

**Directed to**  
**Progress**

**HDFC BANK OF SRI LANKA**

Annual Report 2018



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# Directed to Progress

A year of introspection and through it, consolidation and growth were the highlights that earmarked our journey. The company saw many positive changes including a reinvented business model that strengthened core processes along with innovation that would benefit both the team and our customers. In delivering upon the value that we promise to our customers. Helping keep this in perspective was a transition in leadership roles which streamlined our vision with well defined strategies that would help us succeed...

**All this and more as we are directed to progress.**



## INTRODUCTION TO THIS REPORT

In 2018, HDFC Bank continues its reporting tradition based on the Integrated Reporting Framework 2013 of the International Integrated Reporting Council and covers financial and other material topics for the period 1 January 2018, to 31 December 2018. 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 basis of preparing this report was an identification of the most material topics for the year under review with regards to achieving strategic and sustainable growth objectives. The material topics selected for disclosure were decided by the top management, under the guidance of the Chairman. Key management personnel, including the General Manager/ Chief Executive Officer (GM/CEO), were involved in reviewing the 2018 annual report, changes to the Bank's risk profile, and good governance and compliance requirements, in deciding materiality.

The report has taken into consideration stakeholder expectations and the requirements of the Integrated Reporting Framework (in addition to applicable statutory requirements) in deciding topics of disclosure. In this regard, the Chairman's Message and GM/CEO's Review highlights the most material strategic topics pertaining to the current status of the Bank, and both the Chairman and GM/CEO discuss growth strategy and resource allocation in their respective statements.

### Stakeholder Engagement in Formulating this Report

Although a specific stakeholder survey was not conducted, this report has taken into account expectations of core stakeholders.

The Chairman's Message and the GM/CEO's Review should be consulted for information on how the Bank has met expectations of key stakeholder 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).

As the annual report is an important stakeholder communication tool, this report has been translated into Sinhala and Tamil.

In addition, copies of this report will be provided to the Ministry of Housing, Construction and Culture Affairs and the report will be uploaded onto our website(www.hdfc.lk) for greater accessibility.

### Complying with 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 quantitative and qualitative 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 focuses 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  
Phone: +9411 235 6802/ 9411 235 6829



## OUR VISION

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

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## OUR MISSION

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

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

## OUR VALUES

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

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

## OUR STORY

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.

1984

Incorporated as a Building Society registered under the National Housing Act

2000

The Housing Development Finance Corporation of Sri Lanka Act No 07 of 1997 was gazetted, thereby formally establishing the Housing Development Finance Corporation of Sri Lanka

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, for 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 2018, 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.



## 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")

## 2012

Commencement of product and market diversification

## 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 1988.

## OUR BUSINESS MODEL

### 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.

### Key activities

Housing finance  
Leasing  
Pawning  
Deposits  
Business loans  
Development loans

### Customer segments

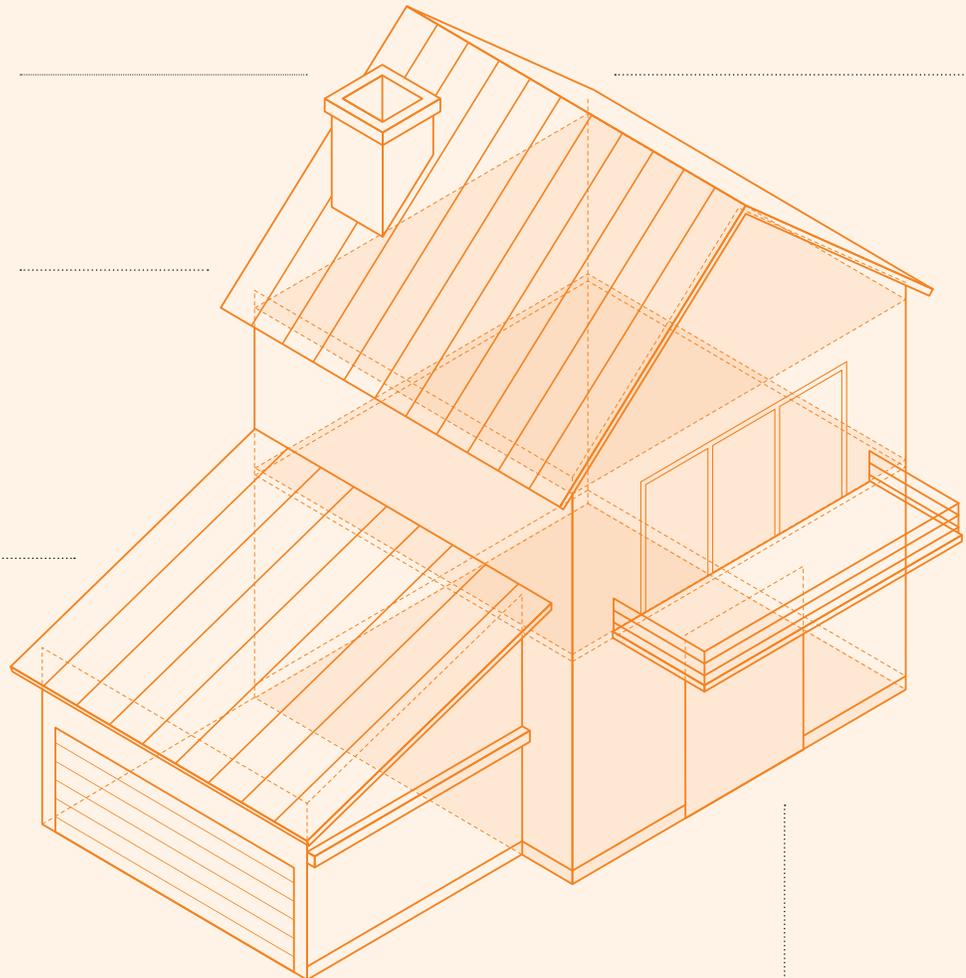
Bottom of the pyramid  
Professionals  
State sector employees  
Pensioners  
SMES  
Micro entrepreneurs

