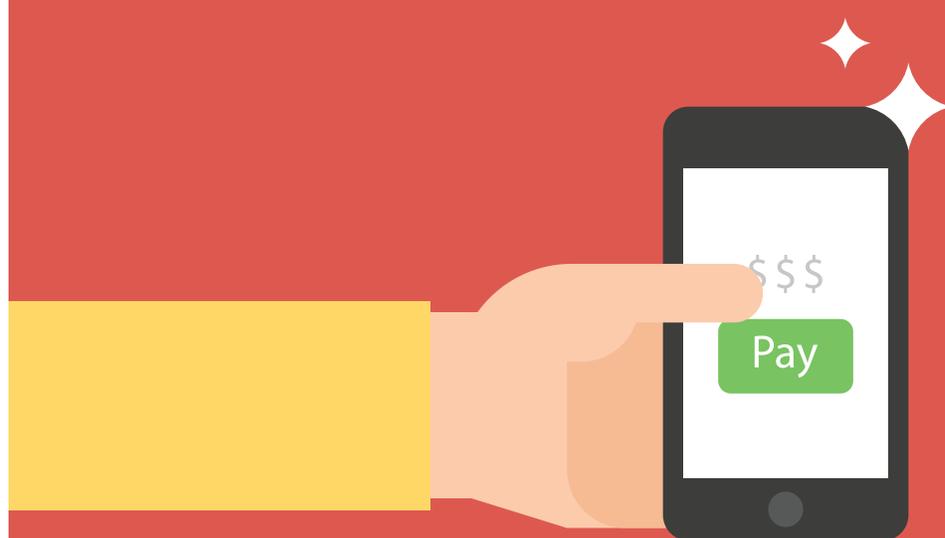
### Feedback on this annual report should be directed to:

The chief Financial Officer  
Mr D Vidana Pathirana  
Email: [cfo@hdfc.lk](mailto:cfo@hdfc.lk)  
Phone: +9411 235 6802/ 9411 235 6829



# Pay online and ebanking

HDFC Bank's trusted banking services are now available anytime, anywhere, through digital banking solutions that facilitate online payments and online banking services.



## ABOUT HDFC BANK

### 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 underserved 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 2017, 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

### 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 and to accept public deposits.

### 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

### 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")

### 2005

Listed in the Colombo Stock Exchange, which resulted in private sector investment in the bank

### 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.

### 2012

Commencement of product and market diversification



## OUR STORY

### VISION

“To become the market leader in Housing Development Finance in Sri Lanka”

### MISSION

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

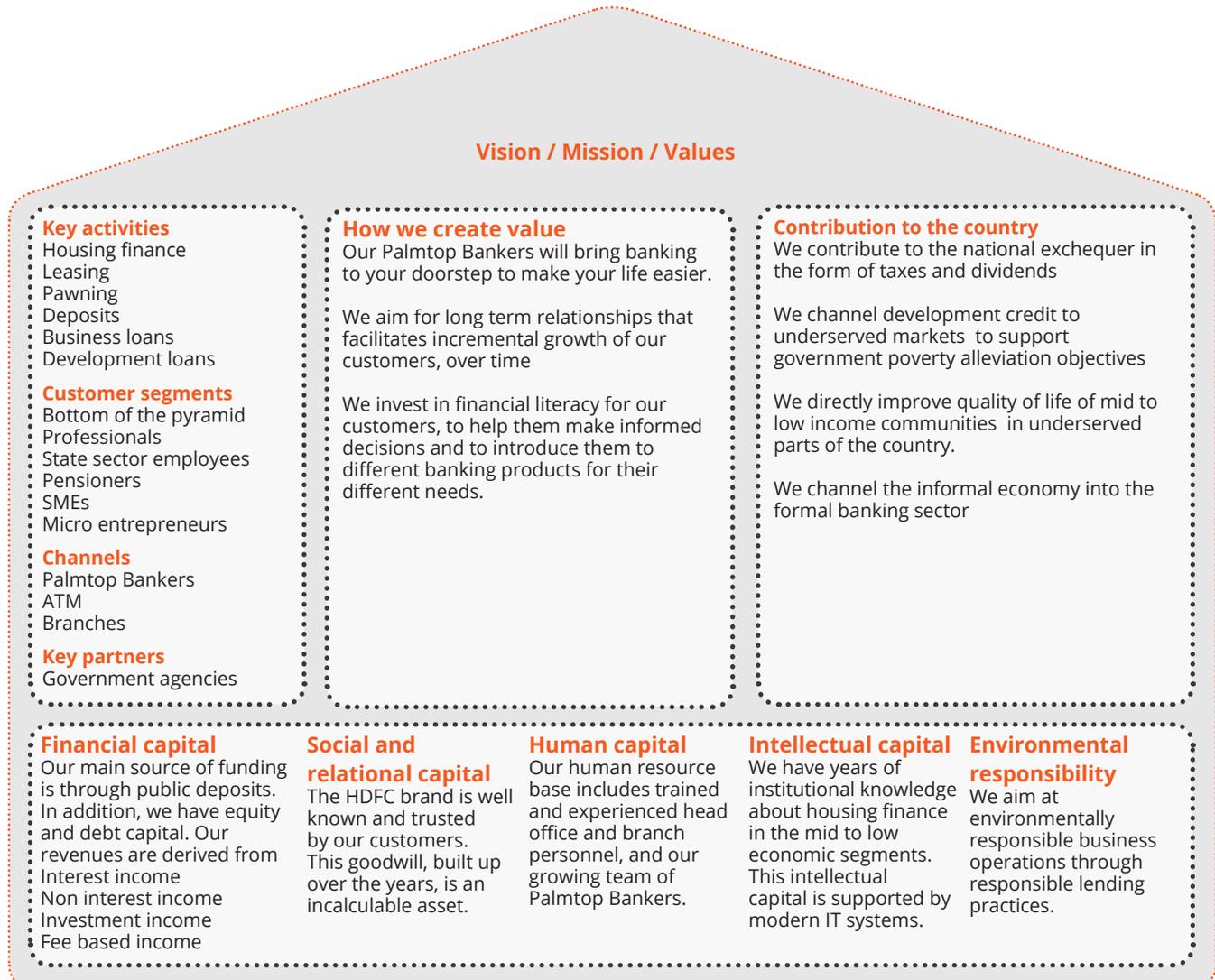
- To our shareholders, our mission is to optimise returns.
- To our customers, our mission is to provide a caring service by anticipating their requirements and innovatively satisfying them beyond their expectations.
- To our staff, our mission is to identify their multi-faceted talents, develop, motivate, 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



During the financial year 2017 our business model was strengthened by the implementation of our new core banking system, which is expected to contribute significantly towards overall efficiency improvements and also support the Bank's growth strategy. HDFC has been gradually implementing a market diversification strategy, developed to address financial and market risks faced by the Bank and to ensure future financial sustainability of the Bank. The new core banking system enhances competitiveness of the Bank by making it possible to develop new products and by facilitating greater customisation and convenience.

Through our product diversification strategy, the Bank has introduced a range of 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. We are also proactively expanding our public deposit base to fuel growth plans.

The Bank is anticipating a further capital injection in the financial year 2018 in line with statutory minimum capital requirements which will cement the groundwork for further expansion and growth.

## 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

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.



#### Diriya & Virudiriya

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

PRODUCT PORTFOLIO

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.



**Shrama Udana**

Home loan for EPF members against EPF balance.



**Thilina**

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



**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**

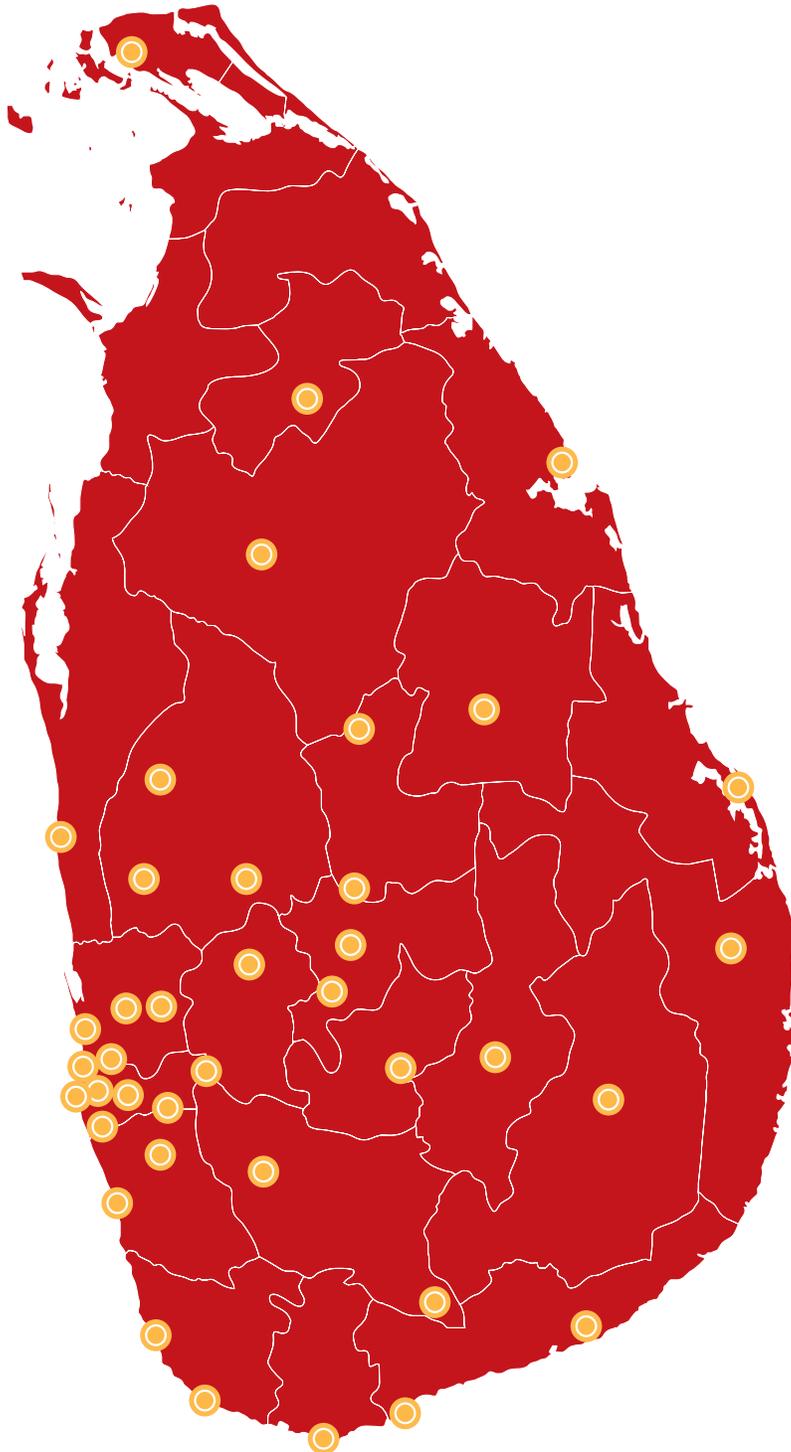
A fixed deposit scheme for senior citizens to earn an interest above market rates.



**Set For Life**

Unique wealth creation scheme for the young people that helps to plan for their future. Set For Life yields 'above the market' interest earnings greater than the deposit rates prevalent in the market

NETWORK – MAP



Branch Network

- Colombo
- Homagama
- Horana
- Hyde Park
- Nugegoda
- Piliyandala
- Avissawella
- Gampaha
- JaEla
- Kiribathgoda
- Nittambuwa
- Peliyagoda
- Badulla
- Monaragala
- Tissamaharama
- Ratnapura
- Ampara
- Batticaloa
- Nuwara Eliya
- Kalutara
- Ambalangoda
- Galle
- Matara,
- Tangalle
- Embilipitiya
- Jaffna
- Vavuniya
- Chilaw
- Kuliyaipitiya
- Nikaweratiya
- Anuradhapura
- Polonnaruwa
- Trincomalee
- Dambulla
- Kegalle
- Matale
- Kurunegala
- Kandy
- Gampola

## Loan Facilities

Whatever your aspiration, whether it is to buy or build your own house, start your own business, advance your education, or any other reason, HDFC Bank's range of loan schemes are designed to meet your needs in the most convenient manner, backed by professional advisory service to help you select the best solution for you.

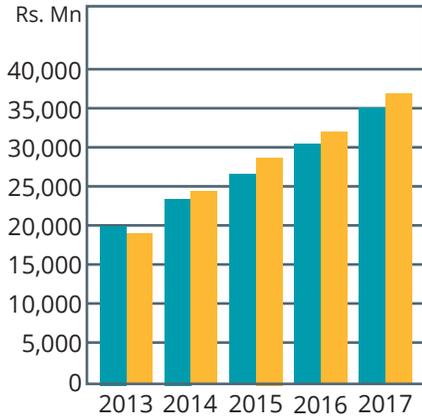


## PERFORMANCE REVIEWS 2017 AND FUTURE OUTLOOK

### FINANCIAL HIGHLIGHTS

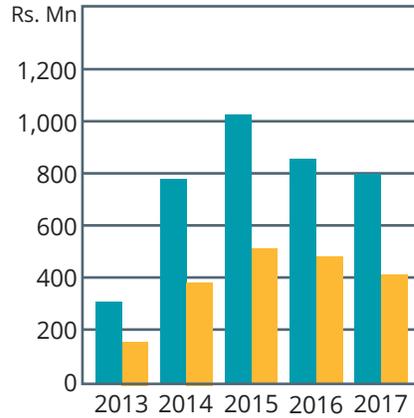
	2017 LKR. Mn	2016 LKR. Mn	Change %
<b>Results for the year</b>			
Income	6,978	5,928	18
Profit before Taxation	789	848	(7)
Provision for Taxation	381	365	4
Profit after Taxation	408	483	(16)
Revenue to the Governments	386	378	2
<b>At the year end</b>			
Shareholders, Fund	4,200	3,821	10
Deposits from Customers	36,655	32,123	14
Gross Loans & Advance to Customers	35,737	31,052	15
Total Assets	49,692	45,679	9
<b>Information per Ordinary share</b>			
Earnings (Basic) (Rs.)	6.31	7.47	(16)
<b>Financial Ratios</b>			
Return on Average shareholders' Fund (%)	10.17	13.46	(24)
Return on Average Assets (%)	0.86	1.10	(22)
Share Holders Equity to Total Assets (%)	8.45	8.36	1
<b>Statutory Ratios</b>			
Liquid Assets (%)	27.58	29.90	(8)
Common Equity Tier 1-Minimum Required 5.75%	13.52%		
Tier I (%) - Minimum Required -7.25 %	13.52%	14.02%	
Tier II (%) - Minimum Required -11.25 %	13.52%	12.65%	
<b>Other Information</b>			
Branches	39	38	3
Employees (No. of Staff)	567	570	(1)
Credit Rating - Fitch Rating	BBB(lka) Negative	BBB(lka) Stable	

## FINANCIAL HIGHLIGHTS



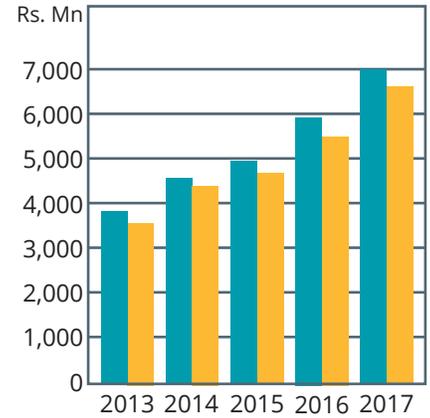
Loans Advances  
Deposits

Loans Advances & Deposits



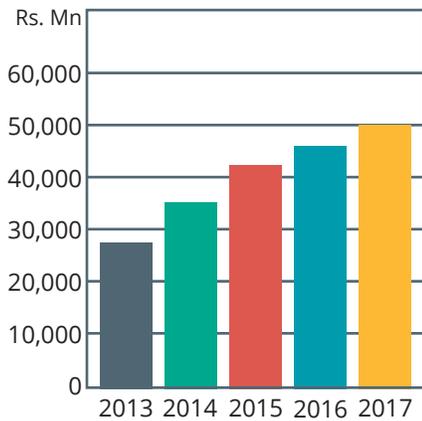
Profit Before Tax  
Profit After Tax

Profit Before Tax & Profit After Tax



Gross Income  
Interest Income

Income



Total Assets



ROE  
ROA

ROA & ROE

## CHAIRMAN'S MESSAGE

I am pleased to report that the Bank has concluded yet another successful year amidst many challenges



## CHAIRMAN'S MESSAGE



“THE BANK HAS SOUGHT GOVERNMENT SUPPORT TO BRIDGE THE IMMEDIATE CAPITAL GAP , AND TO RAISE FURTHER CAPITAL THROUGH SHARE ISSUES TO MEET CAPITAL ADEQUACY REQUIREMENTS BY 2020. THE BOARD IS CONFIDENT SUCH AN INJECTION OF LOW COST FUNDS WILL PROMOTE RECOVERY OF PROFITABILITY WITHIN A SHORT PERIOD.”

“BY 2020 OUR TARGET IS AN ASSET BASE OF RS.100 BN WITH A PROFIT AFTER TAX OF RS.1.5 BN.”

My dear shareholders,

I am pleased to report that the Bank has concluded yet another successful year amidst many challenges. The Bank faced the challenge of implementing a new core banking system to facilitate the introduction of a diversified product range, improve employee productivity and strengthen overall operational efficiency and internal controls. The Bank also faced the challenge of increasing its capital to meet the regulatory requirement during the year.

However, by the end of the financial year 2017 your Bank reached a crossroad in its history. As the Chairman of this esteemed institution, it is my responsibility to put this statement into perspective for our shareholders and other stakeholders.

As you are aware, HDFC Bank has commenced implementing a new growth strategy, supported by new information technology infrastructure to achieve the planned higher growth targets. However, these efforts will prove ineffective without urgent intervention by the Government, as the majority shareholder, towards meeting the regulatory minimum capital requirement. During 2017, HDFC Bank was not able to complete the initiatives taken, to increase its capital to the current regulatory minimum requirement of Rs 5 Bn. In addition, under 2017 directives of the Central Bank, the capital base must be increased to Rs 7.5 Bn, by 2020. Currently HDFC's capital fund stands at Rs 4.2 Bn. HDFC Bank is also burdened by the lack of long term low cost matching funds to support the increasing demand for low and middle income housing finance. The main source of funds are public deposits and inter bank borrowings, which are subject to quick re-pricing in line with changes in the financial market sentiments. Long term funds at subsidised interest rates are crucial to support low income housing finance, which is the largest segment of the housing finance market. HDFC's historical average loan size of RS. 300,000 is a clear indicator of its commitment towards this segment of the population.

As you know, HDFC Bank is unique in its shareholding structure, being the only bank in Sri Lanka that is a public, private partnership, where the Government of Sri Lanka owns a controlling stake of 51%, while the balance shares are held by the private sector. Therefore, state sanction is essential to execute proposed plans to raise new capital and to reorient the Bank's business model to mitigate the strategic challenges that constrain its sustainable growth. In 2017, HDFC Bank's credit

## CHAIRMAN'S MESSAGE

rating was downgraded by one notch, to BBB(Lka) Negative by Fitch Rating Lanka, due to the delay in obtaining Government approval for the capital enhancement process. Therefore, I look forward to a speedy response from the relevant Government authorities in this regard, to safeguard the future sustainability of this organisation.

### Status of compliance

I would like to record that with the exception of the minimum capital requirement, which I have explained above, HDFC Bank is fully compliant with all Central Bank, Stock Exchange and other applicable regulations. The Bank did not face any fines or penalties during the financial year 2017 for non compliance or delays in compliance, with any applicable regulations.

### Financial position as at end 2017

Amidst the above challenges HDFC Bank was able to record a profit after tax of Rs 408 Mn in 2017 compared to the Rs. 483 million in 2016. At the same time, the Bank has achieved a balance sheet growth of 9% year-on-year, reaching a total assets base of 49.7 Bn by the end 2017 compared to Rs. 45.7 Bn in 2016. Meanwhile, the loan portfolio and the deposit base have recorded an impressive growth of 15.6% and 14% year-on-year and 17.7% increase in total income compared to 2016.

### Meeting stakeholder expectations

As a primarily State-owned bank, HDFC continued to support the national development agenda by participating in the Government's special credit schemes. These include the Swashakthi Credit Facility to encourage youth to

set up small and medium enterprises at a concessionary interest rate of 5.5%, the PEARL and Athwela loan schemes to support recovery efforts of small entrepreneurs affected by floods and draughts, the NADEP (National Agribusiness Development Programme) and CSDDL (Commercial Scale Dairy Development Loan Scheme). In total, HDFC granted around Rs. 550 Mn, to over 1,400 entrepreneurs during the financial year 2017.

I am extremely pleased to record that HDFC is one of the institutions that has granted the highest number of loans under the Dairy Development Scheme. It is also noteworthy that HDFC has a unique no-harm policy in granting credit for such enterprises by stipulating a cruelty-free approach to animal husbandry and avoidance of anti-social projects. For instance, dairy projects funded by HDFC must provide a cruelty-free environment for cows and must also ensure cows are not sent to the slaughter at the end of their productive period.

As the core business of HDFC, more than Rs 9.1 Bn was granted to the housing industry and thereby gave a signal that the Bank supported the government agenda of 'Shelter for All, by the Year 2025.'

We have created value for shareholders through improved Net Asset Value of shares from Rs.59.05 to Rs. 64.9.

### Strategic priorities achieved

I am pleased to report that the new, upgraded core banking system has now been fully implemented, which has

strengthened overall internal controls, improved employee productivity and also facilitated the introduction of new, diversified products. The Bank will look forward to developing more hybrid housing finance products to provide customised services in the rapidly changing lifestyle environment and income pattern of the different segments of the population. The HDFC Board was fortified by adding directors with expertise in IT, Accountancy and Banking. We are currently in the process of recruiting new management personnel for key positions to strengthen the management team.

### Outlook 2018 onwards

The Bank has sought Government support to bridge the immediate capital gap. The Board is confident such an injection of low cost funds will promote recovery of profitability within a short period. In addition, the Bank's growth strategy targets accelerated growth by reorienting business activities towards more profitable sectors, while continuing to serve underprivileged sections of society. By 2020 our target is an asset base of Rs.100 Bn with a profit after tax of Rs.1.5 Bn.

If capital injection and business reorientation plans are successful, I believe our shareholders will benefit from higher returns within the medium to long term.

### Appreciations

I would like to take this opportunity to acknowledge the immense contribution made by the former General Manager/ Chief Executive Officer, Mr Upali Hettiarachchi, during his tenure at the

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## CHAIRMAN'S MESSAGE

Bank at a time of transition. It is during his period that HDFC Bank transitioned to a new core banking system, which adversely affected performance in the initial few months. The external environment was also unfavourable during his time due to rising interest rates, which hurt profitability.

In conclusion, I would like to state that all HDFC management and staff are aware that they are trustees of public funds, often belonging to non-privileged and sometimes underprivileged persons and families. These funds often represent life savings and are of life-and-death importance to a large number of people. They are also aware that it is their duty and responsibility, as public servants, to ensure the safety of these funds and maximise returns for these people. I hope this thought remains with all HDFC Bank staff as we move forward.

Sincerely



**R J De Silva**  
*Chairman*

Colombo  
23<sup>rd</sup> May 2018

GENERAL MANAGER/ CEO'S REVIEW

In 2017, the Bank finalised the implementation of the new core banking system



## GENERAL MANAGER/ CEO'S REVIEW



**"I AM PLEASED TO REPORT THAT SUBJECT TO THE INHERITED LIMITATIONS OF THE BANK, AND OTHER EXTERNAL MACRO-ECONOMIC CONDITIONS, HDFC BANK HAS BEEN ABLE TO RECORD A CONSIDERABLE BALANCE SHEET GROWTH AND EXPANSION IN BUSINESS VOLUMES IN 2017"**

**"DURING 2017 THE BANK FOCUSED ON GROWING ITS DEPOSIT BASE FOR BUSINESS EXPANSION"**

On behalf of HDFC Bank, it gives me great pleasure in my capacity as the Acting General Manager to present this review on the Bank's performance for the financial year 2017. I would like to commence my review by expressing my unstinted appreciations to the former General Manager /CEO, Mr. Upali Hettiarachchi, for his contributions towards the advancement of the Bank during his 2-year tenure.

### **Performance Overview**

I am pleased to report that subject to the inherited limitations of the bank, and other external macro-economic conditions, HDFC Bank has been able to record a considerable Balance Sheet growth and expansion in business volumes in 2017. There are inherited limitations in the Bank which are difficult to overcome in a short period. The Bank caters to the low and middle income group resulting in granting smaller ticket size loans depending on the repayment capacity of that customer group. The defaulting trend is also very high in that customer group. The Bank faces difficulty in finding low cost financing sources as international low cost financing is not available at present. The Bank's scope of operations is also comparatively limited, as HDFC Bank is specially focused on housing finance.

The operating environment during 2017 was somewhat challenging for a small bank like HDFC in a scenario of rising cost structure and increasing interest rates. This tends to have a direct negative impact on customer demand patterns as well as on cost of funding. In HDFC Bank's case, despite the efforts to diversify the portfolio, the Bank is still heavily depend on the housing finance market. In 2017, nearly 80% of the Bank's lending portfolio represented housing loans, which is highly price sensitive with the Bank's primary markets of mid to low socio income segments. A 25% share of the housing loan portfolio is EPF backed housing loans, compared to 45% of mortgage loans and during 2017 too, the Bank continued to experience a sharp portfolio contraction in the EPF category due to loan settlements through EPF set-offs.

However, I am pleased to report a healthy 9% Balance Sheet growth attributable to growth in the Bank's loan portfolio, which grew at the rate of 15% year on year. I believe this growth is commendable when compared with the industry average credit growth of 16% for 2017 as HDFC operates in a more limited market than traditional commercial banks. The operating profit for the year was Rs. 408 Mn , which is a decline of 16%, compared to the same in last year.

## GENERAL MANAGER/ CEO'S REVIEW

Total revenues increased by 18% to Rs. 6,978 Mn, again mainly due to the growth in the housing portfolio but was also supported by a 32% growth in investment income with prudent treasury management. However, these gains were, for the most part, absorbed by higher interest costs and as a result, the profit before tax declined marginally by 7% year on year, to Rs. 789 Mn. Against this backdrop, the after tax profit contracted marginally by 16% to Rs.408 Mn, due to higher outflow of taxes, which increased by 4% year on year.

The Bank's gross and net NPL ratios, excluding the loans granted to EPF members, increased to 8.99% and 5.14% respectively, from 6.78% and 3.47% in the previous year. The NPL ratios marginally increased as the repayment capacities of customers deteriorated due to various reasons, such as national disasters, drought, floods and increased cost of living.

I kindly request shareholders to refer the Financial Review of this Annual Report for a more detailed update on the status of the Bank's Balance Sheet and Income Statement.

### Sectoral update

Deposits remained the main source of funding for the Bank with the delay in raising fresh capital. During 2017 the Bank focused on growing its deposit base for business expansion. Although savings growth was not significant, the Bank was able to achieve a 16% growth in term deposits to Rs. 31,163 Mn.

The leasing market, which is a fairly new market for HDFC, remained at a low pace due to a number of reasons, including the rising cost of vehicles and also regulatory changes to the loan to value ratio on vehicle leasing. Therefore, the Bank did not make headway in penetrating to this already crowded and cost sensitive market. The total leasing portfolio was Rs. 982 Mn compared to Rs. 1,022 Mn as at end 2016.

The Bank was more successful in the gold loans category, which recorded a growth of 19% in portfolio to Rs 298 Mn, as this is a mode of finance frequented by the Bank's existing customer base.

HDFC also remained extremely active in the SME sector through refinance schemes and during 2017 credit extended from refinance schemes made significant progress.

The Bank also made commendable headway in business and project loans, which is again a new market for the Bank as part of the diversification strategy.

### Key operational developments

On a positive note, in 2017, the Bank finalised the implementation of the new core banking system by completing the testing and familiarisation phase. As at end 2017, the new system has been rolled out to all 39 branches and all staff has been trained on usage. The enhanced benefits of the new system are available within a short period, as it

is now possible to actively compete in new business areas such as card based products.

During the year, HDFC Bank did not expand its branch network. However, a new, service centre targeting high end credits was opened at the Hyde Park Corner HDFC branch. This unit, which is open until 6.00 pm on working days, is part of the Bank's portfolio diversification strategy to tap the high end credit market and offers a number of benefits for large scale customers including fast loan approvals and support services. In addition, the two HDFC Bank branches in Ja-Ela and Piliyandala are now open until 6.30 pm on weekdays and half-day on Saturday's to facilitate rapid service delivery.

The Bank did not increase its marketing budget during 2017. However, a number of marketing campaigns were conducted with good results, particularly for attracting deposits.

### Plans for 2018

The outlook for 2018 is fairly challenging, especially with the introduction of new tax regulations including capital gains tax, which will impact the property development and sales sector. Rising costs and lower disposable incomes, will increase the NPLs and also contribute towards lower demand from traditional mid to low income segments. Therefore, the going forward the focus will be on market development and growth in new market segments.

## GENERAL MANAGER/ CEO'S REVIEW

Although HDFC Bank cannot participate in the country's growing commercial banking category due to its statutory mandate, we plan to target high end and corporate sectors with a range of customised credit products, flexible repayment terms and faster service delivery. This is now possible through the new core banking system. Therefore, in the 2018 fiscal year the Bank plans to increase corporate lending by 5,100 Mn year on year, which will contribute towards addressing portfolios risks.

Although HDFC Bank cannot offer credit card facilities as the Bank does not have a commercial banking license, the new core banking system offers new growth opportunities in the card market. Among other plans, we are now ready to join the Lanka Pay national card platform, which will generate cost savings for our customers, particularly for our SME customer base. The HDFC ATM card, which is currently equipped only for ATM withdrawal, will also be upgraded to a debit card status, positioning the Bank on a more competitive level against other Banks. We also have a number of other new products under development. These include a new investment plan product specially designed for ladies, which is scheduled for launch in the financial year 2018.

I am confident the new capital injection will further strengthen HDFC Bank's market position and enable an improved financial performance in

2018. On this hopeful note, I conclude by thanking the HDFC Board of Directors, all staff and as always, our valued customers. We at HDFC Bank look forward to serve you better in 2018.

Sincerely



**Mr. S. Dissanayake**  
*Acting GM/CEO*

Colombo  
23<sup>rd</sup> May 2018

## FINANCIAL REVIEW

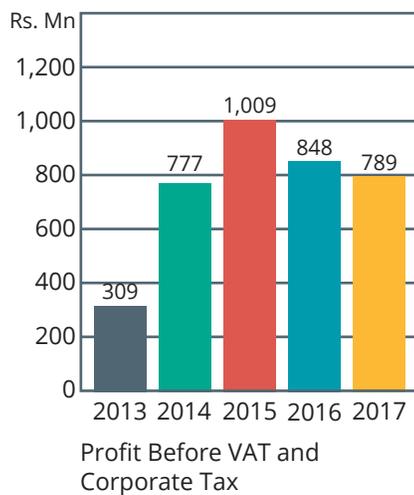
The financial year 2017 was a challenging year for HDFC Bank. Compared to 2016, the operational profit before tax has underperformed by 6.6%. The operational financial result declined mainly due to escalated interest costs, attributable to the prevalent high interest regime underpinned by unfavourable market conditions during the year. HDFC being a housing bank mainly focused on low and middle income clients has limited potential for transferring increased financial costs to customers. However, the Bank was able to record of Rs. 408 Mn in 2017 the profit after taxation.

### OPERATING STATEMENT (Rs . Mn)

	2014	2015	2016	2017
Interest Income	4,378	4,660	5,472	6,613
Interest Expense	(2,535)	(2,539)	(3,509)	(4,742)
Net Interest income	1,843	2,121	1,963	1,872
Other Income	188	265	454	364
Operating Income	2,031	2,386	2,417	2,241
Operating Expenses	1,123	1,288	1,409	1,474
Impairment loss	131	89	160	(25)
Profit Before Taxes	777	1,009	848	789
Profit after Taxation	375	509	483	408

Non-interest has contributed around 5% of the total income of the Bank in 2017. Fee and commission income is the largest contributor to the noninterest income, which has recorded a marginal growth of 2% during the year. The main sources of non interest income are loan documentation charges, legal fees, valuation, annual review fees etc. During the year, the Bank also introduced 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.

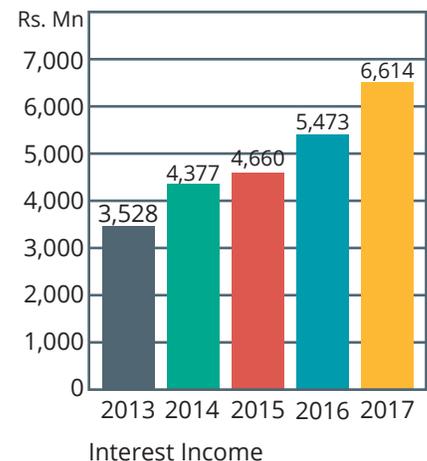
Revaluation gain on investment properties is only RS. 17.6 Mn in 2017 compared to Rs. 111 Mn in 2016, which contributed largely towards the growth of profitability in 2016.



### Interest and non-interest Income

During the year the Bank achieved a 21% significant increase in interest income, reaching to Rs. 6.6 Bn in 2017 from the level of Rs. 5.4 Bn in 2016. 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 in line with the rising interest cost.

Financial investments also contributed to the interest income during the year to a greater extent. Interest income from investment contributed towards 27% of the total interest income compared to 24% in 2016.

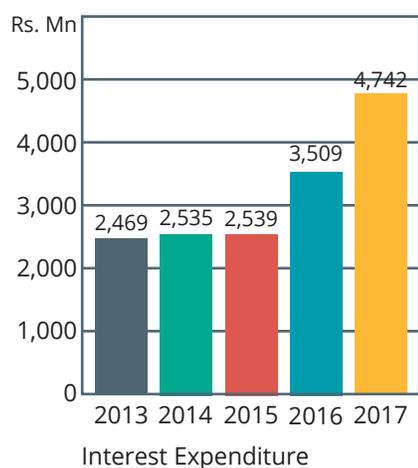


### Interest expenditure

Although the interest income has grown by 21% interest expenditure recorded an alarming increase of 35% due to significant upside re-pricing of deposits at maturities. This has mounted a significant pressure on net interest income (NII) giving a negative

## FINANCIAL REVIEW

impact to the bottom line. Three to six month tenure deposits that count for a substantial portion of the fixed deposit portfolio level exerts a significant pressure for upwards re-pricing of the liability base in the volatile finance market.



### Operating expenditure and loan loss provisions

Operating expenditure increased by 4.47% YOY from Rs 1,409 Mn to 1,472Mn. 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 a reversal of provision of Rs 24.68 Mn compared to the Rs 160 Mn provision in 2016. This was mainly due to application of industry average loss given default (LGD) rate of 45% to the secured loan portfolio and to the unsecured loan portfolio at 75% in the process of impairment calculation as recommended by the Board approved consultants for the reassessment of impairment calculation (PWC). Previously the Bank has applied LDG

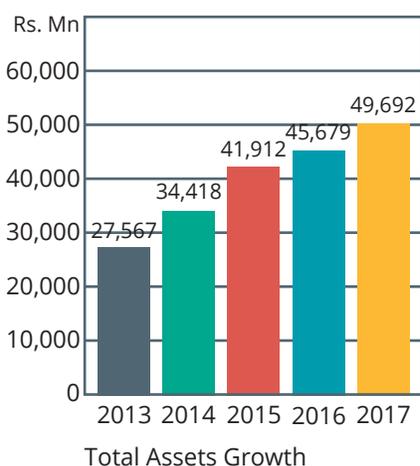
ratio as 100% on assumption basis. The result of the change of accounting policy on collective impairment calculation was a Rs. 42 Mn reversal of provision and the change in the policy resulted in an increase of provision by Rs. 18 Mn in the individual impairment calculation. The net reversal to the profit and loss is Rs. 24 Mn.

### Assets Growth

HDFC Bank ended the financial year under review with total assets of Rs. 49.70 Bn, up from Rs. 45.7Bn in the 2016. It should be noted in terms of YOY growth, the Bank's total assets has grown by 8.78%, supported by a 15.56% growth in the core business of loans and advances and receivables. Liquid assets and other financial investments recorded a negative growth of 1.7%.

### ASSETS AND LIABILITIES (Rs. Mn)

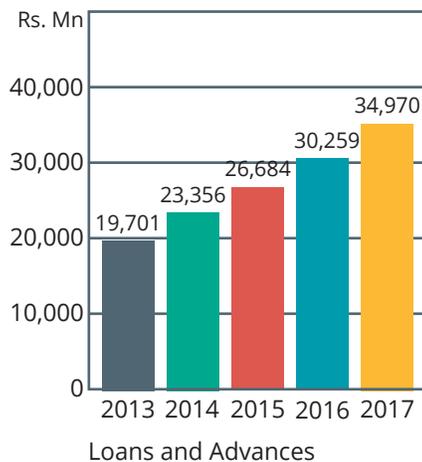
	2014	2015	2016	2017
Loans and advances	23,357	26,685	30,259	34,970
Liquid assets and investments	9,847	13,895	13,860	13,110
Property plant and equipment	296	435	478	513
Other assets	918	898	1,080	1,098
<b>Total Assets</b>	<b>34,418</b>	<b>41,913</b>	<b>45,678</b>	<b>49,692</b>
Customer Deposits	24,479	28,592	32,122	36,654
Borrowings	6,213	9,037	8,862	7,917
Other Liabilities	840	920	872	920
Shareholders' funds	2,886	3,364	3,821	4,200
<b>Total liabilities</b>	<b>34,418</b>	<b>41,913</b>	<b>45,678</b>	<b>49,692</b>



## FINANCIAL REVIEW

### Loans and advances

HDFC's loan book has expanded to Rs. 34.97 Bn in 2017 compared to Rs. 30.26 Bn in 2016. The loans portfolio was mainly driven by the core business of housing finance, which accounts for 95% of the loan book as at 31st December 2017. 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.



### Investment portfolio

The financial performance was further supported by other strategic investments. Other than the compulsory liquid assets portfolio, the Bank took a strategic decision in 2016 to diversify its investment portfolio via investing in listed corporate debentures, government bonds, commercial papers etc... However in consideration of the rising interest environment, the Bank strategically scaled down the investment portfolio in 2017.

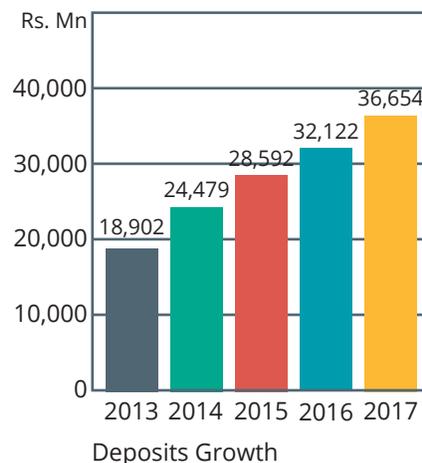
### Investment Portfolio (Rs. Mn)

	2016	2017
Government Securities	831	2,497
Financial Assets available for sale	2,053	2,083
Financial Assets- held to maturity	10,737	8,247
Investment Properties	870	837
	<b>14,492</b>	<b>13,664</b>

### Deposit Mobilisation

The Bank successfully expanded its deposit base from 32.12 Bn to 36.65 Bn during the year representing a YOY growth of as much as 15% by maintaining a strong focus on attracting fixed deposits. Savings deposits which represented 16% of the total deposits in 2016 has declined to 15% in 2017 underpinned by the impressive 15.7% growth rate recorded in retail fixed deposits. HDFC mobile banking operations which contributes largely towards savings mobilisation recorded a successful year mobilising low cost funds from peripherals regions by targeting the lower and middle income groups.

Customer deposits includes Rs. 5.4 Bn savings representing 15% of total deposits. The Bank extends a continued effort to enhance the savings base. Nevertheless YOY savings growth was recorded as 5.5%.



### Borrowing and corporate debentures

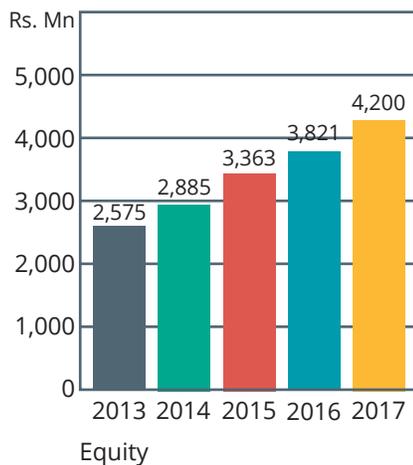
The company floated a successful debenture in 2013 and once again was poised for another debenture amounting to Rs. 4 Bn in 2015. The Rs 500 Mn worth of debentures issued in 2013 were settle in 2017 on due date.

### Equity and minimum capital requirement

Value creation for our shareholders was our uppermost priority and shareholder funds increased by 10.4% in the period under review. Asset value per share grew from Rs. 59.05 to Rs. 64.90 in 2017, which marks a 10% increase. However, earnings per share declined from Rs. 7.47 to RS.6.31 during the year due to weakened earnings.

## FINANCIAL REVIEW

Core Capital Ratio (Tier 1) and total Capital Ratio (Tier 2) remains above the minimum requirement at 13.52% and 13.52% respectively, as against the regulatory requirements of 7.25% and 11.25%. However, as per the Central Bank direction No. 02/17/402/0073/002 issued in conjunction with the Master Plan on Consolidation of the Financial Sector, dated 17th January 2014, and subsequent extension granted by the CBSL, the Bank should maintain Rs. 5,000 Mn core capital balance as on 1st January 2018. The Central Bank has granted a further extension of six months to comply with this direction in consideration of the ongoing proceedings to obtain government approval to the proposed source of the loan term capital qualified as core capital under the Basal 111 guideline. The Bank is taking steps to improve profitability so as to increase retained earnings for cushioning the minimum capital base.



### Liquidity Position

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 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) in line with the regulatory requirement through the year. In addition, the Bank maintains unutilised approved credit lines from other banking institutions as additional liquidity cushion.

### Assets Quality

The Management is highly committed towards reducing the NPLs going forward, and tackling NPLs was democratized rather than concentrated in a single department. The Bank overall NPL is 18.72% as at 31/12/2017. The high NPL is due to excessive non-payment level in EPF balances backed loan portfolio, which is recovered yearly basis from the Central Bank. Excluding EPF backed housing loans NPL of the Bank is recorded as 8.99%. The above the industry average NPL reflects the credit risk of the Bank concentrated among the low and middle income housing finance market.

## CHANGES TO CAPITALS IN 2017

### Capitals material to HDFC Bank

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.

### Manufactured capital

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.

### Natural capital

HDFC Bank also does not own any natural capitals and, as a service provider, the Bank's direct environmental impacts are limited.

Indirect environmental impacts 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 are the main environmental impacts.

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.

### Financial capital

Given below is a summary of changes to HDFC Bank's key financial capitals during the 3 year period 2015-2017. Please refer the Financial Highlights and the financial statements, for details. This report also contains a Financial Review explaining the status of financial capital management by the Bank in 2017.

Key financial capitals (Rs. Mn)	2015	2016	2017
Income	4,925	5,927	6,978
Profit After Tax	509	483	408
Total Assets	41,912	45,679	49,692
Loans and advances	26,684	30,259	34,970
Borrowings	9,036	8,862	7,917
Equity	3,363	3,821	4,200

### Human capital

HDFC Bank is a non-discriminatory, equal opportunity employer. The Bank did not have any legal cases filed against it in court or the labour tribunal for any alleged violation of labour laws or employee rights. Currently 77.74% of the Bank's employees are unionised and a new collective agreement was signed in 2017.

### Changes to human capital in 2017

	2015	2016	2017
Total number of employees	670	679	647

### HDFC Bank employee profile as at end 2017

#### New recruitments

Gender	Age Group				Total
	18 - 25	26 -45	46 -55	56+	
Male	1	2		1	4
Female					0
Total	1	2	0	1	4

## CHANGES TO CAPITALS IN 2017

### Employees by employment type

Type	Male	Female
Permanent	259	200
Probation	70	32
Contract	23	13
Trainees	48	2
<b>Total</b>	<b>400</b>	<b>247</b>

### Total employees by employment category and gender

Category	Male	Female
Corporate Management	9	4
Senior Managers	10	9
Executive Staff	86	118
Non Executive Staff	172	109
Business Promotion Assistants	46	4
Junior Business Promotion Assistants	29	1
Business Promotion Trainees	48	2
<b>Total</b>	<b>400</b>	<b>247</b>

### Employment Benefits

Benefit	Permanent	Probationers	Contract employees	Business Promotion Trainees
Medical Reimbursement	√	√		
Housing Loan	√			
Distress Loan	√			
Guarantor Loan	√	√		
Bike Leasing	√			√
Bonus	√	√	√	
Leave Encashment	√	√	√	
Subsistence	√	√	√	√
Risk Allowance(Cashier & Palm Top only)	√	√	√	√
Commission				√
Vehicle Loan (Executive Staff)	√			
Festival Advance	√	√	√	
Difficult Area Payment	√			
Honorarium	√			

## CHANGES TO CAPITALS IN 2017

### Intellectual capital

The new core banking system was fully rolled out in the financial year 2017. In the short term, the new core 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.

**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 among underserved communities that we have traditionally worked with. 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. There were no legal action filed against the Bank for non compliance with any regulations during the year.

A new investment product called "Ratnabhimani" was introduced in collaboration with the Ministry of vocational training. The objective is to provide financial security for self employed people and employees who lack a social security scheme. Under this new product, an insurance scheme with attractive benefits, covers the life of the customer and his/her family members and after his retirement age he will be able to lead a secure life through the retirement benefit attached to the product.

### Marketing and brand development in 2017

During the financial year 2017 HDFC Bank conducted a number of marketing and brand development activities to promote HDFC Bank products and also manage product portfolio and NPL levels.

A new corporate communications strategy as launched through advertisements, integrated marketing initiatives using a brand ambassador, trying to create brand equity through embedding housing, family, freedom, satisfaction, social values as components of brand equity,

### Customer care

A door step loan service was introduced to improve customer satisfaction and service excellence,

An exclusive Banking Centre attached to our Hyde Park Corner Branch, was opened to facilitate elite loan customers. The objective is to create the ambiance for them to visit the bank at their leisure. This center provides extended opening hours, personalised specialised service of staff and value added services.

### Community development initiatives

Blood donation campaigns, financial literacy programmes and customer awareness programmes mainly aimed at EPF member and loan customers were conducted throughout the year

## CHANGES TO CAPITALS IN 2017

### Events during the year



*MOU with Fair first Insurance for Vishrama Rekawarana*



*Flood relief and shramadana programme by bank staff at Ratnapura Mihindu Vidyalaya*



*Donation of trolleys to Matara hospital by HDFC Matara branch*



*MOU with the CBSL for Swashakthi Loan scheme for micro, small and medium scale enterprise (MSME) development*



*Opening of Exclusive Banking Centre at the Hyde Park Corner branch*

# Investment Plans

A range of specialised investment products have been designed specifically targeting the unique needs of children, youth and pensioners, for a financially secure future for the people of Sri Lanka.



## FUTURE OUTLOOK

### RESOURCE ALLOCATION

#### Significant projects in 2017

HDFC continued to support SME development in the financial year 2017 disbursing Rs550 Mn in credit to various SME businesses during the year, both as direct credit to entrepreneurs/ SME's and also through concessionary credit schemes to support the national development drive.

During the year 2017, the Bank was in partnership with the Central Bank and Ministry of Finance for new credit lines to strengthen the SME sector, among them the "Swashakthi" loan scheme for youth, the "Athwela" Loan scheme for flood affected SMEs, "Jaya Isura" and "Ranasewana" for industrial and agriculture sectors, are more prominent.

#### Dairy Farm

Financed by the Kuliypitiya HDFC branch. Modernisation of existing Dairy Farm under the Dairy Development Loan Scheme



#### Ceramic Ornaments

Financed by HDFC Kalutara branch to purchase machinery under the Saubhagya Loan Scheme



#### Manufacturing of Toys

Financed by HDFC Anuradhapura branch to increase toy production under the Saubhagya Loan Scheme



#### Hantana Yoghut

Dairy processing financed by HDFC Polonnaruwa branch under the Dairy Development Loan Scheme.



#### HDFC's cruelty-free lending policy

It is noteworthy that HDFC Bank credit lines are animal cruelty-free and do not support anti-social activities. Our loans to the dairy sector do not harm animals, stipulating a cruelty-free environment for cows and requires that cows are not sent to the slaughter at the end of their productive period.

## RISK ASSESSMENT REPORT

The risk management system of the Bank was continually reviewed through the application of the 3 lines of defence. During 2017, emerging risks were identified and relevant responses taken with Board authorisation.

### Key Risk Initiatives in 2017

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 minimized 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.

- Key risks and Bank's response
- The significant risks facing the Bank as at end 2017 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
	<ul style="list-style-type: none"> <li>• <b>Interest rate risk</b></li> </ul>	<ul style="list-style-type: none"> <li>• Loans were re-priced in response to market changes.</li> <li>• Aggressively promoted Minor Savings and long term funds.</li> <li>• Promoted Institutional loan scheme with refinance funding.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Deposit Concentration</b></li> </ul>	<ul style="list-style-type: none"> <li>• Efforts have been made to reduce concentration on FDs from a few institutions and increase share of public savings deposits</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Liquidity risk management</b> The Bank has not met the LCR of 60% for 2017 due to mismatch between short term deposits as funding which is converted into long term lending</li> </ul>	<ul style="list-style-type: none"> <li>• Bank has been promoting shorter term loan portfolio and investments to meet the regulatory challenges.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Capital adequacy risk</b> 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.</li> </ul>	<ul style="list-style-type: none"> <li>• The bank has been strategising to achieve the Capital requirements.</li> <li>• It has been negotiating with shareholders that represents the government ownership to infuse the capital.</li> </ul>

## RISK ASSESSMENT REPORT

Level of risk	Type of Risk	Bank's Response
	<ul style="list-style-type: none"> <li> <b>IT System risk</b>            The bank implemented new Core banking system replacing internally built It system.         </li> </ul>	<ul style="list-style-type: none"> <li>The IT steering committee and Board Committees review progress of the new core banking system that is being implemented</li> <li>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</li> </ul>
	<ul style="list-style-type: none"> <li> <b>Information security management</b> </li> </ul>	<ul style="list-style-type: none"> <li>Information security policy</li> <li>System audit and development undertaken by Internal Audit Division</li> <li>Reconciliation and day to day balancing process</li> <li>Regular system generated MIS for management review</li> </ul>
	<ul style="list-style-type: none"> <li> <b>Human resources risk</b> </li> </ul>	<ul style="list-style-type: none"> <li>Commenced training of all staff on new IT system and changes to existing processes</li> <li>HR policies and procedures are in place</li> <li>Collective agreement with trade union</li> <li>Regular capacity maximising through training and development, rewards and recognition, work life balancing etc.</li> </ul>
	<ul style="list-style-type: none"> <li> <b>Credit concentration</b> </li> </ul>	<ul style="list-style-type: none"> <li>Credit Policy and maximum credit exposure limits have been implemented. Compliance with guidelines of CBSL on single borrower limits</li> <li>Management of portfolio mix with particular attention to sector, scheme, income group, provincial and security wise diversity</li> <li>Strategic profit management through budgetary controls.</li> </ul>
	<ul style="list-style-type: none"> <li> <b>Credit policy and credit recovery management</b> </li> </ul>	<ul style="list-style-type: none"> <li>The internal credit rating system and loan review systems were reviewed and improved</li> <li>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.</li> <li>In addition, we conducted regular reviews of credit policy and procedures (Currently the Risk Officers review loans above Rs2.5 mn ) and reviewed operations of the Recovery Department to improve performance.</li> <li>Ensured compliance with CRIB requirements</li> </ul>

## RISK ASSESSMENT REPORT

Level of risk	Type of Risk	Bank's Response
	<ul style="list-style-type: none"> <li>• <b>Processing or behaviour Risk</b> (Avoiding fraudulent activities)</li> </ul>	<ul style="list-style-type: none"> <li>• Regular compliance review of transactions</li> <li>• When introduce any new products and procedures a risk and compliance assessment is done too identify risks</li> <li>• Continuous training on systems and procedures</li> <li>• Interdepartmental internal controls</li> <li>• Business continuity plan is available as a contingency plan</li> </ul>
	<ul style="list-style-type: none"> <li>• Risk of inadequate risk control &amp; management</li> </ul>	<ul style="list-style-type: none"> <li>• All kind of risks are being addressed with implementation of risk mitigation measures adequately.</li> <li>• Appropriate risk culture is in place to defend against the potential risks.</li> <li>• Review of credit policies on risk management by Board Risk Management Committee</li> </ul>
	<ul style="list-style-type: none"> <li>• Legal and regulatory compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance officer who reviews adherence to regulatory requirements and reports quarterly to Board Audit Committee, CBSL and CSE.</li> <li>• Existence of separate legal department with 15 qualified lawyers headed by the AGM legal</li> <li>• Qualified Company secretary</li> <li>• Policies and Procedures</li> <li>• Finance division headed by a qualified Chartered Accountant as a DGM.</li> </ul>
	<ul style="list-style-type: none"> <li>• Risk of merger</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank has been improved its brand value and competencies to be far with emerging requirements of merger.</li> </ul>

### 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 ASSESSMENT REPORT

### Risk Governance Structure

Three lines of defence



### 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
<b>Board Integrated Risk Management Committee (IRMC)</b>	<ul style="list-style-type: none"> <li>• Define various integrated risk exposures</li> <li>• Maintain a robust, pervasive and uniform risk management framework</li> </ul>	Chaired by Chairman of Bank <ul style="list-style-type: none"> <li>• 5 Non-Executive Directors</li> <li>• 10 senior managers</li> </ul>
<b>Board Audit Committee</b>	<ul style="list-style-type: none"> <li>• Examines the adequacy and effectiveness of internal control systems</li> <li>• Review the financial statements</li> <li>• Assesses compliance with regulatory requirements</li> <li>• Considers contents of internal audit reports.</li> </ul>	Chaired by an independent Non-Executive Director <ul style="list-style-type: none"> <li>• 5 Non-Executive Directors,</li> <li>• 1 representative from the Government Auditor</li> <li>• 4 senior managers</li> </ul>
<b>Related Party Transaction Monitoring Committee</b>	ensures compliance of the related party transactions according to the principles and rules required in regulatory and supervisory procedure and market best practices	<ul style="list-style-type: none"> <li>• 5 Non Executive Board members</li> </ul>

## RISK ASSESSMENT REPORT

### Management Level Committees

The Bank has Management Committees that advise 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
<b>Asset and Liability Committee (ALCO)</b>	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Head of Treasury</li> <li>Members of the corporate management</li> </ul>
<b>Credit Committee</b>	<ul style="list-style-type: none"> <li>Approve credit within its limits</li> <li>Make recommendations to the Board if facilities exceed the authorised limit.</li> <li>Issue guidelines on credit evaluation, administration and recovery processes to mitigate credit risk.</li> </ul>	<ul style="list-style-type: none"> <li>General Manager</li> <li>Deputy General Manager (Finance)</li> <li>Assistant General Manager (Business Development &amp; Marketing)</li> <li>Senior Manager (Recoveries)</li> </ul>
<b>Investment Committee</b>	<ul style="list-style-type: none"> <li>Evaluate and screen investments by the Treasury Department.</li> </ul>	<ul style="list-style-type: none"> <li>members of the corporate management</li> </ul>
<b>IT Steering Committee</b>	<ul style="list-style-type: none"> <li>Oversee IT developments in line with the Bank's IT Corporate Plan and industry developments.</li> </ul>	<ul style="list-style-type: none"> <li>Deputy General Manager of IT</li> <li>members from the corporate management.</li> </ul>
<b>Strategic Process Implementation Review Committee</b>	<ul style="list-style-type: none"> <li>Define the strategic process for business operations to ensure the soundness of the Bank.</li> </ul>	<ul style="list-style-type: none"> <li>Corporate management including GM/CEO</li> </ul>
<b>ICAAP Review Committee</b>	<ul style="list-style-type: none"> <li>Conduct Bank's assessment of internal capital adequacy for various integrated risk exposures</li> <li>Maintain adequate capital facilities for such risks.</li> </ul>	<ul style="list-style-type: none"> <li>Members of the corporate management including the GM/CEO</li> </ul>
<b>Risk Management Division</b>	<ul style="list-style-type: none"> <li>Conducts risk identification, monitoring and analysis</li> <li>Present timely evaluation reports to the IRMC</li> <li>Ensure implementation of IRMC recommendations effectively.</li> </ul>	

## Leasing

Contributing to better quality of life and livelihood growth, HDFC Bank has developed leasing facilities with the lowest rentals and speedy disbursements, to make sure you reach your objectives as fast and as conveniently, as possible.



## GOVERNANCE AND INTERNAL CONTROLS

### CHAIRMAN'S STATEMENT ON COMPLIANCE

It is with great pleasure, we present our Corporate Governance Report 2017. 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.

The Bank's Corporate Governance Framework is well structured and primarily based on the doctrine and principles of accountability, fairness, and transparency. We strive to achieve the highest level of standards in Corporate Governance Practices in the industry as well as in the country.

The report below enumerates the approach for maintaining highest standards in Corporate Governance and its compliance status with the Corporate Governance regulations made under

the Banking Act Direction No. 12 of 2007 (and subsequent amendments thereto) for Licensed Specialized Banks issued by the Central Bank of Sri Lanka. The report also covers Bank's level of compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2013.

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.



**R. J. De Silva**  
*Chairman*

Colombo, Sri Lanka  
28<sup>th</sup> May 2018

## GOVERNANCE AND ETHICS

### ATTENDANCE FOR BOARD MEETINGS - 2017

Names	Directorship Status as at 31/12/2017	Number of Meetings held - 2017	Number of Meetings Entitled	Number of Meetings participated
Mr. R. J. De Silva	Non - executive / Independent Director (Chairman)	15	15	15
Mr. M. Surendran	Non - executive / non Independent Director	15	15	15
Mr. R.H. Meewakkala	Non -executive/ Independent Director	15	15	11
Mr. L.S. Palansuriya	Non- executive / non Independent Director	15	15	13
Mr. Lionel Jayasinghe	Non -executive/ Independent Director	15	15	13
Mr. D.P. Wimalasena	Non -executive/ Independent Director	15	15	14
Mrs. R.A. Chulananda	Non -executive/ Independent Director	15	15	13
Mr. P.M. Gunawardhana Appointed on June 2017	Non- executive / Independent Director	15	08	08
Mr. N. Wijeyanathan Appointed on June 2017	Non- executive / Independent Director	15	08	07
Mr. S.A.N Saranathissa Appointed on June 2017	Non- executive / Independent Director	15	08	06
Mr. Prasad Galhena (Resigned on March 2017)	Non - executive / independent Director	15	03	03
Mr. S.M.G. Jayarathne (Resigned on April 2017)	Non -executive/ Independent Director	15	05	05

## GOVERNANCE AND ETHICS

### NOMINATION COMMITTEE MEETINGS - 2017

Names	Directorship Status as at 31/12/2017	Number of Meetings held -2017	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. M. Surendran	Non - executive / Non Independent Director	01	01	01
Mr. Lionel Jayasinghe	Non- executive / Independent Director	01	01	01
Mr. D.P. Wimalasena	Non- executive / Independent Director	01	01	0

### HUMAN RESOURCE / REMUNERATION COMMITTEE MEETINGS - 2017

Names	Directorship Status as at 31/12/2017	Number of Meetings held -2017	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	03
Mr. Lionel Jayasinghe	Non- executive / Independent Director	04	04	03
Mr. D.P. Wimalasena (Appointed HR Sub Committee 28th July 2017)	Non -executive/ Independent Director	04	01	01
Mr. S.A.N Saranathissa (Appointed HR Sub Committee 28th July 2017)	Non- executive / Independent Director	04	01	01
Mr. Prasad Galhena (Resigned on March 2017)	Non- executive / Independent Director	04	02	02
Mr. R.H. Meewakkala (Resigned on HR Sub Committee 28th July 2017)	Non- executive/ Independent Director	04	03	02
Mr. S.M.G. Jayarathne (Resigned on April 2017)	Non -executive/ Independent Director	04	02	02

## GOVERNANCE AND ETHICS

### INTEGRATED RISK MANAGEMENT COMMITTEE MEETING – 2017

Names	Directorship Status as at 31/12/2017	Number of Meetings held -2017	Number of Meetings Entitled	Number of Meetings participated
Mr. N. Wijeyanathan	Non- executive/ Non Independent Director (Chairman of the Committee)	03	02	01
Mr. M. Surendran	Non- executive/ Non Independent Director	03	03	03
Mr. R.J. De Silva	Non- executive / Independent Director	03	03	03
Mr. Lionel Jayasinghe	Non- executive / Independent Director	03	03	02
Mr. P.M. Gunawardhana	Non- executive / Independent Director	03	02	02
Mr. D.P. Wimalasena	Non- executive / Independent Director	03	02	02
Mr. R.H. Meewakkala (Resigned on Risk Committee 28th July 2017)	Non-executive / Independent Director	03	02	01
Mr. Prasad Galhena (Resigned on March 2017)	Non- executive / Independent Director	03	01	01

### BOARD AUDIT COMMITTEE MEETING – 2017

Names	Directorship Status as at 31/12/2017	Number of Meetings held -2017	Number of Meetings Entitled	Number of Meetings participated
Mr. P.M. Gunawardhana	Non- executive / Independent Director (Chairman)	11	07	06
Mr. M. Surendran	Non- executive / Non-Independent Director	11	11	11
Mr. D.P. Wimalasena	Non- executive / Independent Director	11	11	08
Mr. Lionel Jayasinghe	Non- executive / Independent Director	11	11	11
Mr. N. Wijeyanathan	Non- executive / Independent Director	11	07	07
Mr. R.H. Meewakkala (Resigned on Audit Committee 28th July 2017)	Non- executive / Independent Director	11	04	01
Mr. Prasad Galhena (Resigned on March 2017)	Non – executive / Independent Director	11	02	02

## GOVERNANCE AND ETHICS

### RELATED PARTY TRANSACTION MONITORING COMMITTEE MEETING – 2017

Names	Directorship Status as at 31/12/2017	Number of Meetings held -2017	Number of Meetings Entitled	Number of Meetings participated
Mr. R.J.De Silva	Non- executive / Independent Director (Chairman)	03	03	03
Mr. L.S. Palansuriya	Non- executive / Non Independent Director	03	02	01
Mr. D.P. Wimalasena	Non- executive / Independent Director	03	03	03
Mr. M. Surendran	Non- executive / Non – Independent Director	03	03	03
Mr. N. Wijeyanathan	Non- executive / Independent Director	03	02	01

## 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 2017, 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 23<sup>rd</sup> May 2018, 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 specialized 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 17 and in General Manager /Chief Executive Officer's Review on pages 18 to 21.

An operational review during the financial year 2017 and operational results are given in Income Statement from page 106.

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

### 05. 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 17 and GM/CEO's review in pages 18 to 21.

### 06. 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 2017, which form an integral part of the Annual Report of the Board of Directors.

### 07. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of Financial Statements during the year are given on pages 111 to 115 of the Annual Report. The impact of changes in equity is given on page no 109 of the Annual Report.

### 08. AUDITORS' REPORT

The Auditor General of Sri Lanka, who is the auditor of HDFC Bank, performed the audit on the Financial Statement of HDFC Bank for the respective financial year and the relevant Auditor's Report is contained in pages 104 to 105 of the Annual Report.

### 09. 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.

### 10. INCOME

The income of the Bank for the year ended 31st December 2017 was LKR. 6,978 million. An analysis of the income is given in Notes 01, 03 and 04 to the Financial Statements.

### 11. PROFIT AND APPROPRIATION

The profit before income, tax VAT & NBT on Financial Services of the Bank for the year ended 31st December 2017 was LKR. 789 million and the profit after tax for the year ended 31st December 2017 was LKR. 408 million.

## THE REPORT OF THE DIRECTORS

For the year ended 31st December 2017	2017 Rs. Mn	2016 Rs. Mn
VAT & NBT on financial services	232	188
Provision for taxation	149	177
Profit on ordinary activities after tax	408	483
Retained profit /(accumulated losses) b/f	2,524	2,117
Profit available for appropriation	2,871	2,642
Appropriation First & Final Dividend proposed	-	49
Transfer to Reserve Funds	61	73
Retained Profit carried forward	2,810	2,524

### 12. RESERVES

The Bank's total Reserves as at 31st December 2017, amounted to LKR 3,237 million. The details are given on the statement on Changes in Equity on note 27-29 of the Financial Statement.

### 13. DONATIONS

During the year the Bank made donations amounting to LKR. 490,000/-

### 14. 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.

### 15. PROVISION FOR TAXATION

Income tax for 2017 has been provided at 28% on the taxable income arising from the operations of the Bank and has been disclosed in Note 09 to the Financial Statements on pages 118 to 119 of this Annual Report.

### 16. DIVIDEND

In considering the regulatory requirement of the Bank to increase the minimum capital of Rs. 5 Bn., Dividend will not be paid for financial Year 2017.

### 17. PROPERTY, PLANT AND EQUIPMENT, FREEHOLD PROPERTY

Capital expenditure on property, plant and equipment amounts to LKR 273 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 124 to 125.

### 18. MARKET VALUE OF FREEHOLD PROPERTIES

Details of the market value of freehold properties are given on Note 17 of the Financial Statements on page 125.

### 19. 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.

### 20. STATED CAPITAL

The stated capital of the Bank as at 31st of December 2017 was LKR. 962 million consisting of 64,710,520 ordinary shares.

### 21. SHARE INFORMATION

Details of share related information are given on pages 142 to 144 of this Annual Report.

### 22. 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 128 to 129.

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 128 to 129. The Bank had listed these debentures on the main board of Colombo Stock Exchange (CSE).

## THE REPORT OF THE DIRECTORS

### 23. EQUITABLE TREATMENT TO ALL STAKEHOLDERS

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

### 24. THE BOARD OF DIRECTORS

Please refer chapter on Board of Directors on pages 86 to 91 for full list of Directors and their qualifications and experience.

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

01. Mr. P.M. Gunawardhana – with effect from 30/06/2017
02. Mr. N. Wijeyanathan – with effect from 30/06/2017
03. Mr. S.A.N Saranathissa – with effect from 30/06/2017

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

01. Mr. P.S. Punchihewa – with effect from March 2017
02. Mr. Prasad Galhena – with effect from 30/03/2017
03. Mr. S.M. Gotabaya Jayarathne – with effect from 28/04/2017
04. Mr. P. M. Gunawardhana – with effect from 16/01/2018

### 25. 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 52 to 58 of the Annual Report.

### 26. DIRECTORS MEETINGS

Please refer the section on Board and Board Sub Committee attendance at meetings, on pages 39 to 42.

### 27. 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 102 to 103 which form an integral part of the Annual Report of the Board of Directors.

### 28. 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 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.

### 29. DIRECTORS' INTEREST IN SHAREHOLDING

Directors' shareholdings are as follows:

	31/12/2017	01/01/2017
Mr. R.J.De Silva (Chairman)	Nil	Nil
Mr. M. Surendran	1000	1000
Mr. R.H. Meewakkala	Nil	Nil
Mr. L.S. Palansuriya	Nil	Nil
Mr. D.P. Wimalasena	Nil	Nil
Mr. Lionel Jayasinghe	1000	1000
Mrs. R.A. Chulananda	Nil	Nil
Mr. S.A.N. Saranathissa	Nil	Nil
Mr. P.M. Gunawardhana	1000	Nil
Mr. N. Wijeyanathan	3,979	Nil

### 30. DIRECTORS' INTERESTS IN CONTRACTS AND PROPOSED CONTRACTS

Directors had no direct or indirect interest in any contract or proposed contract entered by the HDFC Bank during the year ended 31st December 2017. Further information is given on page 135 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.

## THE REPORT OF THE DIRECTORS

### 31. DIRECTORS' INTERESTS IN DEBENTURES

Individual debenture holding of Directors were as follows:

As at December 31,	2017	
	No. of Debentures	Value (Rs.)
Mr. R.J.De Silva (Chairman)	Nil	Nil
Mr. M. Surendran	Nil	Nil
Mr. R.H. Meewakkala	Nil	Nil
Mr. L.S. Palansuriya	Nil	Nil
Mr. D.P. Wimalasena	Nil	Nil
Mr. Lionel Jayasinghe	Nil	Nil
Mrs. R.A. Chulananda	Nil	Nil
Mr. S.A.N. Saranatissa	Nil	Nil
Mr. P.M. Gunawardhana	Nil	Nil
Mr. N. Wijeyanathan	Nil	Nil
<b>Total</b>	Nil	Nil

### 32. 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.

### 33. DIRECTORS' REMUNERATION

Directors' remuneration, for the financial year ended 31st December 2017 is given on Note 07 to the financial statement on page 118.

### 34. 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.

### 35. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

The risk Management of the Bank is a continuous process. Please refer Risk Assessment Report on pages 32 to 36

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.

### 36. CORPORATE GOVERNANCE

Please refer Corporate Governance report given on pages 59 to 85 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 4,400 (SLSRS).

### 37. 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.

To the best of the knowledge of the Directors, there has been no direct or indirect violation of laws or regulations in any jurisdiction which the Bank is bound to disclose nor has there been any irregularities involving management of employees that could have been a material financial effect on the Bank.

### 38. APPOINTMENT OF AUDITORS

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

## THE REPORT OF THE DIRECTORS

### 39. AUDITORS REMUNERATION AND INTEREST IN CONTRACT WITH THE BANK

The Auditors were paid Rs. 614,400/- for the year ended 31st of December, 2017 as audit fees by the Bank. The Auditors do not have any other relationship or interest in contracts with the Bank.

### 40. AUDIT COMMITTEE

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

### 41. NOTICE OF MEETING

The 33rd Annual General Meeting of the Bank will be held on Friday the Twenty Ninth (29th) day of June 2018 at Grand Oriental Hotel (Rainbow Hall), 01st Floor No. 02, York Street, Colombo 01, at 10.00 a.m.

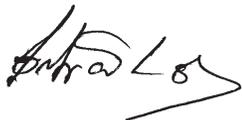
The Notice of the meeting is given on page 146 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors



**Mr. R. J. De Silva**

*Chairman*



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

*Company Secretary*

28<sup>th</sup> May 2018

## DIRECTORS STATEMENT ON INTERNAL CONTROL

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 Guidelines issued by The Institute of Chartered Accountants of Sri Lanka for Directors of the Bank's on the 'Directors Statement on Internal Controls'.

The key processes adopted in ensuring that an 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, the Board has set up an Investment Committee during the year under review to closely monitor the investment activities of the Bank.
- 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 risks.
- Policies and procedures are set out in operational manuals, guidelines and directives issued by the Bank to ensure compliance with internal controls and relevant laws and regulations and to ensure consistency of the operations.
- Guidelines for hiring and termination of staff, formal training programs for staff, annual performance appraisals and other relevant procedures are in place to ensure that proper HR practices are followed by the Bank.
- 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-compliances. Audits are carried out in branches and departments in accordance with the annual audit plan approved by the Board Audit Committee. The frequency of audits are determined by assessing the level of risk of entities. Findings of the internal audit are submitted to the Board Audit Committee for review at the 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

## DIRECTORS STATEMENT ON INTERNAL CONTROL

### 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 2017 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 on the process adopted by the Board to review the design and effectiveness of the internal control system over financial reporting of the Bank. Their report to the Board is disclosed on pages 50 and 51 to this Annual Report.

By order of the Board,



**S Dissanayaka**  
*Acting General Manager / CEO*



**M Surendran**  
*Chairman - Audit Committee*



**R J De Silva**  
*Chairman*

At Colombo  
24<sup>th</sup> May 2018

## ASSURANCE REPORT OF THE AUDITOR GENERAL ON INTERNAL CONTROLS



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கணக்காய்வாளர் தலைமை அறிப்பதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය } BAF/01/C/HDFCB/IC/2017 }  
எனது த.எ. } 17 }  
My No. } }  
Your No. } }

දිනය } 30 }  
திகதி } }  
Date } }  
May 2018

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 over Financial Reporting ("Statement") of Housing Development Finance Corporation Bank of Sri Lanka included in the annual report for the year ended 31 December 2017.

### Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3(8) (ii) (b) of the Banking Act Direction No. 12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

### My Responsibility and Compliance with SLSAE 3050

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

### Summary of Work Performed

I conducted my engagement to assess whether the Statement is supported by the documentation prepared by or for Directors and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

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

SLSAE 3050 does not require me to consider whether the Statement covers all risk and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspects 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 over financial reporting of the bank.

H.M. Gamini Wijesinghe  
Auditor General

## ASSURANCE REPORT OF THE AUDITOR GENERAL ON INTERNAL CONTROLS



### විගණකාධිපති දෙපාර්තමේන්තුව கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம் AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය  
எனது இல. }  
My No. }

BAF/01/C/HDFCB/CG/2017/1

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி } 30 May 2018  
Date }

The Chairman,  
Housing Development Finance Corporation Bank of Sri Lanka.

**Auditor General's Report of Factual Findings of Housing Development Finance Corporation Bank of Sri Lanka (HDFC) to the Board of Directors of the HDFC Bank of Sri Lanka on the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka - 31 December 2017**

I have performed the procedures enumerated in Annexure I to the report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standard on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive.

I report my findings in the attached Annexure I to this report.

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, I do not express any assurance on the compliance with directives of corporate governance issued by CBSL.

Had I performed additional procedures or had I performed an audit or review of the Governance Report in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, Other matters might have come to my attention that would have been reported to you.

My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

This report relates only to the items specified above and does not extend to any financial statements of HDFC Bank of Sri Lanka, taken as a whole.

H.M. Gamini Wijesinghe  
Auditor General.

## BOARD SUB COMMITTEE REPORTS

### BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

#### Composition of the Committee

The Human Resources & Remuneration Committee ("the Committee"), is appointed by the Board of Directors of the Bank.

The Committee met four (04) times during 2017. The membership of the Committee and attendance of the Committee members at the meeting is given in the Annual Report.

#### Scope and commitment

The following shall apply in relation to the Human Resources and Remuneration Committee:

- a) The Committee shall determine the Remuneration Policy (salaries, allowances and other financial payments) relating to, the Chief Executive Officer (CEO) and Key Management Personnel of the bank.
- b) The Committee shall set goals and targets for the, CEO and the Key Management Personnel.
- c) The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- d) Making necessary recommendation to the Board pertaining to Salary Revisions, Prerequisites, Recruitments, Cadre Determination, Promotions/ Change of Designation/ Creation of new posts or position / Placements/ Cadre and Cadre Budget, Training and attending to Overseas Seminars by the Staff Members of the Bank.

The Committee recognised that Human Resource is the most important and challenging fact which has a huge bearing with the Bank's profitability. Therefore the Committee during the period under review took necessary measures for consistent development of human resources of HDFC through employee skill development and capacity building/ training / development initiatives.

Further the Committee has observed the need of the Bank to groom the Bank's cadre base to take up higher managerial positions. Accordingly, the Committee took initiatives to define Branch Manager and Second Officer pools. Further, initiatives were taken to strengthen the branch operational network by appointment of two new Regional Managers.

Further, during the period under review, the Committee reexamined some of the existing policies, such as the,

- Human Resources Policy – 2017(Revised)
- Physical Security Policy – 2017
- Succession Planning Policies – 2017
- Whistle Blowing Policy – 2017
- Outsource Policy – 2017 (Revised)
- Training and Development Policy – 2017 (Revised)

In addition, employee discipline, relationship management with external, internal customers & third parties, recruitment of right candidates, employee retention, were also considered



**Mr. S. A. N. Saranathissa**  
Chairman



**Mrs. Dharshani De Silva**  
Company Secretary

At Colombo,  
on 09<sup>th</sup> May 2018

## BOARD SUB COMMITTEE REPORTS

### BOARD NOMINATION COMMITTEE

#### Composition of the Nomination Committee

The Committee ("the Committee"), is appointed by the Board of Directors of the Bank.

The Nomination Committee met once (01) during 2017. The membership of the Committee and attendance of the Committee members at the meeting is given on Page 40 of the Annual Report.

#### Scope and Commitment of the Committee

- a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.
- b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.
- c) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.

d) The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.

e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

The Committee during the period under review took initiatives to make necessary recommendations to nominate HDFC shareholder Directors to the Board, from areas of banking and finance.



**Mr. R. J. De Silva**  
Chairman



**Mrs. Dharshani De Silva**  
Company Secretary

At Colombo,  
on 09<sup>th</sup> May 2018

## BOARD SUB COMMITTEE REPORTS

### BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

#### Composition of the Integrated Risk Management Committee

The HDFC Intergrated Risk Management Committee ("the Committee"), is appointed by the Board of Directors of the Bank.

The Integrated Risk Management Committee met three (03) times during 2017. The membership of the Committee and attendance of the Committee members at the meeting is given on Page 41 of the Annual Report.

#### Compliance

Complying with the Section 2(6) of the Banking Act Direction No.12 of 2007 on "Corporate Governance for Licensed Specialized Banks in Sri Lanka", the BIRMC was established.

#### Scope and Commitment

- a) The Committee shall work with key management personnel very closely and make decisions on behalf of the board within the framework of the authority and responsibility assigned to the Committee.
- b) The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.

- c) The Committee shall review the adequacy and effectiveness of all management level Committees such as the Credit Committee and the Asset-liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
- d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the bank's policies and regulatory and supervisory requirements. Directions, Determinations, and Circulars issued to Licensed Specialized Banks
- e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.
- f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.
- g) The Committee shall submit a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.

- h) The Committee shall establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the Committee periodically.

Therefore the Committee during the period under review, necessary measures were taken with view to setting up robust and pervasive Risk Management System within the Bank, with the assistance of the Risk division. Accordingly, BIRMC involved in following functions;

- Analyzing the different plausible scenarios and their impact to the bank via Stress testing.
- Ensuring the risk undertook by the bank within set risk appetite and tolerance limits
- Ensuring regulatory requirements are met in all strategic and operational decision implementations.
- Review of smooth functioning the management Committees.
- Assessment of Bank's overall risk profile via Risk dashboard and setting up appropriate risk mitigating strategies timely.
- Setting up, Reviewing risk policies, procedures and risk limits

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## BOARD SUB COMMITTEE REPORTS

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.

The Committee confirms that 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 to the risk alerts issued by risk division on emerging risk matters.



**Mr. N. Wijeyanathan**  
*Chairman*



**Mrs. Dharshani De Silva**  
*Company Secretary*

At Colombo,  
on 09<sup>th</sup> May 2018

## BOARD SUB COMMITTEE REPORTS

### BOARD RELATED PARTY TRANSACTIONS MONITORING COMMITTEE

#### Composition of the Related Party Transactions Committee

The Committee ("the Committee"), appointed by the Board of Directors of the Bank.

The Related Party Transactions Committee met three (03) times during 2017.

The membership of the Committee and attendance of the Committee members at the meeting is given on Page 42 of the Annual Report. By invitation the General Manager/CEO, Chief Operations Officer, Chief Financial Officer, Compliance Officer, Risk Officer and other Corporate Management Members had attended the Committee meeting.

#### Scope and commitment

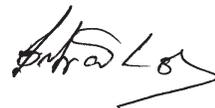
The Committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the Related Parties as defined under the law.

Therefore the Committee during the period under review took necessary measures to adopt a Related Party Policy (02/04/RPTC/2017) and thereby confirming that Bank is not engaging in related party transactions on favourable terms to related parties, and avoiding any conflict of interest.

Further, the Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments/ observations to the Board of Directors.



**Mr. R. J. De Silva**  
*Chairman*



**Mrs. Dharshani De Silva**  
*Company Secretary*

At Colombo,  
on 09<sup>th</sup> May 2018

## BOARD SUB COMMITTEE REPORTS

### BOARD AUDIT COMMITTEE REPORT

The Audit Committee presents this report for the financial year ended 31st December 2017 to comply with the "Listing Rules" of Colombo Stock Exchange and the Corporate Governance Directions of the Central Bank of Sri Lanka and also to comply with the "Code of best practices on Corporate Governance" issued jointly by Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

#### Composition of the Audit Committee

The Board appointed Audit Committee, comprises five (5) Non-Executive Directors and is in line with the composition requirements specified in the Banking Act Direction No 12 of 2007. Eleven BAC meetings were conducted during year 2017 and the first four meetings were chaired by Mr. M Surendran and the rest of the meetings were chaired by Mr. P M Goonawardena. Both directors have a specialised financial/auditing background. The following independent directors served on the Audit Committee during the year:

Name of the BAC member	Status during 2017
Mr. M Surendran	Active
Mr. P M Goonawardena	Served for 6 meetings
Mr. Prasad Galhena	Served for 2 meetings
Mr. R H Meewakkala	Served for 1 meeting
Mr. L Jayasinghe	Active
Mr. D P Wimalasena	Active
Mr. N Wijeyanathan	Served for 7 meetings

Profiles of the members are given in pages 88 to 91.

#### Charter of the Audit Committee

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and is 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 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

Attendance of Committee members at meetings is given in the Corporate Governance section of the Annual Report.

The Chief Internal Auditor and Chief Finance Officer attend the meetings on a regular basis. 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 a need basis. On the invitation of the Committee, the Bank's External Auditor, attended 09 meetings during the year.

#### Methodology adopted by the Committee

- Reviewed the Interim Financial Statements and the Bank's Annual Financial Statements in order to ensure the integrity of such statements prepared for publishing, prior to submission to the Board of Directors.
- Examined any matter relating to the financial and other connected affairs of the Bank.
- Ensured that efficient and sound financial reporting systems are in place and are managed properly in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities and Other Stakeholders.
- Ensured the Bank has adopted and adhered to policies which firmly commits the Bank to achieve the highest standards of good corporate governance practices.
- Reviewed the appropriateness of Accounting Policies and adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Reviewed internal audit reports and liaise with management in taking precautionary measures to minimise control weaknesses, procedural violations, fraud and errors.
- Reviewed External Audit and statutory inspection reports and followed-up on their findings and recommendations.

## BOARD SUB COMMITTEE REPORTS

### Summary of Activities

Performed following activities during the year.

- **Financial Reporting**

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

- **Internal Controls, Risk Management systems and Compliance requirements**

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

- **Internal Audit**

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 the Head of Internal Audit and senior staff were reviewed to comply with the statutory requirements.

- **External Audit and other statutory audits**

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

### Ethics and Good Governance

The committee promotes good governance among the internal audit staff by reviewing and approving the internal audit charter and continuously emphasising upholding ethical values of 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 take place. This ensures that the 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 that indicates that the Bank's system of internal financial controls and accounting practices provide a basis for unreliable annual financial statements. The Committee is satisfied that the Bank's Annual Financial Statements are

in compliance, in all material respects, with the requirements of the Companies Act and Sri Lanka Accounting Standards and recommended the financial statements for approval of the Board.



**M Surendran**  
Chairman

Board Audit Committee  
28<sup>th</sup> May 2018

## COMPLIANCE REVIEW

The compliance status of the HDFC Bank for financial year 2017 with regard to corporate governance frame work defined by the Central Bank of Sri Lanka, Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka is henceforth defined.

### SECTION - 1

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

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
3(1)	<b>The Responsibilities of the Board</b>	
3(1)(i)	Procedures to be carried out to ensure the Board have strengthened the safety and soundness of the Bank.	
a)	<p>The Board approval of the Bank's strategic objectives and corporate values.</p> <p>The Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank.</p>	<p><b>Complied with</b> Strategic objectives and values are incorporated in the Board approved Corporate Plan for the period 2017-2020.</p> <p>The 2017 budget was prepared based on the Corporate Plan and both were discussed and communicated throughout the Bank. Regional Managers meetings were held time to time.</p>
b)	<p>The Board approval of the overall business strategy of the Bank.</p> <p>That the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.</p> <p>That the overall business strategy contains measurable goals, for at least the next three years.</p>	<p><b>Complied with</b> Board approved Corporate Plan, which includes the overall business strategy for the period 2017-2020 is available.</p> <p>Risk Policy, Risk Appetite Framework have been approved by the Board in line with the Corporate Plan.</p> <p>Turnaround Plan 2018 - 2020 is adopted.</p>
c)	Availability of appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	<p><b>Complied with</b> Risk Department and Integrated Risk Management committee was established,</p> <p>Risk Policy adopted by the committee and as given above. The Integrated Risk Management Committee setting governors structure implementing, monitor and manage the principle risks.</p>
d)	The Board has approved and implemented a policy of communication with all stakeholders, including deposits, creditors, shareholders and borrowers;	<p><b>Complied with</b> Sustainability measures applied.</p>
e)	The Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information system;	<p><b>Complied with</b> Board Audit Committee and the Board reviewed the Internal Control measures from time to time. Internal audit division assesses the internal control systems and submits reports to the Board Audit Committee.</p>

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
f)	The Board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in the position to : (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	<b>Complied with</b> Board has identified and designated Key Management Personnel as defined in Sri Lanka Accounting Standards.
g)	The Board has exercised appropriate oversight of the affairs of the Bank by Key management personnel, that is consistent with Board policy;	<b>Complied with</b> Performance reports were considered at Board level and time to time observations were made for necessary improvements.
h)	The Board has defined the areas of authority and key responsibilities for the Board Directors themselves and for the key management personnel;	<b>Partially Complied with</b> The administration and management of the affairs of the Corporation vested in a Board of Directors as per the HDFC Act. Key Management Personnel targets are connected with the overall budgetary target and respective departmental targets. However, Board approved goals and targets (key performance indicators) were not available. It is under preparation to submit to the Board.
i)	The Board has periodically assessed the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	<b>Complied with</b> Board has a self-evaluation process and it includes the evaluation of Board of Directors own governance practices. Self-evaluation for the year 2017 have been collected and a summary has been submitted to the Board for their review and to discuss areas of weaknesses and recommend changes where necessary. Policy adopted for recruitment and promotions of employees including KMP.
j)	The Board has a succession plan for key management personnel.	<b>Partially Complied with</b> Board approved succession plan is in place. However, it is not updated properly.
k)	The Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	<b>Complied with</b> Board meetings, Board Sub Committee meetings and Management Committee Meetings discuss matters relating to strategy, policies and performance.
l)	The Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.	<b>Complied with</b>

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
	m) The Board has a process in place for hiring and oversight of external auditors.	<b>Complied with</b> According to the HDFC Act external auditor should be the Auditor General.
3(1)(ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO).  The functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.	<b>Complied with</b> Chairman and General Manager/Chief Executive Officer are separated. Chairman is appointed in terms of the HDFC act and General Manager appoints by the Board.  Their functions and responsibilities are clearly defined in the HDFC Act
3(1)(iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	<b>Complied with</b> Board meetings are held monthly and special meetings are scheduled when the need arises.  15 Meetings were held during the year 2017.
3(1)(iv)	The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	<b>Complied with</b> The Chairman advice the secretary to do the agenda and all Directors are free to include the matters of their own consulting the Chairman and the Secretary.
3(1)(v)	The Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	<b>Complied with</b> Notice of the meeting , Agenda and Board papers for the Board meetings are circulated within the stipulated time.
3(1)(vi)	The Board has taken required action on Directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate Director, however, to be acceptable as attendance.	<b>Complied with</b> All the Directors attended the required number of meetings. Details of the Director's attendance in the annual report.
3(1)(vii)	The Board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	<b>Complied with</b> Attorney at Law had been appointed as secretary to the Board with relevant qualifications (MBA & LLM) under the provision of Banking Act.
3(1)(viii)	The process to enable all Directors to have access to advice and services of the company secretary.	<b>Complied with</b> All the Directors have free access to the company secretary.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
3(1)(ix)	The company secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such minutes.	<b>Complied with</b> All records are keeping with the company secretary.
3(1)(x)	That the minutes of a Board meeting contain the necessary details as given in the direction.	<b>Complied with</b> Necessary information are given in the Board minute and all the relevant details are mentioned in the Board papers as well.
3(1)(xi)	That there are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	<b>Complied with</b> The Board having identified the need of the Bank to appoint professionals as consultants from time to time. Such as HR and Corporate Lending area.
3(1)(xii)	That there is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoid conflicts of interests, or the appearance of conflicts of interest, as given in the direction.	<b>Complied with</b> If a matter connected to Director is discusses, they abstained from participation.
3(1)(xiii)	That the Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	<b>Complied with</b> Authority matrix is in place as adopted in 26.07.2013.
3(1)(xiv)	That the Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	<b>Complied with</b> Not arisen during the period under review. Monthly financial statements submitted to the Board assure that the Bank's positions of solvency.
3(1)(xv)	That the Board has the Bank capitalized at levels as required by the Monetary Board.	<b>Partially Complied with</b> Capital Adequacy Ratios were met by the Bank. However, Monetary Board has granted a grace period of six months up to 30.06.2018 to meet the minimum capital requirement of Rs.5 billion.
3(1)(xvi)	That the Board publishes, in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	<b>Complied with</b> This report is included in the Annual report 2017.
3(1)(xvii)	That the Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	<b>Complied with</b> Self-assessment is done and maintained the records of such assessments.
3(2)	<b>The Board's Composition</b>	
3(2)(i)	That the Board comprise of not less than 7 and not more than 13 Directors.	<b>Complied with</b> Board comprise of 10 Directors.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
3(2)(ii)	(a) That the total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.	<b>Complied with</b> None of the Directors has exceeded the service of nine years as at the yearend 2017.
	(b) In the event of any Director serving more than 9 years, that the transitional provisions have been applied with.	<b>Complied with</b> None of the Directors has exceeded the service of nine years as at the yearend 2017.
3(2)(iii)	That the number of executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	<b>Complied with</b> There are no executive Directors in the Bank under the HDFC Act.
3(2)(iv)	That the Board has at least three independent non-executive Directors or one third of the total number of Directors, whichever is higher.	<b>Complied with</b> The Board comprise of 10 Non-Executive Directors as at 31.12.2017. However, one Director represents National Housing Development Authority with a shareholding of 49.73% as at the yearend.
3(2)(v)	In the event an alternate Director was appointed to represent an independent Director, the person so appointed meet the criteria that applies to the independent Director.	Not arisen
3(2)(vi)	That the Bank has a process for appointing independent Directors.	<b>Complied with</b> The appointments to the Board are made as per the HDFC Act.
3(2)(vii)	That the stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include non-executive Directors.	<b>Complied with</b> All Directors are non-executive.
3(2)(viii)	That the Bank discloses the composition of the Board, by category of Directors, including the names of the chairman, executive Directors, non -executive Directors and independent non-executive Directors in the annual corporate governance report.	<b>Complied with</b> Details are published in the Annual Report 2017.
3(2)(ix)	The procedure for the appointment of new Directors to the Board.	<b>Complied with</b> The appointments to the Board are made as per the HDFC Act.
3(2)(x)	That all Directors appointed to fill a casual vacancy is subject to election by shareholders at the first general meeting after their appointment.	Not arisen
3(2)(xi)	If a Director resigns or is removed from office, the relevant announcements as per the direction.	<b>Complied with</b> Public announcements are made through CSE and CBSL.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
3(2)(xii)	Availability of a process to identify whether a Director or an employee of a Bank is appointed, elected or nominated as a Director of another Bank.	<b>Complied with</b> Bank has a process to identify whether a Director of a Bank is appointed, elected or nominated as a Director of another Bank based on the fit and proper declarations submitted annually to the Board.
3(3)	<b>Criteria to assess the fitness and propriety of Directors</b>	
3(3)(i)	That the age of a person who serves as Director does not exceed 70 years.	<b>Complied with</b> None of the Directors have reached the age of 70 years during the year 2017.
3(3)(ii)	If a person holds office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	<b>Complied with</b>
3(4)	<b>Management functions delegated by the Board</b>	
3(4)(i)	That the delegation arrangements have been approved by the Board.	<b>Complied with</b>
3(4)(ii)	That the Board has taken responsibility for the matters in 3(1)(i) even in the instances such actions are delegated.	<b>Complied with</b>
3(4)(iii)	That the Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	<b>Complied with</b> The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.
3(5)	<b>The Chairman and CEO</b>	
3(5)(i)	That the roles of Chairman and CEO is separate and not performed by the same individual.	<b>Complied with</b> Roles of Chairman and CEO are held by two individuals.
3(5)(ii)	That the Chairman is a Non-Executive Director.	<b>Complied with</b> The Chairman is a Non-executive Director
3(5)(iii)	That the Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	<b>Complied with</b> As per the declarations such relationships can be identified and those disclose in the Annual report.
3(5)(iv)	The Board to have a self-evaluation process.	<b>Complied with</b> Board has a self-evaluation process.
3(5)(v)	That a formal agenda is circulated by the Company Secretary approved by the Chairman.	<b>Complied with</b> Agenda discussed by the Chairman verbally with the Secretary and finalized before the meeting.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
3(5)(vi)	That the Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	<b>Complied with</b> The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings. Agenda and Board papers are circulated to the Directors giving adequate time for them to go through the papers. Minutes of the previous Board meetings are approved in the subsequent Board meeting.
3(5)(vii)	That the Board has a self-evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman taking the lead to act in the best interest of the Bank.	<b>Complied with</b> Board has a self-evaluation process.
3(5)(viii)	That the Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	<b>Complied with</b> Board has a self-evaluation process.
3(5)(ix)	That the Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	<b>Complied with</b> The Chairman does not involve in the supervision of KMP's
3(5)(x)	That there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	<b>Complied with</b> At the AGM shareholder matters address.
3(5)(xi)	That the CEO functions as the apex executive-in-charge of the day to - day management of the Bank's operations and business.	<b>Complied with</b> GM/CEO is the apex executive in charge of the day to day management of the Bank's operations as per the HDFC Act.
3(6)	<b>Board appointed Committees</b>	
3(6)(i)	That the Bank has established at least four Board Committees as set out in Directions 3(6)(ii), 3(6)(iii),3(6)(iv) and 3(6)(v) of these Directions.  That each Board Committee report is addressed directly to the Board.  That the Board presents in its annual report, a report on each Committee on its duties, roles and performance.	<b>Complied with</b> Following are the main Committees.  (i) Board HR & Remuneration Committee (ii) Board Nomination Committee (iii) Board Integrated Risk Management Committee (iv) Board Related Party Transaction Committee (v) Board Audit Committee  Committee Minutes are directly submitted to the Board and each Committee report appears in the annual report.
3(6)(ii)	<b>Audit Committee</b>	
a)	That the Chairman of the Committee is an independent Non-Executive Director and possesses qualifications and related experience.	<b>Complied with</b>
b)	That all members of the Committee are Non-Executive Directors.	<b>Complied with</b>

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
c)	<p>That the Committee has made recommendations on matters in connection with:</p> <ul style="list-style-type: none"> <li>(i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) The implementation of the Central Bank guidelines issued to auditors from time to time;</li> <li>(iii) The application of the relevant accounting standards; and</li> <li>(iv) The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</li> </ul>	<p><b>Complied with</b></p> <p>According to the HDFC Act the Auditor General acts as the External Auditor of the Bank.</p> <p><b>Complied with</b></p> <p><b>Complied with</b></p> <p><b>Not Applicable</b></p>
d)	<p>That the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.</p>	<p><b>Not Applicable</b></p>
e)	<p>That the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.</p>	<p><b>Not Applicable</b></p>
f)	<p>That the committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.</p>	<p><b>Complied with</b></p>
g)	<p>That the Committee has a process to review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <ul style="list-style-type: none"> <li>(i) major judgmental areas;</li> <li>(ii) any changes in accounting policies and practices;</li> <li>(iii) the going concern assumption; and</li> <li>(iv) the compliance with relevant accounting standards and other legal requirements, and;</li> <li>(v) in respect of the annual financial statements the significant adjustments arising from the audit.</li> </ul>	<p><b>Complied with</b></p> <p>The committee reviews financial information of the Bank when quarterly and annual financial statements presented to the Committee. As CEO and CFO participate in BAC meetings clarifications are obtained on these areas when required.</p>

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
	h) That the Committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	<b>Complied with</b> Auditor General's representative is resident at the Bank and committee meets them regularly and always a representative at the BAC meetings, by invitation.
	i) That the Committee has reviewed the external auditor's management letter and the management's response thereto.	<b>Complied with</b>
	<p>j) That the committee shall take the following steps with regard to the internal audit function of the Bank:</p> <p>(I) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>(II) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>(III) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>(IV) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.</p> <p>(V) That the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p> <p>(VI) That the internal audit function is independent of the activities it audits.</p>	<b>Complied with</b>
	k) That the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	<b>Complied with</b> BAC has reviewed investigations and other major finding based on the Internal Audit reports and management responses.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
	l) That whether the committee has had at least two meetings with the external auditors without the executive Directors being present.	This is not relevant since there are no executive Directors in the Board.
	m) That the terms of reference of the committee to ensure that there is; (i) Explicit authority to investigate into any matter within its terms of reference; (ii) The resources which it needs to do so; (iii) Full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	<b>Complied with</b>
	n) That the committee has met, at least four times and maintained minutes.	<b>Complied with</b>
	o) That the Board has disclosed in the annual report, that the relevant details as required in accordance with the direction.	<b>Complied with</b> These details are included in the Audit Committee Report of the Annual report 2017.
	p) That the secretary of the committee is the company secretary or the head of the internal audit function.	<b>Complied with</b> Head of Internal Audit Division is functioning as the secretary of the BAC.
	q) That the "whistle blower" policy covers the process of dealing as given in the direction.	<b>Complied with</b> Whistle Blowing Policy – 2017 adopted on 13/10/2017 (08/53/HR/2017)  To facilitate this requirement CIA has been nominated as one of the officers to receive whistle blower Information.
3(6)(iii)	Does the following rules apply in relation to the <b>Human Resources and Remuneration Committee:</b>	
	a) That the Committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and key management personnel of the Bank by review of the "Terms of reference" and minutes.	<b>Complied with</b> Remuneration of the Directors are decided based on the guidelines set up by the Ministry of Finance. The Collective Agreements and the salary increases or allowances applicable for the Banking sector considered for salary revisions of KMP.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
	b) That the goals and targets for the Directors, CEO and the key management personnel are documented.	<b>Partially Complied with</b> Since Directors are Non-executive, they are not involved in operational matters like executive Directors. KMP's are responsible for the budgetary targets. However, Board approved individual goals and targets (key performance indicators) were not available. It is under preparation to submit to the Board.
	c) That the Committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	<b>Complied with</b>
	d) That the "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	<b>Complied with</b> TOR of the HR Committee address this requirement.
3(6)(iv)	Does the following rules apply in relation to the <b>Nomination Committee</b>	
	a) That the Committee has implemented a procedure to select/appoint new Directors, CEO and key management personnel.	<b>Complied with</b>
	b) That the Committee has considered and recommended (or not recommended) the re-election of current Directors.	<b>Complied with</b>
	c) That the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	<b>Complied with</b>
	d) That the committee has obtained from the Directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	<b>Complied with</b> Signed declaration obtained.
	e) That the committee has considered a formal succession plan for the retiring Directors and key management personnel.	<b>Partially Complied with</b> Succession plan for the key management personnel is available. However, it is not updated properly.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
	f) That the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	<b>Complied with</b>
3(6)(v)	Does the following rules apply in relation to the <b>Integrated Risk Management Committee (IRMC)</b> :	
	a) The committee shall consist of at least three non-executive Directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	<b>Complied with</b>
	b) That the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and group basis.	<b>Complied with</b>
	c) That the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	<b>Complied with</b>
	d) That the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	<b>Complied with</b> Having implemented a Risk appetite framework, all risk beyond the tolerance limits is being reviewed.
	e) Frequency of the Committee meetings (has met at least quarterly)	<b>Complied with</b>
	f) That the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	<b>Complied with</b>
	g) That the committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	<b>Complied with</b> The Minute submitted to the Board immediately after the Committee Meeting.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
	h) That the committee has establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	<b>Complied with</b> Compliance Officer appointed and Compliance Status Reports were submitted to IRMC.
3(7)	<b>Related party transactions</b>	
3(7)(i)	That there is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:	<b>Complied with</b> There is a system to capture Related Party Transactions (RPT) and Related Party Guidelines issued and the matters are discussed at Related Party Committee level. Further RPT policy has adopted by the Bank in 2017.
3(7)(ii)	That there is a process to identify and report relevant types of transactions with related parties that is covered by this Direction.	<b>Complied with</b>
3(7)(iii)	The Board have a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the Bank carrying on the same business.	<b>Complied with</b> The Related Party Transaction Committee was established and there in control if such event arises.
3(7)(iv)	That the Bank has a process for granting accommodation to any of its Directors and key management personnel, as given in the direction.	<b>Complied with</b>
3(7)(v)	That the Bank has a process, where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director, and to obtain security as stipulated in the relevant direction on mandatory basis.	<b>Complied with</b> Process is available and no accommodation will be given without a security.
3(7)(vi)	That there is a process in place to identify when the Bank grants any accommodation or "more favorable treatment".	<b>Complied with</b>

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
3(7)(vii)	That there is a process to obtain prior approval from the Monetary Board for any accommodation granted by a Bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect.	<b>Complied with</b> During the year related party transactions were not reported.
3(8)	<b>Disclosures</b>	
3(8)(i)	That the Board has disclosed, a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.  b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	<b>Complied with</b> Presented in the Annual Report 2017.  <b>Complied with</b> Quarterly financial statements are published in the newspapers with applicable CBSL requirements.
3(8)(ii)	That the Board has made the following minimum disclosures in the Annual Report:	
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	<b>Complied with</b> Available in the Annual Report 2017.
	b) The report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	<b>Complied with</b> Available in the Annual Report 2017.
	c) That the Board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	<b>Complied with</b> Available in the Annual Report 2017.
	d) Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	<b>Complied with</b> Available in the Annual Report 2017.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as given in the Auditor General's Report
	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.	<b>Complied with</b>
	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.	<b>Complied with</b>
	g) That the Board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	<b>Complied with</b> Available in the Annual Report 2017.
	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.	<b>Complied with</b> Available in the Annual Report 2017.
	i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	No such situation has arisen.

## COMPLIANCE REVIEW

### SECTION TWO

HDFC Bank's status of 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
<b>A. Directors</b>				
A.1 The Board	<p><b>Complied with</b></p> <p>The Board comprises only of Non-Executive Directors.</p> <p>Please refer Directors Profiles.</p>			
A 1.1 1. Meeting	<p><b>Complied with</b></p> <p>Please refer status of compliance for 3(1)(iii) of CBSL Rules</p>			
A 1.2 2. Board Responsibilities	<p><b>Complied with</b></p> <p>The overall responsibility for good governance of the Bank is vested with the Board.</p>			
A 1.3 3. Access to Independent Professional Advice	<p><b>Complied with</b></p>			
A 1.4 4. Board Secretary	<p><b>Complied with</b></p> <p>The Board Secretary plays an intermediary role between the Company and the stakeholders and advice and services are available for all Directors to ensuring ensure that Board procedures are correctly adhered to, in line with applicable laws of the Bank. The Board Secretary is an Attorney-at-Law.</p>			

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A 1.5 5. Independent Judgment	<b>Complied with</b>			
A 1.6 6. Dedication of adequate time and effort by the Board and Board Committee	<b>Complied with</b>			
A 1.7 7. Training for new Directors	<b>Complied with</b>			
A 1.8 8. Every Directors should receive appropriate training on first appointment to the Board and subsequently as necessary training.	<b>Complied with</b>			
A.2 Chairman & Chief Executive Officer				
A 2.1 9. Division of Responsibilities of the Chairman & GM/CEO	<b>Complied with</b>			
A.3 Chairman's Role				
A 3.1 10. Role of the Chairman	<b>Complied with</b>			
A 4. Financial Acumen				
A 4 11. Availability of sufficient financial acumen and knowledge	<b>Complied with</b>			
A 5. Board Balance				
A 5.1 12. Presence of a strong independent element on the Board	<b>Complied with</b>			
A 5.2 A 5.3 13. Independent Directors	<b>Complied with</b>			
A 5.4 14. Signed declaration of independence by the Non-executive Directors	<b>Complied with</b>			

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A 5.5 15. Determination of independence of the Directors by the Board	<p><b>Complied with</b></p> <p>During the period under review, Independent, Non-Executive Directors are as follows.</p> <p>01. Mr. R. J. De Silva (Chairman) 02. Mr. R. H. Meewakkala 03. Mr. D. P. Wimalasena 04. Mr. L. Jayasinghe 05. Mrs. R. A. Chulananda 06. Mr. P. M. Gunawardhana 07. Mr. N. Wijeyanathan 08. Mr. S. M. G. Jayarathne (resigned – 28.04.2017) 09. Mr. Prasad Galhena (resigned – 30.03.2017)</p>			
A 5.6 16. Senior Independent Director				<b>N/A</b>
A 5.7 17. Confidential Discussion with the Senior Independent Director				<b>N/A</b>
A 5.8 18. Meeting of Non-executive Directors	<b>Complied with</b>			
A 5.9 19. Recording of concerns in Board Minutes	<b>Complied with</b>			
A 6. Supply of Information				
A 6.1 20. Information to the Board by the management	<b>Complied with</b>			
A 6.2 21. Adequate time for Board meeting	<b>Complied with</b>			
A.7 Appointment to the Board				
A 7.1 22. Nomination Committee	<p><b>Complied with</b></p> <p>For further details please refer the Board Nomination Committee Report on Page 53.</p>			
A 7.2 23. Assessment of Board composition	<p><b>Complied with</b></p> <p>The Nomination Committee reviews the composition of the Board and makes necessary recommendations.</p>			

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A 7.3 24. Disclosure of details of new Directors to Shareholders	<b>Complied with</b> All Directors profiles are Published in the Annual Report.			
A 8 Re-election				
A 8.1 25. Appointment of Non- Executive Directors	<b>Complied with</b> All new appointments to 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 26. Election of Directors by the Shareholders	Complied with Once in every three years Directors are compulsorily required to stand for re-election.			
A 8.3 Designations 27. In the event of a resignation of a Director prior to completion of his appointed term, the Director should provide a written communication to the Board of his reasons for resignations.	<b>Complied with</b>			
A 9 Appraisal of Board performance				
A 9.1 28. Appraisal of Board performance	<b>Complied with</b>			
A 9.2 29. Annual self-evaluation of the Board and its Committees	<b>Complied with</b> Please refer comments mentioned under A 9.1, above.			
A9.3 30. The Board should have a process to review the participation, contribution and engagement of each Directors at the time of re-election	<b>Complied with</b>			
A 9.4 31. Disclosure of the appraisal of Board and Board Sub Committee Performance	<b>Complied with</b> 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	<b>Complied with</b>			

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A 10.1 32. Details in respect of Directors	<b>Complied with</b> The relevant details of the Directors are given under the Director's Profile of the Annual Report, on Pages 88 to 91.			
Appraisal of the GM/CEO				
A.11 Appraisal of the GM/CEO	<b>Complied with</b>			
A 11.1 33. Financial targets for GM/ CEO	<b>Complied with</b>  In line with the Corporate Plan of the Bank.			
A 11.2 34. Evaluation of the performance of the GM/CEO	<b>Complied with</b>			
<b>B. Directors Remuneration</b>				
B 1 Remuneration Procedures	<b>Complied with</b> The Directors of the Bank are not entitle for remuneration and they get an allowance as directed by the Ministry of Finance.			
B 1.1 35. Remuneration / Human Resources Committee	<b>Complied with</b> The Human Resource and Remuneration Committee is responsible for assisting the Board with regard to the Remuneration Policy.			
B 1.2 36. Composition of the Remuneration Committee	<b>Complied with</b> Please refer the Board Human Resource and Remuneration Committee Report on Page 52 of the Annual Report for details.			
B 1.4 37. Remuneration of the Non-executive Directors				<b>N/A</b> Please refer B.1
B 1.5 38. Consultation of the Chairman and access to professional advice	<b>Complied with</b> External professional advice is sought, on need basis.			
Level and make-up of the Remuneration				

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
B 2 Level and make-up of the Remuneration			<b>N/A</b>	
B 2.1			Please refer comments for B 1.	
39. Level and make-up of the remuneration of both Executive and Non-Executive Directors				
B 2.2				
40. Executive Directors' remuneration should be designed to promote the long-term success of the company				
B 2.3				
41. Comparison of remuneration with other companies				
B 2.4				
42. Comparison of remuneration with other companies in the group				
B 2.5				
43. Performance related payment to Executive and Non-executive Directors				
B 2.6				
44. Executive share option for Directors				
B 2.7				
45. Designing the Executive Directors remuneration				
B 2.8				
46. Early termination benefits of Directors				
B 2.9				
47. Early termination benefits of Directors (not included in the initial contract)				
B 2.10				
48. Level of remuneration of the Non-Executive Directors.				

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
B 3. Disclosure of Remuneration				
B 3.1 49. Disclosure of Remuneration	<b>Complied with</b> Please refer comments for B 1.			
<b>C Relations with Shareholders</b>				
C 1 Constructive use of the Annual General Meeting and conduct of General Meetings.	<b>Complied with</b>			
C 1.1 50. Use of proxy votes	<b>Complied with</b> The Bank has a method of recording all proxy votes and proxy votes lodged by the shareholders on each resolution.			
C 1.2 51. Separate resolution for all separate issues	<b>Complied with</b>			
C 1.3 52. Availability of all Board Sub Committee Chairman at the AGM	<b>Complied with</b>			
C 1.4 53. Adequate notice of the AGM	<b>Complied with</b>			
C 1.5 54. Procedures of voting at General Meeting	<b>Complied with</b>			
Major transactions				
C 2 Major transactions	<b>Complied with</b>			
C 2.1 55. Major transactions	<b>Complied with</b>  There were no major transactions as defined by section 185 of the Companies Act No. 07 of 2007 which materially affected HDFC's net asset base.			
<b>D. Audit and Accountability</b>				
D 1 Financial Reporting.	<b>Complied with</b>			
D 1.1 56. Statutory and regulatory reporting	<b>Complied with</b>			
D 1.2 57. Directors' report in the Annual Report	<b>Complied with</b> The Director's Report is given on Pages 43 to 47 of this Annual Report.			

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D 1.3 58. Statement of Directors' responsibility for the financial statement	<b>Complied with</b> The Statement of Directors' Responsibility for Financial Reporting is given on Pages 102 to 103 of the Annual Report.			
D 1.4 59. Management discussions and analysis	<b>Complied with</b> Please refer pages 18 to 25.			
D 1.5 60. Declaration by the Board that the business as a going concern	<b>Complied with</b> This is given on the Directors' Reports on Pages 43 to 47 of the Annual Report.			
D 1.6 61. Summoning an EGM to notify serious loss of capital				<b>N/A</b>
Internal Control				
D.2 Internal Control	<b>Complied with</b> Please refer pages 48 to 49 for report on Directors' Statement on Internal Control.			
D 2.1 62. Annual evaluation of the internal control system	<b>Complied with</b> Please refer pages 48 to 49 for report on Directors' Statement on Internal Control.			
D 2.2 63. Need for internal audit function	<b>Complied with</b> Please refer Pages 57 to 58 for Audit Committee.			
Audit Committee				
D 3 Audit Committee	<b>Complied with</b> Please refer pages 57 to 58 for Audit Committee Report.			
D 3.1 64. Composition and terms & conditions of the Audit Committee	<b>Complied with</b> Please refer pages 57 to 58 for Audit Committee Report.			
D 3.2 65. Duties of the Audit Committee	<b>Complied with</b> Please refer pages 57 to 58 for Audit Committee Report.			
D 3.3 66. Terms and reference of the Audit Committee	<b>Complied with</b> Please refer the Report of Audit Committee, on Pages 57 to 58.			

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D 3.4 67. Disclosures of the Audit Committee	<b>Complied with</b> Please refer the Board Audit Committee report on Pages 57 to 58 for membership.			
Code of business conduct & ethics				
D 4 Code of business conduct & ethics	<b>Complied with</b>			
D 4.1 68. Code of business conduct and ethics	<b>Complied with</b>			
D 4.2 69. Affirmation of the code of conduct & ethics				<b>N/A</b> As mentioned above in D 4.2
<b>E Institutional Shareholders</b>				
E1 Shareholding voting	<b>Complied with</b>			
E 1.1 70. Institutional Shareholders	<b>Complied with</b> 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	<b>Complied with</b>			
<b>F. Other Investors</b>				
F1 Investing / Divesting Decision 71. 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.	<b>Complied with</b>			
F 2 Shareholder Voting	<b>Complied with</b> The Bank appreciates participation of individual customers in General Meetings and they are exercising their voting rights.			
F 2.1 72. Individual Shareholder Voting	<b>Complied with</b>			

## COMPLIANCE REVIEW

### 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	<b>Complied with</b>			
7.10.2 (a) (ii) Confirmation to correct number of Independent Non-Executive Directors in the Board	<b>Complied with</b>			
7.10.2 (b) (iii) Directors Annual Declaration of his / her Independence or Non- Independence to the Board of Directors.	<b>Complied with</b>			
7.10.3 (a) (iv) Annual determination of the Board as to the Independency or Non-Independency of the Directors.	<b>Complied with</b>			
7.10.3 (b) (v) The qualifications not met by the Directors				<b>N/A</b>
7.10.3 (c) (vi) Brief resume of each Director	<b>Complied with</b> Please refer Directors' Profiles on Pages 88 to 91.			
7.10.3 (d) (vii) Upon appointment of a new director to its board, the entity shall forthwith provide to the Exchange a brief resume of such director for PUBLIC - 13 - dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.	<b>Complied with</b>			
Disclosures relating Remuneration & the Remuneration Committee				
7.10.5 (a) (viii) The correct number of Independent Non-Executive Directors in the Remuneration Committee	<b>Complied with</b> Please refer Page 40.			
7.10.5 (a) (ix) Separate Remuneration Committee	<b>Complied with</b>			
7.10.5.(a) (x) Chairman of the Remuneration Committee	<b>Complied with</b> Mr. M. Surendran (a Non-Executive, Non- Independent Director)			

## COMPLIANCE REVIEW

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable
7.10.5 (b) (xi) Functions of the Remuneration Committee	<b>Complied with</b> Please refer the Board Human Resource and Remuneration Committee Report on Page 52.			
7.10.5 (c) (xii) Names of the Directors in the Remuneration Committee	<b>Complied with</b> Please refer Page 40.			
7.10.5 (c) (xiii) Remuneration Policy	<b>Complied with</b> Please refer the report of the Human Resource and Remuneration Committee on Page 52.			
7.10.5 (c) (xiv) Aggregate Remuneration paid to the Executive and Non-Executive Directors (including cash and all non-cash benefits)	<b>Complied with</b> Please refer the note No. 07 of the Financial Statement on Page 118.			
Contents under the Audit Committee Report				
7.10.6 (a) (xv) The correct number of Independent Non-Executive Directors	<b>Complied with</b> HDFC confirms that, the Audit Committee comprises the required number of Independent Non-Executive Directors in accordance with Rule 7.10.6(a).			
7.10.6 (a) and 7.10.6 (c) (xvi) Separate Audit Committee	<b>Complied with</b>			
7.10.6 (b) (xvii) Functions of the Audit Committee	<b>Complied with</b>  Audit Committee engages in the functions mandated under Rule 3(6) of the CBSL and Finance Circulars.			

## COMPLIANCE REVIEW

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable
7.10.6 (c) (xviii) Names of the Directors in the Audit Committee	<b>Complied with</b> Please refer Page 41.			
7.10.6.(a) and 7.10.6 (c) (xix) Chairman of the Audit Committee	<b>Complied with</b> Mr.P. Gunawardana Period February to July 2017 Mr.M. Surendran Period. August to December 2017 (Non-Executive, Non- Independent Directors)			
7.10.6 (a) and 7.10.6 (c) (xx) Chairman's qualifications	<b>Complied with</b> Please refer Directors profiles on pages 88 to 91.			
7.10.6 (a) and 7.10.6 (c) (xxi) Attendance of CEO and CFO for the Committee Meetings	<b>Complied with</b>			
7.10.6 (c) (xxii) External Auditors independency				<b>N/A</b> The External Auditor of the Bank is the Auditor General of Sri Lanka.

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**BOARD OF DIRECTORS**

Left to Right

**MR. M. SURENDRAN** - (Non – Executive, Non - Independent Director)

**MR. R.J. DE SILVA (CHAIRMAN)** - (Non – Executive, Independent Director)

**MRS. R.A. CHULANANDA** - (Non-Executive, Independent Director)

**MR. R. H. MEEWAKKALA** - (Non – Executive, Independent Director)

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**BOARD OF DIRECTORS**

Left to Right

**MR. S. A. N. SARANATISSA** - (Non-Executive /Independent Director)

**MR. L. JAYASINGHE** - (Non -Executive, Independent Director)

**MR. L. S. PALANSURIYA** - (Non - Executive, Non Independent Director)

**MR. D. P. WIMALASENA** - (Non-Executive, Independent Director)

**MR. N. WIJEYANATHAN** - (Non-Executive /Independent Director)

## PROFILES OF THE BOARD OF DIRECTORS

### MR. R.J. DE SILVA (CHAIRMAN)

*(Non – Executive, Independent Director)*

Mr. R. J. De Silva was appointed Chairman of HDFC Bank of Sri Lanka on 11th February 2015.

An old boy of Royal College, Colombo, Mr. De Silva is a law graduate and passed out as an Attorney-At-Law with first class honours in 1977. Mr. De Silva has held several key public sector positions earlier, 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 Chairman of GSMB Technical Services (Pvt.) Ltd from 2002 to 2004.

### MR. M. SURENDRAN

*(Non – Executive, Non - Independent Director)*

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.

Mr. Surendran has extensive experience in the private sector, in the areas of strategic advisory work, business concepts and project evaluation, due diligence, corporate turnarounds, privatisation, restructuring, valuations and mergers and acquisitions. He provides these services through his privately owned Company – SCC (Pvt.) Limited together with other services such as corporate restructuring, finance restructuring, financial advice as well as management advice for the private and government sector establishments.

Mr. 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.

He is currently attached to Sun Grow Plantation Group as a CFO.

### 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 Strathclyde 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. He was appointed, as Chairman of State Development & Construction Corporation an institution under the Ministry of Housing & Construction. Mr. Meewakkala is also a non-executive Director at Ceylon Beverage Holdings and Ceylon Brewery Ltd from 01st October 2017.

## PROFILES OF THE BOARD OF DIRECTORS

### 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. 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 (PMP), Certified Information Systems Auditor (CISA) and Past President of the Information Systems Audit and Control Association (ISACA), Sri Lanka Chapter. He is a Board member of the ICT Skill Development Council. He has managed national level IT Projects. Mr. Jayasinghe has specialised in IT Governance, 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, 1996).

He obtain COBIT5 certification in 2017. He 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 an IT Audit professional in 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, 1/2 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. He has been a member of National Housing Policy Committee and 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, Urban Settlement Development Authority and Ocean view Development Company (Pvt.) Ltd., Tea, Rubber & Coconut Estates Control of Fragmentation Board and Sevana Board of Management.

## PROFILES OF THE BOARD OF DIRECTORS

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 in the year 2009.

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

### **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 SLAS Officer) has been working as a Director of the Department of Treasury Operations under the Ministry of Finance since 2017. At present he is engaged in overall supervising of Fund Operations and Accounts of the Department of Treasury Operations. He has over 25 years of experience in Accounting and Auditing.

Mr. Wimalasena holds a B.Com. (Special) Degree from the University of Colombo and also hold a Masters Degree (MA. Economics) from the University of Kelaniya.

### **MR. N. WIJEYANATHAN** *(Non-Executive /Independent Director)*

Mr. Nirupan Wijeyanathan holds a Masters in Business Administration from Cardiff Metropolitan University, Wales. His insights are backed by over 26 years of experience in Banking & Financial Services covering General Banking, Treasury and Money Brokering. This covers 11 years at Citi Bank N.A. Sri Lanka in the capacity of Vice President – Head Global Markets Corporate Sales & Structuring. He has vast experience in trading in Foreign Exchange / Money Market / Fixed Income (Debt Securities) Instruments and Customer Structuring & Advisory. He has been the President of Sri Lanka Forex Association from 2007-09 and has been in the Executive Committee for more than 12 years. He is an old boy of St. Thomas' College, Mt. Lavinia.

## PROFILES OF THE BOARD OF DIRECTORS

### MR. S. A. N. SARANATISSA

*(Non-Executive /Independent Director)*

Mr. S. A. Nimal Saranatissa is in the Special Grade of the Sri Lanka Administrative Service. Presently he is the Secretary to the Ministry of Labour, Trade Union Relations & Sabaragamuwa Development and is also functioning as the Chairman of the National Institute of Occupational Safety and Health (NIOSH), National Institute of Labour Studies (NILS) and Shrama Vasana Fund (SVF).

Being the Secretary to the Ministry, Mr. Saranatissa is overall in charge of the management and performance of the programmes initiated by the Ministry and implementation of the government policy and programmes in relation to the labour sector. In his capacity as the Secretary to the Ministry and the chairmanships of the NIOSH, NILS and SVF are entrusted to him, he provides advice and guidance for the smooth implementation of functions of the Institutions. His Academic and Professional qualifications comprise of a Bachelor of Arts (Statistics) Special Degree at the University of Sri Jayewardenepura, Master of Administration in International Development in Japan, and also he is an Attorney-at-Law.

He has also had foreign and local trainings in SLIDA, Common Wealth Secretariat, Singapore and South Asia, etc.

Prior to being appointed for the above positions, Mr. Saranatissa has held the positions of Assistant Director (Social Service), Assistant Government Agent and Assistant Director (IRDP) in the District Secretariat Monaragala. Divisional Secretary at Tissamaharama. Assistant Commissioner, Deputy Commissioner, Commissioner of Department of Labour and First Secretary to the Embassy of Kuwait. Also Additional Secretary to the Ministry of Construction & Engineering Services, Additional Secretary (Administration & Procurement) to the Ministry of Indigenous Medicine, Additional Secretary (Administration & Procurement) to the Ministry of State Resources and Enterprise Development and Additional Secretary (Administration & Procurement) to the Ministry of Power and Renewable Energy.

Mr. Saranatissa's career in the public service is for more than 30 years and he is having wide experience in the fields of administration, policy making, planning and management and financial matters, holding highest positions in many government institutions.

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**CORPORATE MANAGEMENT**

Left to Right

**MR. W.M.A. BANDARA** - *Chief Information Officer*

**MRS. H.S. GUNATHILAKE** - *Assistant General Manager (Business Development & Marketing)*

**MR. S. DISSANAYAKE** - *Acting CEO/GM*

**MR. D. VIDANA PATHIRANA** - *Chief Finance Officer*

**MRS. W.W.D. S. C. PERERA** - *Assistant General Manager – Legal*

**MR. A.J. ATUKORALA** - *Chief Internal Auditor*

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**CORPORATE MANAGEMENT**

Left to Right

**MR. C.R.P. BALASOORIYA** - Assistant General Manager – Treasury

**MR. MANJULA KITHSIRI DISSANAYAKE** - Chief Manger – Credit

**MRS. K.T.D.D. DE SILVA** - Bank/Board Secretary / Chief Manager

**MR. H.A. ANURA** - Chief Manager – Finance

**MRS. 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. S. DISSANAYAKE

*Acting CEO/GM  
ACA, Bsc.(Management)*

Date of appointment -01st December 1995

He counts more than 30 years' experience in the field of accounting and finance in organisations in the public and private sector. He had been the Chief Financial Officer of the state sector institutions for several years. He joined HDFC as Assistant General Manager (Finance) and had been the Head of 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. He has been the Acting General Manager/CEO in many times in the Bank and now he again serves as the Acting General Manager/CEO of the Bank from February 2018

### MR. W.M.A. BANDARA

*Chief Information Officer  
BSc, PGDIP-IT (UK)*

Date of appointment-15th August 1997

He has over 24 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 has also worked in the NEC Corporation, Japan for one year.

### MR. D. VIDANA PATHIRANA

*Chief Finance Officer  
BSc, MBA, FCA, FCMA, FCPM*

Date of appointment-15th September 2004

He has over 33 years' experience in the fields of Auditing, Accounting, Financial Management, Projects and Investment Promotion, Management Accounting, Project Finance, Business Development and Marketing, Banking and Treasury Management, in Sri Lanka and overseas. He is currently responsible for the 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

He counts over 30 years of executive experience in the banking industry, specialising in audit. He has 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

She 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 25 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

She counts over 33 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.

He has over two decades of professional career experience in the merchant & specialised banking sector.

### MR. MANJULA KITHSIRI DISSANAYAKE

*Chief Manger – Credit  
ACA, ADCM (IBSL)*

Date of appointment-18th June 2012

He has over 19 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.

## PROFILES OF THE CORPORATE MANAGEMENT

### MRS. K.T.D.D. DE SILVA

*Bank/Board Secretary / Chief Manager  
Attorney at law, MBA, and LL.M- Master of  
laws, with a distinction and performance  
excellence award, post Attorneys  
higher diploma in Banking Finance and  
Insurance.*

Date of appointment -1999

She possesses more than 24 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

He has two decades of work experience in banking, credit, recovery, fund mobilisation, branch operation, accounting, financial management, taxation, auditing, treasury management, compliance, corporate financial reporting and annual reports, budgeting and financial planning. He began his career in accounting at BMC and Ceylon Fisheries Corporation in 1996 and joined Regional Development Bank in 1998 in the capacity of Audit/Executive Officer, Assistant Manager and 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.

### MRS. W.N.D. BOTEJUE

*Chief Manager – HR and Administration  
Bsc. Business Administration (special),  
CBA(CA Sri Lanka) ,CBF*

Date of appointment-01st July 1995

She counts over 23 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

He counts more than 28 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.

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**REGIONAL MANAGERS**

**MRS. R.R. GUNAWARDENA**  
Colombo City  
*Regional Manager / Chief Manager*



**MR. N.C. RANJITH**  
Southern  
*Regional Manager - Southern/ Chief Manager*



**MR. H.M. THILAKARATHNE**  
North Central  
*Regional Manager / Senior Manager*



**MR. R.A.J.N. RANASINGHE**  
Western 01  
*Acting Regional Manager / Senior Manager*



**MR. W.D. K. SENEVIRATHNE**  
Central  
*Regional Manager/ Senior Manager*



**MR. B.W.M.C. KUMARASIRI**  
Western 02  
*Acting Regional Manager*



**MR. R.M. SUGATHAPALA**  
Uva  
*Regional Manager -Uva / Chief Manager*

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**SENIOR MANAGEMENT**

**MRS. L. GUNATILAKA**  
Senior Manager - Recoveries



**MRS. L.A.S.C. WIJETUNGA**  
Senior Manager - Property



**MR. P.S. PITAWELA**  
Senior Manager - Administration



**MRS. M.R.S. FERNANDO**  
Senior Manager - Legal



**MRS. E.R.L.K. PERERA**  
Senior Manager - Legal



**MR. A.M. NEELACHANDRA**  
Senior Manager -IT  
(Application System & Core Bank)



**MR. I. NISHANTHA**  
Risk Officer - Senior Manager



**MR. D.N. DHARMARATNA**  
Senior Manager - Leasing



**MR. T.H.K.P. DE SILVA**  
Senior Manager - Information Security

## SENIOR MANAGEMENT



**MRS. K.L.S. MALKANTHIE**  
Senior Manager - Legal



**MRS. K.W. IRESHA**  
Senior Manager - Legal



**MRS. K. DISSANAYAKE**  
Senior Manager - Legal



**MRS. K.A.A. NIRMALI**  
Manager - Accounts Control



**MR. D.M.A. DISSANAYAKE**  
Manager - Corporate and Development  
Finance



**MRS. M.U.S. DE COSTA**  
Manager - Operations



**MRS. N.L. WIJESIRI**  
Manager - Technical & Premises  
Maintenance



**MR. B.M.P. PERERA**  
Manager - Credit Administration & In  
Charge of Other Income



**MRS. L.D.S.H. LIYANAGE**  
Manager - (Payment)

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SENIOR MANAGEMENT



MR. W.M. CHANDRASENA  
Manager - Valuation



MR. T.B. KARUNABANDU  
Manager - Gold Loan



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## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors, in relation to the financial statements of the Bank prepared in accordance with the provisions of the HDFC Act No. 07 of 1997(amended by Act No. 15 of 2003 and Act No. 45 of 2011) and Companies Act No. 7 of 2007, is set out in the following statement.

The responsibilities of the external auditor, in relation to the financial statements, are set out in the report of the auditors given on pages 104 and 105 of the Annual Report.

As per the provisions of sections 150 (1) and 151 of the Companies Act No 7 of 2007, the Directors are required to prepare financial statements for each financial year and place them before a General Meeting. The financial statements comprise the Statement of Financial Position as at 31st December 2017, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

The financial statements of the Bank give a true and fair view of:

1. The state of affairs of the Bank as at 31st December 2017; and
2. The profit or loss of the Bank for the financial year then ended.

In preparing these financial statements, the Directors are required to ensure that:

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

The Directors are also required to ensure that the Bank has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Bank maintains sufficient accounting records to disclose, with reasonable accuracy of the financial position of the Bank.

Financial statements prepared and presented in this report have been prepared based on new Sri Lanka Accounting Standards (SLFRS) which came to effect from January 01, 2012 and are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed specialized Banks in Sri Lanka (as amended from time to time), the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate

Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, these financial statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of annual financial statements of licensed specialized Banks.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Bank throughout the year and it is being under regular review of the Board of Directors.

This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The results of such reviews carried out during the year ended 31st December 2017 are given on pages 48 and 49 of the Annual Report, "Directors' Statement on Internal Control". External Auditor's Assurance Report on the "Directors' Statement on Internal Control" is given on pages 50 and 51 of the Annual Report.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors have taken appropriate steps to ensure that the Bank maintains proper books of accounts and review the financial reporting system directly at their regular meetings and also through the Board Audit Committee. The report of the said Committee is given on pages 57 to 58. The Board of Directors also approves the interim financial statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the financial statements presented in this Annual Report. Directors are required to prepare the financial statements and provide the Bank's external auditor, the Auditor General of Sri Lanka, with every opportunity to carry out whatever reviews and checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the financial statements.

The financial statements of the Bank have been certified by the Chief Financial Officer and the General Manager/CEO of the Bank, the officer responsible for the preparation, as required by Sections 150 (1) (b) of the Companies Act. Also the financial statements of the Bank have been signed by two Directors.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Bank as at the Statement of Financial Position date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



**Mr. R. J. De Silva**  
*Chairman*

23 May 2018  
Colombo

## AUDITOR'S REPORT



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இல.  
My No. }

BAF/01/C/HDFC/1/17/37

මගේ අංකය  
உமது இல.  
Your No. }

දිනය  
திகதி  
Date }

25 May 2018

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 2017 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 ("the Bank") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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**

The Board of Directors ("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 Board 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

## AUDITOR'S REPORT



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கணக்காய்வகம்  
Auditor General's Department

expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, 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 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

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

### Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka will be tabled in due course.

H.M. Gamini Wijesinghe  
Auditor General

## INCOME STATEMENT

For the Year Ended 31st December 2017 (Figures in LKR)	Notes	2017	Bank 2016 (Restated)
<b>INCOME</b>		6,978,337,211	5,927,598,728
Interest Income	1	6,613,531,208	5,472,894,291
Interest Expenses	2	(4,741,843,197)	(3,509,295,782)
<b>Net Interest Income</b>		1,871,688,011	1,963,598,509
Fee and Commission Income	3	352,836,803	346,974,232
Fee and Commission expenses		-	-
<b>Net Fee and Commission Income</b>		352,836,803	346,974,232
Net Trading Income/(Expense)		-	-
Net gain/(loss) from Financial Instruments designated at Fair value through Profit or Loss		-	-
Net gain/(loss) from financial investments		-	-
Other operating income(net)	4	11,969,200	107,730,205
<b>Total Operating Income</b>		2,236,494,014	2,418,302,946
Less: Impairment Charges / (Reversal)	5	(24,688,563)	160,431,754
<b>Net Operating income</b>		2,261,182,578	2,257,871,192
<b>Less : Expenses</b>			
Staff Costs	6	941,324,990	895,271,314
Amortization and impairment of intangible assets		-	-
Other Expenses	7	530,523,746	514,106,630
<b>Total Expenses</b>		1,471,848,736	1,409,377,945
<b>Operating Profit/(loss) before VAT and NBT</b>		789,333,841	848,493,247
Less : VAT & NBT On Financial Services	8	232,100,761	188,399,073
<b>Operating Profit/(loss) after VAT &amp; NBT</b>		557,233,080	660,094,175
Share of Profits of associates and joint ventures		-	-
<b>Profit/(Loss) before tax</b>		557,233,080	660,094,175
Less: Tax expenses	9	149,232,325	176,717,513
<b>Profit/(Loss) for the year</b>		408,000,755	483,376,662
<b>Earnings Per Share on Profits</b>			
Basic Earning per Ordinary Share Rs	10	6.31	7.47
Diluted earnings per ordinary share		-	-

## STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31st December 2017 (Figures in LKR)	2017	Bank 2016 (Restated)
Profit for the Year	408,000,755	483,376,662
<b>Other Comprehensive income/(expenses)</b>		
Changes in revaluation reserve of Property, Plant and equipment (If fair value option adopted)	-	-
Actuarial gains and losses on defined benefit plans	(60,516,262)	40,857,717
Gains and losses (arising from translating the financial statements of a foreign operation)	-	-
Gains and Losses on re-measuring available-for-sale financial assets	32,051,025	(17,763,091)
Gains and Losses on cash flow hedges Others	-	-
<b>Other comprehensive income for the year, net of tax</b>	<b>(28,465,237)</b>	<b>23,094,626</b>
<b>Total Comprehensive Income for the Year</b>	<b>379,535,519</b>	<b>506,471,288</b>
<b>Attributable to:</b>		
Shareholders	379,535,519	506,471,288
Non-Controlling Interest	-	-
<b>Total</b>	<b>379,535,519</b>	<b>506,471,288</b>

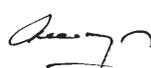
## STATEMENT OF FINANCIAL POSITION

As at 31st December 2017 Figures in LKR	Notes	2017	Bank 2016 (Restated)
<b>Assets</b>			
Cash and balances with central banks	11	124,169,232	144,695,297
Sri Lanka government securities	12	2,497,177,795	831,544,707
Balances with banks	13	158,405,821	93,925,495
Financial Assets Available for Sale	14	2,083,256,516	2,053,279,082
Loans and Receivables to other customers	15	34,970,442,426	30,259,872,371
Financial Investments - Held-to-Maturity	16	8,246,846,081	10,737,304,235
Property, Plant and equipment	17	323,672,192	457,323,210
Intangible Assets	17	189,753,288	20,793,892
Investment properties	18	836,940,000	870,549,500
Differed tax assets	19	77,057,101	56,679,932
Other assets	20	184,021,636	152,718,042
<b>Total assets</b>		<b>49,691,742,088</b>	<b>45,678,685,763</b>
<b>Liabilities</b>			
Due to banks and Other Institutes	21	2,808,411,616	3,318,510,754
Due to other customers	22	36,654,963,892	32,122,526,537
Debt securities issued	23	5,108,340,561	5,544,534,335
Current Tax liabilities	24	138,498,952	189,337,098
Other liabilities	25	781,979,272	682,889,401
<b>Total liabilities</b>		<b>45,492,194,292</b>	<b>41,857,798,125</b>
<b>Equity</b>			
Stated capital	26	962,092,936	962,092,936
Statutory reserve fund	27	159,999,857	139,599,819
Retained earnings	28	2,810,388,426	2,524,104,044
Other reserves	29	267,066,577	195,090,839
<b>Total shareholders' equity</b>		<b>4,199,547,796</b>	<b>3,820,887,639</b>
Non-controlling interests			
<b>Total equity</b>		<b>4,199,547,796</b>	<b>3,820,887,639</b>
<b>Total equity and liabilities</b>		<b>49,691,742,088</b>	<b>45,678,685,763</b>
Book Value Per Share Rs		64.90	59.05
<b>Contingent Liabilities and Commitments</b>	30	598,496,941	694,721,449

The significant accounting policies and notes on pages 111 to 139 form an integral part of these financial statements. These financial statements have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS).



**D.V. Pathirana**  
Chief Financial Officer



**S. Dissanayake**  
Act.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



**N. Wijeyanathan**  
Director

## STATEMENT OF CHANGES IN EQUITY

## For the Year Ended 31-12-2017

Bank	Number of voting shares	Stated Capital	General Reserve	Revaluation reserve	Statutory Reserve Fund	Special Reserve	AFS Reserve	Retained earnings	Total	Non-controlling	Total equity interest
<b>In LKR (Rs.000)</b>											
Balance as at 01-01-2016	64,710,520	962,093	157,263	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	-	-	-	-	-	-	-	483,377	483,377	-	483,377
Other comprehensive income (net of tax)	-	-	-	-	-	-	(17,763)	40,858	23,095	-	23,095
<b>Total comprehensive income for the year</b>							(17,763)	524,234	506,471	-	506,471
Transactions with equity holders, recognized directly in equity	-	-	-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital	-	-	-	-	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-	-	-	-	-
Right issue	-	-	-	-	-	-	-	-	-	-	-
Investment Fund Transfer	-	-	-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	-	-	48,338	-	24,169	-	-	(72,506)	-	-	-
Dividend paid	-	-	-	-	-	-	-	(48,533)	(8,533)	-	(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	-	-	-
<b>Total transactions with equity holders</b>	-	-	48,338	(875)	24,169	(3,451)	-	(117,588)	(49,408)	-	(49,408)
<b>Balance as at 31-12-2016</b>	64,710,520	962,093	205,601	30,637	139,600	-	(41,148)	2,524,104	3,820,888	-	3,820,888

Bank	Number of voting shares	Stated Capital	General Reserve	Revaluation reserve	Statutory Reserve Fund	Special Reserve	AFS Reserve	Retained earnings	Total	Non-controlling	Total equity interest
<b>In LKR (Rs.000)</b>											
Balance as at 01-01-2017	64,710,520	962,093	205,601	30,637	139,600	-	(41,148)	2,524,104	3,820,888	-	3,820,888
Prior Year Adjustments	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	408,001	408,001	-	408,001
Other comprehensive income (net of tax)	-	-	-	-	-	-	32,051	(60,516)	(28,465)	-	(28,465)
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	32,051	347,484	379,536	-	379,536
Transactions with equity holders, recognized directly in equity	-	-	-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital	-	-	-	-	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-	-	-	-	-
Right issue	-	-	-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	-	-	40,800	-	20,400	-	-	(61,200)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-
Profit transferred to head office	-	-	-	-	-	-	-	-	-	-	-
Gain/(loss) on revaluation of property, plant and Equipment (if cost method is adopted)	-	-	-	(875)	-	-	-	-	(875)	-	(875)
Others	-	-	-	-	-	-	-	-	-	-	-
<b>Total transactions with equity holders</b>	-	-	40,800	(875)	20,400	-	-	(61,200)	(875)	-	(875)
<b>Balance as at 31-12-2017</b>	64,710,520	962,093	246,401	29,762	160,000	-	(9,097)	2,810,388	4,199,548	-	4,199,548

## STATEMENT OF CASH FLOWS

For the Year Ended 31st December 2017

Bank	2017 LKR	2016 LKR
<b>Cash Flows From Operating Activities</b>		
Interest Received	6,272,402,920	5,430,478,452
Interest payments	(4,768,997,979)	(2,941,656,367)
Receipt from other operating activities	344,624,853	349,350,831
Cash payments to employees & suppliers	(979,843,420)	(932,692,526)
Payments on other operating activities	(533,584,428)	(568,635,999)
Operating profit before changes in operating assets	334,601,947	1,336,844,392
<b>(Increase)/Decrease In Operating Assets:</b>		
Funds Recovered from customers	8,125,929,454	8,377,143,783
Funds advanced to customers	(12,535,491,582)	(12,118,244,173)
Other Assets	19,991,056	(14,351,170)
	(4,389,571,071)	(3,755,451,560)
<b>Increase / ( Decrease ) In Operating Liabilities</b>		
Deposits from customers	4,555,776,483	2,963,951,624
Others	(17,977,494)	2,184,168
	4,537,798,989	2,966,135,792
Net cash from operating activities before income tax	482,829,865	547,528,624
Income Tax & Deemed Dividend Tax Paid	(194,528,227)	(222,084,614)
Net cash from operating activities	288,301,638	325,444,009
<b>Cash Flows From Investing Activities</b>		
Dividends received	180,000	58,500
(Purchase)/Sale of Investment Securities	825,398,659	47,491,552
Purchase of property, plant and equipment	(135,071,067)	(123,072,083)
Disposal of property, Plant and equipment	7,622,632	4,538,775
Net cash from Investing activities	698,130,223	(70,983,256)
<b>Cash Flows From Financing Activities</b>		
Issue/(Redemption) of Shares	-	-
Redemption of Contribution towards Share Capital	-	-
Repayment of Borrowings	(2,013,185,113)	(1,344,755,960)
Proceeds from Borrowings	1,070,707,514	1,169,278,160
Dividends paid	-	(48,532,890)
Net cash from financing activities	(942,477,599)	(224,010,689)
Net increase in cash & cash Equivalents	43,954,262	30,450,064
Cash & cash equivalents at beginning of the period	238,620,792	208,170,729
Cash & cash equivalents at the end of the period	282,575,053	238,620,792
<b>Reconciliation Of Cash and Cash Equivalents</b>		
Cash In Hand	124,169,232	144,695,297
Cash at Bank	158,405,821	93,925,495
	282,575,053	238,620,792

## 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"

#### 2.3 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'.

#### 2.4 Format of Accounts and Prior year Figures

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

#### 2.5 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.

#### 2.6 Materiality and Aggregation

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

#### 2.7 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

## ACCOUNTING POLICIES

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. Adjusted industry loss given default(LGD) Ratio.

##### 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 Loans over Rs.10 Mns.

Individual Impairment is made for the loans over Rs.10Mn with reasonable assurance for future 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 recognized, if it is probable that future economic benefits associated with the asset will flow to the bank and cost of the asset can be reliably measured.

##### 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.

## ACCOUNTING POLICIES

### *Basis of Recognition*

An intangible asset is recognized 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 amortization and any accumulated impairment losses.

### *Useful Economic Life and Amortization*

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization 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 amortization period or method, as appropriate and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Income Statement in the expense category consistent with the function of the intangible asset.

### *De-recognition*

Intangible assets are derecognized 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 recognized in 'Other operating income'

in the Income Statement in the year the asset is derecognized.

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

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

### *3.2.4 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 recognized 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. 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.

## ACCOUNTING POLICIES

### 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 recognized 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 recognized 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 recognized 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 recognized on accrual basis.

#### 3.5.3 Taxation

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

#### 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 recognized 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 recognized. Cash and Cash Equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

## ACCOUNTING POLICIES

### **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 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

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Interest Income

In Rupees	2017	2016
Interest Income		
Sri Lanka government securities	126,159,082	81,662,505
Balance With Banks	-	-
Derivatives	-	-
Financial assets Available for Sale	194,432,002	197,207,866
Financial assets designated at fair value through Profit or Loss	-	-
Loans and receivables to banks	-	-
Loans and receivables to other customers	4,843,321,332	4,129,595,337
Financial investments - Held-to-maturity	1,449,618,791	1,064,428,583
<b>Total interest income</b>	<b>6,613,531,208</b>	<b>5,472,894,291</b>

### 2 Interest Expenses

In Rupees	2017	2016
Due to Banks	124,268,248	87,391,923
Derivatives	-	-
Financial liabilities at fair value through profit or loss	-	-
Due to other customers	3,848,533,001	2,594,159,744
Debt securities issued	223,534,336	294,475,409
Other Borrowings	545,507,612	533,268,707
<b>Total interest expenses</b>	<b>4,741,843,197</b>	<b>3,509,295,782</b>

### 3 Fee Commission Income and Other

In Rupees	2017	2016
Fee and Commission income	352,836,803	346,974,232
Others	-	-
<b>Fee and Commission Income</b>	<b>352,836,803</b>	<b>346,974,232</b>
Comprising		
Loans	299,417,770	271,077,176
Cards	-	-
Trade and remittances	-	-
Investment banking	-	-
Deposits	-	-
Guarantees	-	-
Others	53,419,034	75,897,056
<b>Fee and Commission Income</b>	<b>352,836,803</b>	<b>346,974,232</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 4 Other Operating Income (net)

In Rupees	2017	2016
Revaluation gain (Loss) Investment Property	17,685,150	111,019,500
Profit (Loss) on sale of investment properties	(5,715,950)	(3,289,295)
Others	-	-
<b>Other Operating Income (net)</b>	<b>11,969,200</b>	<b>107,730,205</b>

### 5 Impairment Charges for Loans and Other Losses

In Rupees	2017	2016
Loans and Receivables		
To banks	-	-
To Other Customers	(24,688,563)	160,431,754
Others	-	-
<b>Total</b>	<b>(24,688,563)</b>	<b>160,431,754</b>
<b>5.1 To Other Customers</b>		
Individual Impairment	17,475,485	(9,077,330)
Collective Impairment	(42,164,048)	169,509,084
<b>Total</b>	<b>(24,688,563)</b>	<b>160,431,754</b>

### 6 Staff Costs

In Rupees	2017	2016
<b>Salary and Related Expenses</b>		
Salary and Bonus	645,328,043	630,790,948
Staff Loan Benefits	64,808,923	47,823,026
Staff Medical	40,602,029	34,643,138
Overtime & Officers Allowance	15,284,665	16,169,049
Encashment of Annual Leave	20,068,458	23,387,872
Incentive Payments	16,953,428	21,973,311
<b>Sub total</b>	<b>803,045,546</b>	<b>774,787,345</b>
<b>Retirement Benefits</b>		
Contributions to defined contribution plans	76,498,156	71,816,470
Contributions to defined benefit plans	61,781,289	48,667,499
Sub total	138,279,444	120,483,969
<b>Total</b>	<b>941,324,990</b>	<b>895,271,314</b>
<b>6.1 Remuneration to Key Management</b>		
Remuneration to Key Management	54,608,451	52,131,039
<b>Total</b>	<b>54,608,451</b>	<b>52,131,039</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 7 Other Expenses

In Rupees	2017	2016
Directors' emoluments	3,075,400	2,997,880
Auditors' remunerations	614,400	507,600
Professional expenses	9,940,642	2,778,258
Legal expenses	2,613,055	925,894
Depreciation of Property, Plant and equipment	95,768,422	71,634,219
Amortization of Leasehold property	364,642	364,642
Electricity & Water	27,089,704	26,022,661
Telephone Charges	30,138,307	23,697,332
Computer Maintenance	16,384,587	36,177,860
Rent	76,885,532	69,747,950
Repair & Maintenance	7,890,781	6,540,691
Business Dev.& Advertising	52,120,858	52,617,011
Other Office admin. and establishment expenses	207,637,416	220,094,633
<b>Total</b>	<b>530,523,746</b>	<b>514,106,630</b>

### 8 VAT On Financial Services

In Rupees	2017	2016
Total Value Addition	1,703,114,818	1,442,124,129
Value Addition Attributable for Financial Services	1,597,399,351	1,356,088,817
Finance VAT 15 %	15.00%	11.89%
VAT on Financial Services For Current year	204,794,789	161,081,452
Under (Over) Provision in Previous Years	-	-
<b>Total for VAT on Financial Services</b>	<b>204,794,789</b>	<b>161,081,452</b>
<b>NBT on Financial Services</b>	<b>27,305,972</b>	<b>27,317,620</b>
<b>Total</b>	<b>232,100,761</b>	<b>188,399,073</b>

### 9 Tax Expenses

In Rupees	2017	2016
Current Tax Expense		
Current Year	212,950,497	248,996,146
Prior years' (Over)/Under Provision	(43,341,004)	2,711,566
Differed Tax	(20,377,168)	(74,990,199)
<b>Total</b>	<b>149,232,325</b>	<b>176,717,513</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 9.1 Reconciliation of tax expenses

In LKR	2017	2016
Accounting Profit	789,333,841	848,493,247
Add :Disallowable Expenses	561,355,990	471,251,385
Less :Allowable Expenses	590,152,342	430,500,080
Adjusted Profit Before Tax	760,537,489	889,244,552
Income Tax @ 28%	212,950,497	248,996,146
Accounting Profit After VAT	557,233,080	660,094,175
Effective Tax Rate	26.98%	29.35%
Effective Tax Rate with Differed Tax	24.40%	20.51%

### 9.2 Relationship Between Tax Expense and Accounting Income

Profit Before Tax as per the Income Statement	789,333,841	848,493,247
Add :Disallowable Expenses	561,355,990	471,251,385
Less :Allowable Expenses	590,152,342	430,500,080
Taxable Income	760,537,489	889,244,552
Tax @ 28%	212,950,497	248,996,146
Under (Over ) Provision	(43,341,004)	2,711,566
Less : Differed Tax Adjustments	(20,377,168)	(74,990,199)
Provision for Income Tax	149,232,325	176,717,513

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

In LKR		
Deferred tax assets	32,221,589	94,299,140
Deferred tax Liabilities	11,844,421	19,308,941
Other temporary differences	-	-
<b>Differed tax (credit)/ Charges to income Statement</b>	<b>(20,377,168)</b>	<b>(74,990,199)</b>

## 10 Earning Per Share

In Rupees	2017	2016
Net profit attributable to ordinary equity holders adjust for the effect of dilution	408,000,755	483,376,662
Weighted average number of ordinary shares for	64,710,520	64,710,520
<b>Basic earning per ordinary share (Rs)</b>	<b>6.31</b>	<b>7.47</b>
<b>Diluted earnings per share</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 11 Cash and Balances with Central Banks

In Rupees	2017	2016
Cash in Hand	124,169,232	144,695,297
<b>Total</b>	<b>124,169,232</b>	<b>144,695,297</b>

### 12 Sri Lanka Government Securities

In Rupees	2017	2016
Held-to-maturity		
Treasury Bonds/ Treasury Bills	529,786,733	531,544,707
Treasury Bills Under Repurchase Agreements	1,967,391,062	300,000,000
Others	-	-
<b>Total</b>	<b>2,497,177,795</b>	<b>831,544,707</b>

### 13 Balance With Banks

In Rupees	2017	2016
Placements	158,405,821	93,925,495
Others	-	-
<b>Total</b>	<b>158,405,821</b>	<b>93,925,495</b>

### 14 Financial Assets Available for Sale

In Rupees	2017	2016
Investment in Trading Debentures	2,063,756,516	2,031,029,082
Investment in Unit Trust	19,500,000	22,250,000
<b>Total</b>	<b>2,083,256,516</b>	<b>2,053,279,082</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 15 Loans and Receivables to Other Customers

In Rupees	2017	2016
Gross loans and receivable	35,737,486,425	31,051,604,933
(less) :Individual impairment charges	(38,458,662)	(20,983,178)
Collective impairment charges	(728,585,336)	(770,749,384)
Of Which: Loans and receivables	34,970,442,426	30,259,872,371
Net loans and Receivables	34,970,442,426	30,259,872,371

#### A. Analysis

In Rupees	2017	2016
By Product		
Overdrafts	-	-
Trade Finance	-	-
Credit Cards	-	-
Gold	298,487,307	251,567,151
Staff Loans	1,333,820,302	1,176,956,121
Leasing And Hire Purchase	982,025,573	1,022,779,151
Term Loans	-	-
Short-term	-	-
Long-term	33,123,153,243	28,600,302,510
Reverse Repo Agreements	-	-
Others	-	-
<b>Gross Total</b>	<b>35,737,486,425</b>	<b>31,051,604,933</b>
By Currency		
Srilankan Rupee	35,737,486,425	31,051,604,933
United State Dollar	-	-
Great Britan Pound	-	-
Others	-	-
<b>Gross Total</b>	<b>35,737,486,425</b>	<b>31,051,604,933</b>
By Industry		
Agriculture and Fishing	-	-
Manufacturing	-	-
Tourism	-	-
Transport	961,826,276	1,022,779,150
Construction	-	-
Traders	-	-
New Economy	1,676,728,486	1,006,937,932
Housing	27,160,159,613	25,547,825,325
Others	5,938,772,049	3,474,062,526
<b>Gross Total</b>	<b>35,737,486,425</b>	<b>31,051,604,933</b>

## NOTES TO THE FINANCIAL STATEMENTS

### B. Movements in Individual and Collective Impairment Charges during the Year

In Rupees	2017	2016
Individual impairment charges		
Opening balance at 01-01	20,983,178	30,060,508
Charge for the Year(Addition)	17,090,839	598,515
Charge(Write back) to income	384,645	(9,675,846)
Other movements	-	-
<b>Closing balance 31-12</b>	<b>38,458,662</b>	<b>20,983,178</b>
Collective impairment charges		
Opening balance at 01-01	770,749,384	601,240,299
Charge for the Year(Addition)	252,733,901	177,730,571
Charge(Write back) to income	(294,897,949)	(8,221,486)
<b>Closing balance 31-12</b>	<b>728,585,336</b>	<b>770,749,384</b>
<b>Total Impairment</b>	<b>767,043,998</b>	<b>791,732,562</b>

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

In Rupees	2017	2016
Equity securities	30,600	30,600
Debt Securities	-	-
Fixed Deposit	8,068,003,850	10,485,476,913
Overnight Deposit	-	-
Commercial Paper	-	251,796,723
Trust Certificates	178,811,631	-
(Less) Impairment charges	-	-
<b>Net Total</b>	<b>8,246,846,081</b>	<b>10,737,304,235</b>
Of Which : Held-To-Maturity Investments designated at fair value through profit or loss	-	-
<b>Held-To-Maturity Investments</b>	<b>8,246,846,081</b>	<b>10,737,304,235</b>

## NOTES TO THE FINANCIAL STATEMENTS

**17 Property ,Plant and Equipment**

In Rupees

2017	Free Hold Land and Buildings	Leasehold Properties/ Vehicle	Intangible Assets	Computer Hardware/ ATM	Office Equipment, Furniture and Fittings	Others	Total
<b>Cost/Fair Value</b>							
Opening Balance at 01-01-2017	17,575,000	91,777,761	85,590,013	105,532,737	286,758,664	242,470,093	829,704,269
Additions/(Adjustments)	-	-	201,955,505	18,275,382	41,291,124	11,232,394	272,754,406
Disposals/Write off/Adjustments	-	875,365	-	-	1,672,632	143,633,338	146,181,335
Exchange rate Variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
<b>Closing Balance at 31-12-2017</b>	<b>17,575,000</b>	<b>90,902,396</b>	<b>287,545,519</b>	<b>123,808,120</b>	<b>326,377,156</b>	<b>110,069,149</b>	<b>956,277,339</b>
<b>(less): Accumulated depreciation</b>							
Opening Balance at 01-01-2017	3,112,200	12,091,342	64,796,121	63,875,304	131,502,645	76,209,553	351,587,166
Charge for the year	518,700	4,778,520	32,996,110	13,922,387	33,534,170	10,383,178	96,133,064
Additions	-	-	-	-	-	-	-
Disposals / Adjustments	-	208,736	-	-	317,106	4,760,000	4,868,370
Exchange rate Variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
<b>Closing Balance at 31-12-2017</b>	<b>3,630,900</b>	<b>17,078,598</b>	<b>97,792,231</b>	<b>77,797,691</b>	<b>164,719,709</b>	<b>81,832,731</b>	<b>442,851,860</b>
<b>Impairment charges</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value at 31-12-2017</b>	<b>13,944,100</b>	<b>73,823,798</b>	<b>189,753,288</b>	<b>46,010,429</b>	<b>161,657,446</b>	<b>28,236,418</b>	<b>513,425,480</b>
<b>2016</b>							
<b>Cost/Fair Value</b>							
Opening Balance at 01-01-2016	17,575,000	55,592,631	72,423,220	101,159,521	268,247,072	218,457,777	733,455,223
Additions	-	37,060,493	13,166,794	884,2792	3,5271,373	31,238,770	125,580,221
Disposals	-	875,364	4,469,576	-	16,759,781	7,226,454	29,331,175
Exchange rate Variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
<b>Closing Balance at 31-12-2016</b>	<b>17,575,000</b>	<b>91,777,760</b>	<b>85,590,013</b>	<b>105,532,737</b>	<b>286,758,664</b>	<b>242,470,093</b>	<b>829,704,269</b>
<b>(less) : Accumulated depreciation</b>							
Opening Balance at 01-01-2016	2,074,816	7,661,816	50,955,470	54,020,629	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	-	-	-	-	-	-	-
Less: Disposals	-	-	-	2,080,365	8,042,531	7,226,454	17,349,350
Exchange rate Variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
<b>Closing Balance at 31-12-2016</b>	<b>2,074,816</b>	<b>12,959,035</b>	<b>64,796,121</b>	<b>63,875,304</b>	<b>131,670,460</b>	<b>76,211,429</b>	<b>351,587,166</b>
<b>(less): Impairment charges</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value at 31-12-2016</b>	<b>15,500,184</b>	<b>78,818,725</b>	<b>20,793,892</b>	<b>41,657,433</b>	<b>155,088,205</b>	<b>166,258,664</b>	<b>478,117,102</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

2017	Fully depreciated	Depreciating	Total
<b>Free hold PPE</b>			
Land and Buildings	-	17,575,000	17,575,000
Computer Hardware	35,266,177	88,541,943	123,808,120
Intangible Assets	65,215,288	222,330,231	287,545,519
Office Equipment, Furniture and Fittings	30,442,436	295,934,720	326,377,156
Plant and Machinery	28,679,187	12,507,374	41,186,561
Tools	49,425	36,020	85,445
Motor Vehicle	31,353,139	29,919,301	61,272,440
Working Progress /Others	-	7,524,704	7,524,704
<b>Free hold PPE Total</b>	<b>191,005,651</b>	<b>674,369,292</b>	<b>865,374,943</b>
<b>Leased hold PPE</b>			
Land and Buildings	-	79,252,396	79,252,396
Motor Vehicle	-	11,650,000	11,650,000
<b>Leased hold PPE Total</b>	<b>-</b>	<b>90,902,396</b>	<b>90,902,396</b>
<b>Total PPE</b>	<b>191,005,651</b>	<b>765,271,689</b>	<b>956,277,339</b>
2016	Fully depreciated	Depreciating	Total
<b>Free hold PPE</b>			
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	3,023,774	31,222,707
Tools	49,425	47,270	96,695
Motor Vehicle	25,613,599	41,403,741	67,017,340
Working Progress	-	144,133,351	144,133,351
<b>Free hold PPE Total</b>	<b>118,305,132</b>	<b>619,621,375</b>	<b>737,926,508</b>
<b>Leased hold PPE</b>			
Land and Buildings	-	80,127,760	80,127,760
Motor Vehicle	-	11,650,000	11,650,000
<b>Leased hold PPE Total</b>	<b>-</b>	<b>91,777,760</b>	<b>91,777,760</b>
<b>Total PPE</b>	<b>118,305,132</b>	<b>711,399,136</b>	<b>829,704,269</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 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	35,000,000

Date of Valuation	17th March 2018
Name of the Valuer	W.D. Siripala, FIV(SL)
Qualification of the Valuer	Incorporated Valuer

### 18 Investment Properties

#### a. Investment Properties at Cost/Fair Value

In Rupees	2017	2016
<b>Cost value</b>		
Opening Balance at 01-01	870,549,500	786,350,000
Additions	-	-
Disposals	(51,294,650)	(26,820,000)
Exchange rate Variance	-	-
Adjustments/Revaluation	17,685,150	111,019,500
Closing Balance at 31-12	836,940,000	870,549,500
<b>(less) : Accumulated depreciation</b>		
Opening Balane at 01-01	-	-
Charge for the year	-	-
Additions	-	-
Disposals	-	-
Exchange rate Variance	-	-
Adjustments	-	-
Closing Balance at 31-12	-	-
<b>(less): Impairment charges</b>		
Net Book Value at 31-12	836,940,000	870,549,500
Market Value at 31-12	836,940,000	870,549,500

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

## NOTES TO THE FINANCIAL STATEMENTS

### 18.1 Investment Properties Valuation details

Location	Extent (Perches)	Deed No	Bank	
			2017	2016
No. 441 Sangarajah Mw, Kotahena, Aluthkade East	59.20	1127	225,000,000	222,000,000
No. 192 Srimath Bandaranayake Mw, Kotahena Colombo 13.	123.20	1124	523,000,000	493,000,000
No.192 (Part) Sri Sangarajah Mawatha, Kotahena Colombo 13.	15.00	1126	63,000,000	60,000,000
Avissawella - Housing Project			25,940,000	95,549,500
<b>Total</b>			<b>836,940,000</b>	<b>870,549,500</b>

### 18.2 Revaluation of Lands

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

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

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

Name of the Valuar	W.D. Siripala, FIV(SL)
Qualification of the Valuar	Incorporated Valuer
Valuation Date	15th January 2018

### 18.3 Revaluation of Avissawella - Housing Project

Name of the Valuar W.D. Siripala, FIV(SL)

Qualification of the Valuar Incorporated Valuer

Valuation Date February 2018

### 18.4 Pending Court Case Investment Property

There are no pending special cases that are filed against the Bank and or by the Bank, apart from the normal mortgage, money, partition etc. cases filled by the bank against the defaulted customers and the customers against the bank.

## 19 Deferred Tax Assets/Liabilities

In Rupees	2017	2016
Deffered tax assets	121,082,548	88,860,959
Deffered tax Liabilities	(44,025,448)	(32,181,027)
Net Total	77,057,101	56,679,932

## NOTES TO THE FINANCIAL STATEMENTS

### 19.1 Details for Differed Tax Assets /Liabilities

In Rupees	2017	2016
<b>Differed Tax Assets</b>		
Building	-	-
Furniture	-	-
Computer Software Foreign	-	-
Plant & Machinery	-	-
Gratuity Provision	121,082,548	88,860,959
<b>Total</b>	<b>121,082,548</b>	<b>88,860,959</b>
<b>Differed Tax Liabilities</b>		
Office Equipments	6,188,983	8,937,299
Fittings	14,399,528	7,477,548
Plant & Machinery	371,991	27,864
ATM	680,497	307,364
Tools	6,776	-
Computers	6,279,602	6,898,909
Computer Software Local	819,218	1,451,353
Computer Software Core Banking	8,372,358	-
Furniture	6,906,494	7,080,690
Specific Provision	-	-
Other	-	-
<b>Total</b>	<b>44,025,448</b>	<b>32,181,027</b>

### 20 Other Assets

In Rupees	2017	2016
<b>Cost</b>		
Receivables	56,382,097	39,853,581
Deposits and Prepayments	24,792,218	43,088,645
Loan Related Receivable	88,028,927	53,357,933
Others	14,818,394	16,417,884
<b>Total</b>	<b>184,021,636</b>	<b>152,718,042</b>

### 21 Due to Banks and Other institutes

In Rupees	2017	2016
Borrowings from Banks	961,237,928	1,661,716,072
Borrowings from Other Institutes	1,847,173,688	1,656,794,682
<b>Total</b>	<b>2,808,411,616</b>	<b>3,318,510,754</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 22 Due to Other Customers

In Rupees	2017	2016
At amortised cost	36,654,963,892	32,122,526,537
<b>Total</b>	<b>36,654,963,892</b>	<b>32,122,526,537</b>
<b>a. Analysis</b>		
<b>In Rupees</b>		
By Product		
Savings deposits	5,491,105,588	5,202,952,736
Fixed deposits	31,163,858,303	26,919,573,801
<b>Total</b>	<b>36,654,963,892</b>	<b>32,122,526,537</b>
By Currency		
Sri lankan Rupee	36,654,963,892	32,122,526,537
<b>Total</b>	<b>36,654,963,892</b>	<b>32,122,526,537</b>

### 23 Debt Securities Issued

In Rupees	2017	2016
Issued by the bank	5,108,340,561	5,544,534,335
Issued by the Other Subsidiaries	-	-
<b>Total</b>	<b>5,108,340,561</b>	<b>5,544,534,335</b>
Due within 1 year	-	-
Due after 1 year	5,108,340,561	5,544,534,335
<b>Total</b>	<b>5,108,340,561</b>	<b>5,544,534,335</b>

#### 23.a Details of Debt Securities Issued

Type	Face Value In Rupees	Interest Rate	Issue Date	Maturity Date	2017	2016
<b>Issued by Banks</b>						
Listed , secured, Redeemable & Rated 3 Year Debenture	476,460,000	14.50%	24th October 2013	23rd Oct 2016	-	-
Listed , secured, Redeemable & Rated 4 Year Debenture	443,540,000	15.00%	24th October 2013	23rd Oct 2017	-	442,839,667
Listed , secured, Redeemable & Rated 5 Year Debenture	1,080,000,000	15.50%	24th October 2013	23rd Oct 2018	1,078,892,969	1,077,412,873
Listed , secured, Redeemable & Rated 5 Year Debenture (Fixed Semi)	2,012,990,000	10.50%	20th November 2015	20th Nov. 2020	2,026,604,524	2,023,460,953
Listed , secured, Redeemable & Rated 5 Year Debenture (Floating Qtr)	578,240,000	AWPLR+1.5	20th November 2015	20th Nov. 2020	584,185,759	583,910,751
Listed , secured, Redeemable & Rated 10 Year Debenture (Fixed Annual)	1,408,770,000	12.00%	20th November 2015	20th Nov. 2025	1,418,657,309	1,416,910,092
<b>Sub Total</b>	<b>6,000,000,000</b>				<b>5,108,340,561</b>	<b>5,544,534,335</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Interest Rate of comparable government Securities

Debenture Type	Interest rate %		Gov. security Interest rate %	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debenture 5 Years	15.50	15.50	9.44	11.76
Debenture - 5Years- 2015(Floating Qtr 2020)	AWPLR+1.5%	AWPLR+1.5%	9.44	11.76
Debenture - 5Years- 2015(Fixed Semi 2020)	10.50	10.50	9.44	11.76
Debenture - 10Years- 2015(Fixed Annu. 2025)	12.00	12.00	10.36	11.06

### Interest Cover

Debenture Type	Interest Cover Ratio(Times)	
	31.12.2017	31.12.2016
Debenture 3 years	0.00	32.06
Debenture 4 Years	28.30	27.09
Debenture 5 Years	9.16	11.35
Debenture - 5Years- 2015(Floating Qtr 2020)	20.01	28.38
Debenture - 5Years- 2015(Fixed Semi 2020)	7.21	8.92
Debenture - 10Years- 2015(Fixed Annu. 2025)	9.05	11.02

### Debt/Equity

Debenture Type	Debt/Equity Ratio	
	31.12.2017	31.12.2016
Debenture 4 Years	0%	12%
Debenture 5 Years	26%	28%
Debenture - 5Years- 2015(Floating Qtr 2020)	14%	15%
Debenture - 5Years- 2015(Fixed Semi 2020)	48%	53%
Debenture - 10Years- 2015(Fixed Annu. 2025)	34%	37%

### Market Price of Debentures during the Year

Type of Debentures	2017			2016		
	Highest Price	Lowest Price	Last Trading Price	Highest Price	Lowest Price	Last Trading Price
Debenture 3 years	N/T	N/T	N/T	N/T	N/T	N/T
Debenture 4 Years	N/T	N/T	N/T	105.33	103	105.33
Debenture 5 Years	N/T	N/T	N/T	0	0	0
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

### 24 Current Tax Liabilities

In LKR	2017	2016
Taxation - current	329,551,783	341,885,533
VAT Payable	50,645,239	20,424,139
WHT Received	(251,486,209)	(177,181,893)
Crop Insurance Levey	2,011,191	201,437
NBT Payable	7,776,948	4,007,881
<b>Total</b>	<b>138,498,952</b>	<b>189,337,098</b>

### 25 Other Liabilities

In LKR	2017	2016
Sundry creditors	268,832,669	172,819,790
Contributions to defined benefit plans (Note 25.1)	432,437,673	317,360,569
Long Term Funds & Deposits	17,819,752	17,819,752
Charges recovered in advance	62,889,179	174,889,290
<b>Total</b>	<b>781,979,272</b>	<b>682,889,401</b>

#### 25.1 Contributions to defined benefit plans

Actuarial Valuation of Gratuity Liabilities as at 31 December 2017	Normal Gratuity Rs.	Special Gratuity Rs.	Total Rs.
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#### Accounting Disclosures:

##### Change in the Present Value of The Defined Benefit Obligation (PV-DBO)

Provision for PV-DBO as at 01 January 2017	185,388,237	131,972,331	317,360,568
Interest Cost for the period	20,392,706	14,516,956	34,909,662
Current Service Cost for the period	16,683,745	10,187,882	26,871,627
Gratuity paid/payable for those who left during the period	(4,006,594)	(3,213,853)	(7,220,447)
Actuarial (Gain)/Loss on PV-DBO	33,500,842	27,015,420	60,516,262
Provision for PV-DBO as at 31 December 2017	251,958,936	180,478,736	432,437,672

#### Amounts Recognized in the Balance Sheet and Income Statement

##### Liability recognised in the balance sheet

Provision for Gratuity as at 31 December 2017	251,958,936	180,478,736	432,437,672
Unrecognized actuarial Gains/(Losses) as at 31 December 2017	-	-	-
Liability recognized in the balance sheet as at 31 December 2017	251,958,936	180,478,736	432,437,672

##### Expenses recognised in the income statement

Interest Cost	20,392,706	14,516,956	34,909,662
Current Service Cost	16,683,745	10,187,882	26,871,627
Net Actuarial (Gain)/Loss recognized immediately	33,500,842	27,015,420	60,516,262
Expenses recognized in the Income Statement	70,577,293	51,720,258	122,297,551

## NOTES TO THE FINANCIAL STATEMENTS

### 25.1 Contributions to defined benefit plans Contd.

<b>Actuarial Valuation of Gratuity Liabilities as at 31 December 2017</b>	<b>Normal Gratuity Rs.</b>	<b>Special Gratuity Rs.</b>	<b>Total Rs.</b>
<b>Movements in the Net Liability Recognised in the balance sheet</b>			
Opening Net Liability as at 01 January 2017	185,388,237	131,972,331	317,360,568
Expenses recognized in the Income Statement	70,577,293	51,720,258	122,297,551
Gratuity paid/payable for those who left during the period	(4,006,594)	(3,213,853)	(7,220,447)
Closing Net Liability as at 31 December 2017	251,958,936	180,478,736	432,437,673

#### Valuation Assumptions:

Mortality	: A 1967/70 Mortality Table
Disability	: Standard
Staff Turnover Rates	: 5.12%

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 : Permanent staff: Basic Salary : 18.00% p.a. once in three years with next revision due in given dates 2018.

Salary Increment Scale revision - 18.00% p.a. once in three years with next revision due in given dates 2018.

COLA - 18.00% p.a. once in three years with next revision due in given dates 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	No. Emps	TOT Basic Salary (Rs.)	TOT Other Allowances	Normal Gratuity Provision (Rs.)	Special Gratuity Provision (Rs.)	Total PV-DBO (Rs.) (Normal + Special Gratuity)
Permanent	520	24,401,903	17,093,642	251,325,211	180,343,195	431,668,406
Trainee	79	887,500	0	466,319	101,842	568,160
Contract	46	1,136,000	0	167,407	33,699	201,106
<b>Total</b>	<b>645</b>	<b>26,425,403</b>	<b>17,093,642</b>	<b>251,958,936</b>	<b>180,478,736</b>	<b>432,437,672</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

<b>Assumption changed (while all other assumptions remain unchanged)</b>	<b>Total PV-DBO (Rs.) (Normal + Special Gratuity)</b>
1% increase in discount rate (i.e. 12%)	404,157,086
1% decrease in discount rate (i.e. 10%)	464,297,585
1% increase in Salary Escalation rate (i.e. 19% once in every three years)	443,125,475
1% decrease in Salary Escalation rate (i.e. 17% once in every three years)	422,034,255

Detailed Accounting Disclosures:

	<b>Normal Gratuity +Special Gratuity</b>
<b>Break up of actuarial (gain)/loss on the defined benefit obligation (Rs.)</b>	
Experience adjustment (Financial and Demographic)	= 4,783,878
Due to changes in financial assumptions	= 29,846,944
Due to changes in demographic assumptions	= 25,885,439
Total	= 60,516,261

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

During fiscal year ending December 31, 2017	= 42,261,789
During fiscal year ending December 31, 2018	= 31,466,231
During fiscal year ending December 31, 2019	= 33,694,189
During fiscal year ending December 31, 2020	= 28,102,609
During fiscal year ending December 31, 2021	= 29,712,209
Beyond next 5 years	= 267,200,645
	= 432,437,672

**Weighted Average Duration of Defined Benefit Obligation (Years)** = 7.64

Name of the Actuary	M Poopalanathan
Date of the Actuarial Computation	10th February 2018
Method of Valuation	Projected Unit Credit Method

### 26 Stated Capital

**In Rupees**

	<b>2017</b>	<b>2016</b>
Authorized Capital	2,000,000,000	2,000,000,000
Stated Capital /Assigned Capital	962,092,936	962,092,936
<b>Total</b>	<b>962,092,936</b>	<b>962,092,936</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 27 Statutory Reserve Fund

In Rupees	2017	2016
Opening balance as at 01-01	139,599,819	115,430,986
Transfer During the Period	20,400,038	24,168,833
<b>Closing Balance 31-12</b>	<b>159,999,857</b>	<b>139,599,819</b>

### 28 Retained Earnings

In Rupees	2017	2016
Other reserves ( P & L Accounts )	2,569,791,117	2,240,746,275
Revaluation Reserve inv pro	269,554,613	251,798,812
Acturial gain	(28,957,305)	31,558,957
Investment Fund Account	-	-
<b>Closing Balance 31-12</b>	<b>2,810,388,425</b>	<b>2,524,104,044</b>

### 29 Other Reserves

#### Bank-2017

In Rupees	Opening Balance 01-01-2017	Movement/ transfers	Closing balance as at 31-12-2017
General reserve	205,601,136	40,800,076	246,401,212
Revaluation Reserve	30,637,498	(875,364)	29,762,134
Investment Fund	-	-	-
Available-for-sale reserve	(41,147,795)	32,051,026	(9,096,769)
Cash flow reserve	-	-	-
Foreign currency translation reserve	-	-	-
Special Reserve	-	-	-
Actuarial Gain/Loss	-	-	-
<b>Total</b>	<b>195,090,839</b>	<b>71,975,738</b>	<b>267,066,577</b>

#### Bank-2016

In Rupees	Opening Balance 01-01-2016	Movement/ transfers	Closing balance as at 31-12-2016
General reserve	157,263,470	48,337,666	205,601,136
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	-	-	-
<b>Total</b>	<b>168,842,753</b>	<b>26,248,086</b>	<b>195,090,839</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 30 Contingent Liabilities & Commitments

	31.12.2017	31.12.2016
1. Commitments secured by 100% securities(Credit Guaranties)	3,905,400	7,170,000
2. Self Liquidatable Commitments (Pending Loan Disbursements)	594,591,541	687,551,449
<b>Total</b>	<b>598,496,941</b>	<b>694,721,449</b>

### 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 2017 ( LKR.000')	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
<b>Assets</b>						
Cash	124,169	-	-	-	-	124,169
Due from Banks	158,406	-	-	-	-	158,406
Investments	8,630,849	4,175,803	1,097	19,531	-	12,827,280
Loans & Advances	2,071,783	5,850,433	9,278,818	6,858,874	10,910,534	34,970,442
Fixed Assets	-	-	-	-	513,425	513,425
Other Assets	91,059	43,757	28,203	11,897	923,103	1,098,019
<b>Total Assets</b>	<b>11,076,267</b>	<b>10,069,993</b>	<b>9,308,119</b>	<b>6,890,301</b>	<b>12,347,062</b>	<b>49,691,742</b>
Percentage 31st Dec 2017	22.29	20.26	18.73	13.87	24.85	100.00
Percentage 31st Dec 2016	25.27	13.05	11.56	9.48	40.64	100.00
<b>Liabilities</b>						
Total Capital Fund	-	-	-	-	4,199,548	4,199,548
Deposits	18,666,627	14,220,078	957,029	649,069	2,162,161	36,654,964
Borrowings	422,233	1,692,999	3,371,153	690,122	1,740,244	7,916,752
Other Liabilities	360,707	151,090	37,595	41,681	329,405	920,478
<b>Total Liabilities</b>	<b>19,449,567</b>	<b>16,064,167</b>	<b>4,365,778</b>	<b>1,380,872</b>	<b>8,431,358</b>	<b>49,691,742</b>
Percentage 31st Dec 2017	39.14	32.33	8.79	2.78	16.97	100.00
Percentage 31st Dec 2016	37.77	25.02	12.22	7.37	17.62	100.00

## NOTES TO THE FINANCIAL STATEMENTS

### 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	22Mn	Rent for Head office Building	0.65%
Mr. R.J. De Silva	Chairman HDFC	Chairman	2.3Mn	Savings/ Fixed Deposit	0.07%
Mrs. R.A. Choolananda	Director HDFC	Director	0.24Mn	Savings/ Fixed Deposit	0.01%
Mr. R.H. Meewakkala	Director HDFC	Director	0.23Mn	Savings/ Fixed Deposit	0.01%
Mr. N. Wijeyanathan	Director HDFC	Director	0.16Mn	Savings/ Fixed Deposit	0.01%
Mr. L.S. Palansuriya	Director HDFC	Director	0.12Mn	Savings/ Fixed Deposit	0.00%
Mr. M. Surendran	Director HDFC	Director	0.07Mn	Savings/ Fixed Deposit	0.00%
Mr. D.P. Wimalasena	Director HDFC	Director	0.06Mn	Savings/ Fixed Deposit	0.00%
Mr. S.A.N. Saranatissa	Director HDFC	Director	0.05Mn	Savings/ Fixed Deposit	0.00%
Mr. P.M. Gunawardhana	Director HDFC	Director	0.006Mn	Savings/ Fixed Deposit	0.00%
Mr. Lionel Jayasinghe	Director HDFC	Director	0.001Mn	Savings/ Fixed 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.

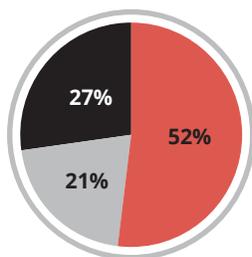
### 34 Assets Pledge

Type of Facility	Amount of facility Rs. Mn	Nature of Security	Value of security Rs. Mn	Balance as at 31 12-2017 Rs. Mn
(1) Overdraft (Sampath Bank)	300	Part of Portfolio	150	
(2) Borrowing (Term Loan) (Sampath Bank)	2,550	Part of Portfolio	1,915	737
(3) Borrowing (MCB)	250	Part of Portfolio	335	221
Type of Facility	Amount of facility Rs. Mn	Nature of Security	Value of security Rs. Mn	Balance as at 31 12-2017 Rs. Mn
(1) Listed, Secured Redeemable Debenture	6,000	Part of Portfolio	3,100	5,055

## VALUE ADDED STATEMENT

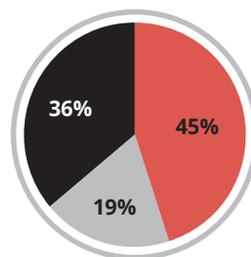
For the period ended 31st December		Bank	
LKR '000	%	2017	2016
Interest Income		6,613,531	5,472,894
Other Income		364,806	454,704
Gross Income		6,978,337	5,927,599
Cost of Service		5,171,475	3,938,500
<b>Total Value Additions</b>		<b>1,806,862</b>	<b>1,989,099</b>
<b>Value Distributed</b>			
<b>To Employees</b>			
(Remuneration & Benefits)	52.1	941,325	895,271
<b>To Government</b>			
Income Tax	21.4	386,457	378,385
Value Added Tax & NBT Fs	8.3	149,232	176,718
Crop insurance Levy	12.8	232,101	196,321
Stamp Duty	0.3	4,942	4,523
	0.0	182	823
<b>To Share Holders (Dividend)</b>			
	-	-	-
	*	*	*
<b>Retained in the Business</b>			
Retained Income		479,081	715,443
Depreciation	22.6	408,001	483,377
Loan Loss Provision	5.3	95,768	71,634
	(1.4)	(24,689)	160,432
<b>Total Value Distributions</b>	<b>100.0</b>	<b>1,806,862</b>	<b>1,989,099</b>

\* Proposed Dividend



To Employees 52%  
To Government 21%  
To Share Holders - %  
Retained Profit 27%

Value Distributed 2017



To Employees 45%  
To Government 19%  
To Share Holders - %  
Retained Profit 36%

Value Distributed 2016

## TEN YEAR STATISTICAL SUMMARY

Year ended 31st December (LKR Mn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>OPERATING RESULTS</b>										
Income	1,974	2,269	2,250	2,386	2,744	3,803	4,566	4,925	5,928	6,978
Interest Income	1,941	2,216	2,165	2,261	2,635	3,528	4,378	4,660	5,473	6,614
Interest Expense	1,602	1,582	1,339	1,354	1,805	2,469	2,535	2,539	3,509	4,742
Other Income	33	52	85	82	110	275	188	265	455	365
Operating Expenses	385	439	513	620	762	938	1,123	1,288	1,409	1,472
Provision for Loss	54	79	107	10	1	87	131	89	160	(25)
Profit Before Tax	(67)	168	291	402	176	309	777	1,009	848	789
Income Tax & Finance VAT	25	112	156	186	120	151	402	500	365	381
Profit After Taxation	(92)	56	135	216	56	158	375	509	483	408
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>										
Customer Deposits	5,777	6,929	8,526	12,336	14,695	18,902	24,479	28,593	32,123	36,655
Borrowings	5,840	4,336	3,629	3,556	3,214	5,257	6,213	9,037	8,863	7,917
Other Liabilities	867	1,315	1,383	1,699	500	834	840	920	872	920
Shareholders' Funds	1,697	1,721	1,849	2,337	2,391	2,575	2,886	3,364	3,821	4,200
Total	14,181	14,301	15,387	19,927	20,801	27,567	34,418	41,913	45,679	49,692
<b>ASSETS</b>										
Loans and Advances	12,149	11,913	12,519	14,888	15,966	19,701	23,357	26,685	30,260	34,970
Cash, short term funds and statutory	1091	1410	1,920	3,960	3,679	6,601	8,997	11,852	11,807	11,027
AFS Investments							850	2,043	2,053	2,083
Property, plant and equipment	671	721	756	250	288	290	296	435	478	513
Other assets	270	257	192	830	868	975	918	898	1,080	1,098
Total	14,181	14,301	15,387	19,927	20,801	27,567	34,418	41,913	45,679	49,692
<b>RATIOS</b>										
Return on Average Shareholders Funds (%)	(5.3)	3.3	7.6	10.3	2.35	6.36	13.72	16.30	13.46	10.17
Income Growth (%)	13.4	14.9	(0.8)	6.0	15.0	38.6	20.1	7.9	20.3	17.7
Return on Average Assets(%)	(0.7)	0.4	0.9	1.2	0.27	0.65	1.21	1.33	1.10	0.86
Advance to Deposits and Borrowings (%)	95.6	94.6	97.1	106.7	112.2	122.6	131.4	141.0	135.4	127.5
PPE on Shareholders Funds (%)	39.5	41.9	40.9	10.7	12.0	11.2	10.3	12.9	12.5	12.2
Total Assets to shareholders funds (times)	8.36	8.31	8.32	8.53	8.70	10.70	11.93	12.46	11.95	11.83
<b>SHARE INFORMATION</b>										
<b>Market Value per Share (Rs)</b>	<b>For Rs. 100/- Shares</b>					<b>For Rs. 10/- Shares</b>				
High (Rs)	135.0	191.8	600.0	1,900.0	119.0	52.5	52.5	76.5	70.0	50
Lower (Rs)	54.0	49.5	135.0	546.0	44.0	48.2	48.2	58.5	46.5	31.7
Close (Rs)	56.0	147.8	550.0	1,400.3	50.6	49.6	49.6	67.1	47.2	32.7
Earnings per Share (Rs)	(0.39)	1.69	2.63	3.34	0.86	2.44	5.79	7.87	7.47	6.31
Price Earnings Ratio	(142.13)	87.22	209.13	419.47	58.84	20.31	8.57	8.53	6.32	5.19
Net Assets per Share(Rs) **	26.23	26.60	28.56	36.11	36.95	39.80	44.60	51.98	59.05	64.90
<b>PROFILE</b>										
Ownership - Government %	51	51	51	51	51	51	51	51	51	51
- Private %	49	49	49	49	49	49	49	49	49	49
No of employees	289	364	425	505	488	488	477	561	570	567
No of branches	21	26	28	31	32	33	36	38	38	39
No of ATM (Access)*	4	10	225	255	360	652	775	854	3,000+*	4,350

\* Including LankaPay Network

## MEASUREMENT OF FINANCIAL INSTRUMENTS

## A Bank - Current year - 2017

Figures in LKR '000	HFT	Designated at FVTPL	HTM	L&R	AFS	Others	Total
<b>Assets</b>							
Cash and balances with Central Banks	-	-	-	-	-	124,169	124,169
Sri Lanka Government securities	-	-	2,497,178	-	-	-	2,497,178
Balances with banks	-	-	158,406	-	-	-	158,406
Derivatives	-	-	-	-	-	-	-
Financial assets AFS	-	-	-	-	2,083,257	-	2,083,257
Financial assets designated at fair value through profit or Loss	-	-	-	-	-	-	-
Loans and receivable to the Banks	-	-	-	-	-	-	-
Loans and Receivables to other customers	-	-	-	34,970,442	-	-	34,970,442
Financial Investments	-	-	8,246,846	-	-	-	8,246,846
Total Financial Assets	-	-	10,902,430	34,970,442	2,083,257	124,169	48,080,298
Other Assets	-	-	-	-	-	1,611,444	1,611,444
Total Assets	-	-	10,902,430	34,970,442	2,083,257	1,735,613	49,691,742

Figures in LKR '000	HFT	Designated at FVTPL	HTM	L&R	AFS	Others	Total
<b>Liabilities</b>							
Due to banks	-	-	2,808,412	-	-	-	2,808,412
Derivatives	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Due to other customers	-	-	36,654,964	-	-	-	36,654,964
Debt securities issued	-	-	5,108,341	-	-	-	5,108,341
Total financial Liabilities	-	-	44,571,716	-	-	-	44,571,716
Other Liabilities	-	-	-	-	-	920,478	920,478
Total Liabilities	-	-	44,571,716	-	-	920,478	45,492,194
Share Holder Fund	-	-	-	-	-	4,199,548	4,199,548
Share Holder Fund & Liabilities	-	-	44,571,716	-	-	5,120,026	49,691,742

## MEASUREMENT OF FINANCIAL INSTRUMENTS

## A Bank - Previous year - 2016

Figures in LKR '000	Designated						Total
	HFT	at FVTPL	HTM	L&R	AFS	Others	
<b>Assets</b>							
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 AFS	-	-	-	-	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
Total Financial Assets	-	-	11,662,774	30,259,872	2,053,279	144,695	44,120,621
Other Assets	-	-	-	-	-	1,558,065	1,558,065
Total Assets	-	-	11,662,774	30,259,872	2,053,279	1,702,760	45,678,686

Figures in LKR '000	Designated						Total
	HFT	at FVTPL	HTM	L&R	AFS	Others	
<b>Liabilities</b>							
Due to banks & Other Financial Institutes	-	-	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
Total financial Liabilities	-	-	40,985,572	-	-	-	40,985,572
Other Liabilities	-	-	-	-	-	872,226	872,226
Total Liabilities	-	-	40,985,572	-	-	872,226	41,857,798
Share Holder Fund	-	-	-	-	-	3,820,888	3,820,888
Share Holder Fund & Liabilities	-	-	40,985,572	-	-	4,693,114	45,678,686

## CAPITAL ADEQUACY

<b>Capital Base As at 31st December</b>	<b>2017 (Rs.000')</b>	<b>2016 (Rs.000')</b>
Total Common Equity Tier I (CET1) Capital		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	647,105	647,105
Share Premium	314,988	314,988
Statutory Reserve Fund	160,000	134,944
Published Retained Profits/(Accumulated Losses)	2,839,346	2,138,209
Accumulated other comprehensive income (OCI)	-9,097	
General and Other Reserves	246,401	210,085
<b>Sub Total</b>	<b>4,198,743</b>	<b>3,445,331</b>
<b>Total Adjustments to CET1 Capital</b>		
Deferred tax assets (net)	77,057	
Other intangible assets (net)	189,753	
Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan		1,468
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	655,272	414,845
<b>Common Equity Tier I (CETI) Capital after Adjustments</b>	<b>3,276,660</b>	<b>3,029,017</b>
<b>Tier 2 Capital after Adjustments</b>		
<b>Additions</b>		
General Provisions	134,328	119,671
<b>Deductions</b>		
Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	134,328	414,845
<b>Tier II Capital</b>		-295,174
<b>Capital Base</b>	<b>3,276,660</b>	<b>2,738,629</b>
<b>Total risk adjusted balances (credit risk, market risk, operational risk)</b>	<b>24,239,918</b>	<b>21,607,118</b>
<b>Risk Adjusted Capital Ratios</b>		
Common Equity Tier 1 Capital Ratio *	13.52%	-
Tier 1 (Total Tier 1 capital / Total risk adjusted balances) **	13.52%	14.02%
Tier 11(Capital base / Total risk adjusted balances) ***	13.52%	12.65%

\* Minimum 5.75 \*\* Minimum 7.25% \*\*\*Minimum 11.25%

## RISK ADJUSTED ON - BALANCE SHEET EXPOSURE

Rs.000'

As at 31st December	Balance			Risk Adjusted Balance	
	2017	2016	Risk Weights (%)	2017	2016
<b>Exposures</b>					
Cash- Local Currency	124,169	144,695	0%		
Sri Lanka Govt Treasury Bills & Bonds	2,497,178	859,945	0%		
Central Bank of Sri Lanka	43,831	0%			
Claims on Public Sector Entities (PSEs)	31	31	100%	31	31
<b>Loan &amp; Advances</b>					
<b>Claims Secured by Residential Property</b>					
Claims that qualify for regulatory capital purposes	10,706,660	11,114,707	50%	5,353,330	5,557,354
Claims that not qualify for regulatory capital purposes	1,134,774	544,368	100%	1,134,774	544,368
Housing loans against EPF	8,825,995	7,848,229	0%	-	-
Cash Margin Loans	1,224,844	967,749	0%	-	-
Gold Loans	267,078		0%	-	-
Loan to Value Ratio equal to or less than 70%	9,864		0%		
Loan to Value Ratio over 70% and less than 100%	285,205		20%	57,041	
Trading Investment	2,083,257	2,053,248			
Retail claims that qualify for regulatory capital purposes		7,978,495	75%		5,983,871
SME exposures secured on Immovable Property	1,608,097		60%	964,858	
Other SEM exposures	272,906		75%	204,680	
Individual exposures	7,816,151		75%	5,862,113	
Retail claims that do not qualify for regulatory capital purposes	47,671		100%	47,671	
Claims Secured by Real State	7,300	9,799	100%	7,300	9,799
<b>Non Performing Assets</b>					
<b>Past Due Residential Mortgage Loans</b>					
Specific provisions are more than 20%	842,330	12,792	50%	421,165	6,396
Specific provisions are less than 20%	414,008	796,143	100%	414,008	796,143
<b>Housing loans on Guarantors &amp; others</b>					
Specific provisions are more than 20%	217,245	105,429	100%	217,245	105,429
Specific provisions are less than 20%	208,942	259,316	150%	313,412	388,974
Due From local Commercial Banks Less Than Three Months ( AAA to BBB- )	4,151,534	5,165,483	20%	830,307	1,033,097
Due From local Commercial Banks Less Than Three Months ( BB+ to B- )		1,086,153	50%	543,076	
Due From local Commercial Banks More than Three Months( AAA to AA- )	539,993	789,531	20%	107,999	157,906
Due From local Commercial Banks More than Three Months( A+ to BBB- )	1,326,902	1,560,955	50%	663,451	780,478
Due From local Commercial Banks More than Three Months( BB+ to B- )	1,132,775		100%	1,132,775	
Claims on Financial Institutions/Primary Dealers/Finance Companies (AAA to AA-)		1,449,347	20%	289,869	
Claims on Financial Institutions/Primary Dealers/Finance Companies (A+ to BBB- and unrated)	1,254,346	558,343	50%	627,173	279,171
Claims on Financial Institutions/Primary Dealers/Finance Companies ( unrated )		221,260	100%	221,260	
Claims on Corporate (BBB+ to BB-)	491,189		100%	491,189	
Claims on Corporate (Unrated)	230,722		100%	230,722	
Fixed Assets	323,672	478,117	100%	323,672	478,117
Other Assets	979,445	992,653	100%	979,445	992,653
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet					
Total Risk Weighted Assets On Balance Sheet	48,801,034	45,263,868	20,384,362	18,167,993	
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet	3,905	7,170	100%	3,905	7,170
Total Risk Weighted Assets	48,804,940	45,271,038	20,388,267	18,175,163	
Total risk adjusted balance for operational risk				3,129,238	2,873,314
Total risk adjusted balance for Market risk				722,412	320,093
Total risk adjusted balances (credit risk, market risk, operational risk)				24,239,918	21,368,570

## SHARE INFORMATION

As at 31-12-2017

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

	December 31, 2017								
	Resident			Non Resident			Total		
Shareholders	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No. of Shares	%
1 - 1,000	1,575	932,870	1.44	4	1,113	0.00	1,579	933,983	1.44
1,001 - 10,000	501	1,853,885	2.86	4	19,750	0.03	505	1,873,635	2.89
10,001 - 100,000	116	3,075,656	4.75	1	50,000	0.08	117	3,125,656	4.83
100,001 - 1,000,000	15	2,791,922	4.31	2	260,180	0.40	17	3,052,102	4.71
Over 1,000,000	3	46,570,144	71.97	1	9,155,000	14.15	4	55,725,144	86.12
Total	2,210	55,224,477	85.34	12	9,486,043	14.66	2,222	64,710,520	100.00

	December 31, 2016								
	Resident			Non Resident			Total		
Shareholders	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
1 - 1,000	1,550	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 - 1,000,000	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

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

	December 31, 2017				December 31, 2016			
	No of Share holders	%	No of Shares	%	No of Share holders	%	No of Shares	%
Individuals	2,089	94.01	5,846,184	9.03	2,052	93.96	6,035,653	9.33
Institution	133	5.99	58,864,336	90.97	132	6.04	58,674,867	90.67
Total	2,222	100.00	64,710,520	100.00	2,184	100.00	64,710,520	100.00

## SHARE INFORMATION

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

	Name of Shareholder	No. of Shares 2017	Percentage (%) 2017	No. of Shares 2016	Percentage (%) 2016
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	4,682,404	7.24	4,498,206	6.95
5	Urban Development Authority	300,000	0.46	300,000	0.46
6	Condominium Management Authority	300,000	0.46	300,000	0.46
7	Dr. R.R. De Silva	295,126	0.46	295,126	0.46
8	Sampath Bank PLC/Mr. A. Sithampalam	258,054	0.40	258,054	0.40
9	Seylan Bank PLC/Dr.Thirugnanasambandar Senthilverl	210,974	0.33	210,974	0.33
10	Finco Holding (Pvt.) Ltd.	185,000	0.29	185,000	0.29
11	The Associated Newspapers of Ceylon Ltd.	180,000	0.28	180,000	0.28
12	Mr. D. A. De Soysa	170,000	0.26	170,000	0.26
13	Mrs. S.C. Perera	164,030	0.25	171,000	0.26
14	Dr. Y. Sena	133,180	0.21	133,180	0.21
15	Richard Peiris Financial Services (Pvt) Ltd/M.A.A. Karim	131,816	0.20	124,000	0.19
16	Sezeka Limited	127,000	0.20	-	-
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	58,660,533	90.65	58,532,687	90.45

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

	2017 Rs.	2016 Rs.
Highest	50.00	70.00
Lowest	31.70	46.50
Year end	32.70	47.20

## SHARE INFORMATION

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

	2017	2016
Dividend per share (Rs.)	-	-
Dividend pay out ratio (%)	-	-
Net Assets value per share (Rs.)	64.90	59.05
Earning per Share (Rs.)	6.31	7.47

### Directors and General Manager /CEO Shareholding (as at 31st of December 2017)

Name	2017	2016
Mr. R.J. De Silva (Chairman)	Nil	Nil
Mr. M. Surendran	1,000	1,000
Mr. R.H. Meewakkala	Nil	Nil
Mr. L.S. Palansuriya	Nil	Nil
Mr. D.P. Wimalasena	Nil	Nil
Mrs. R.A. Chulananda	Nil	Nil
Mr. L. Jayasinghe	1,000	1,000
Mr. S.A.N. Saranatissa	Nil	Nil
Mr. First Capital Market Ltd./Mr. P.M Gunawardhana	1,000	Nil
Mr. N. Wijeyanthan	3,979	Nil
Mr. Upali Hettiarachchi (GM/CEO)	Nil	Nil

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

	2017	2016
Number of Public Shareholders	2,208	2,170
Public shareholding	23,076,615	23,040,160
Percentage of public holding	35.66%	35.60%

## 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](http://www.hdfc.lk)

E-mail : [hdfc@hdfc.lk](mailto: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)

Mr. N. Wijeyanathan (Director)

Mr. S. A. N. Saranathissa (Director)

### Company Secretary:

Mrs. Dharshani De Silva

Attorney - at - Law & Notary Public, MBA & LL.M

Tel. 2423362

E-mail [secretary@hdfc.lk](mailto:secretary@hdfc.lk)

### Registrars:

SSP Corporate Services (Pvt.) Limited  
Address: 101, Inner Flower Road,  
Colombo 03.

Telephone : 2573894

Fax : 2573609

E-Mail : [sspsec@slt.net.lk](mailto:sspsec@slt.net.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 (Ika) Negative by Fitch Rating Lanka (Pvt) Ltd

### Bankers:

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

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

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

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

Nations Trust Bank PLC, Union Place  
branch, Colombo 02.

MCB Bank Limited, Main Branch, No. 8,  
Leyden Bastian Road, Colombo 01.

### Corporate Management:

Mr. S. Dissanayake – Acting CEO/GM,  
Chief Operating Officer

Mr. D. V. Pathirana - Chief Financial  
Officer

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

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)

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

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

Mrs. W. N. D. Boteju - Chief Manager  
(HR & Administration)

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

### Investor Information:

Mr. D. Vidana Pathirana

Chief Financial Officer

T.P. 2356800, 244624, 2446239

D/L 4717864 Fax : 2356829

E-mail - [cfo@hdfc.lk](mailto:cfo@hdfc.lk)

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## NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty Third (33rd) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka is convened on Friday the Twenty Ninth (29th) day of June 2018 at Grand Oriental Hotel (Rainbow Hall), 01st Floor, No. 02, York Street, Colombo 01 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 2017 together with the Report of the Auditor thereon.
3. To appoint three 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  
09<sup>th</sup> May 2018

## FORM OF PROXY

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

1. Mr. /Ms. .... of .....whom failing
2. Mr./Ms. .... of .....whom failing
3. Mr./Ms. .... of .....whom failing
4. Mr./Ms. .... of .....whom failing
5. Mr./Ms. .... of .....whom failing

As my/our proxy to vote for me /us on my / our behalf at the Annual General Meeting of the Bank to be held on 29<sup>th</sup> of June 2018 at 10.00 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

Signed this ..... day of ..... 2018.

.....  
 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.

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## FORM OF PROXY

### Instructions for completion

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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 need 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.