### Channels

Palmtop Bankers  
ATM  
Branches

### Key partners

Government agencies



### Financial capital

Our main source of funding is through public deposits. In addition, we have equity and debt capital. Our revenues are derived from

- Interest income
- Non interest income
- Investment income
- Fee based income

### Social and relational capital

The HDFC brand is well known and trusted by our customers.

This goodwill, built up over the years, is an incalculable asset.

## 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.

During the financial year 2018 our business model was strengthened by the implementation of a number of far reaching changes to operational aspects of the Bank. These include re-organising the branches into a cluster format, which facilitates greater synergies between branches and enhances operational efficiencies. A centralised disbursement model was introduced for greater credit control and more stringent monitoring of lending activities. A risk-based pricing system was implemented to support lending activities, enabling the Bank to evaluate lending risk at individual level and identify and support customers with high credit ratings. A new performance based bonus was introduced to motivate greater productivity across the branch network. Please refer the GM/CEO's review for greater details on these and other operational changes.

The Bank continued to focus on its diversification strategy by targeting new market segments and introducing more customised products and services. Through the product diversification strategy, the Bank has introduced a range of financial products and services, in addition to the traditional housing finance. This product portfolio diversification has helped to re-balance the Bank's risk profile, while opening up additional revenue streams.

## How we create value

Our Palmtop Bankers will bring banking to your doorstep to make your life easier.

We aim for long term relationships that facilitate incremental growth of our customers, over time.

We invest in financial literacy for our customers, to help them make informed decisions and to introduce them to different banking products for their different needs.

## Contribution to the country

We contribute to the national exchequer in the form of taxes.

We channel development credit to underserved markets to support government poverty alleviation objectives.

We directly improve quality of life of mid to low income communities in underserved parts of the country.

We channel the informal economy into the formal banking sector.

## Human capital

Our human resource base includes trained and experienced head office and branch personnel, and our growing team of Palmtop Bankers.

## Intellectual capital

We have years of institutional knowledge about housing finance in the mid to low economic segments. This intellectual capital is supported by modern IT systems.

## Environmental responsibility

We aim at environmentally responsible business operations through responsible lending practices.

## PRODUCT PORTFOLIO



### **Kedella**

Home loan scheme on primary mortgage of the property.



### **Shrama Udana**

Home loan for EPF members against EPF balance.



### **Lifestyle Loan**

To purchase home appliances through nominated suppliers.



### **Situ Sevana**

A value added home loan to fit your lifestyle.

### **Professionals' Loan**



### **Professionals' Loan**

Loans are granted to qualified professionals for housing purposes

### **Sirisara Home Loan**

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



### **Gold Loan**

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

### **Corporate & Development Finance**

### **Corporate & Development Finance**

Unique loan schemes to assist SME and Corporate Sector .

# SAVINGS



## 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.



## Vishrama Rekewarana

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



## 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



## Arumbu

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



## Vishrama Udana

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



## Thilina

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



## Sri Ratnabhimani

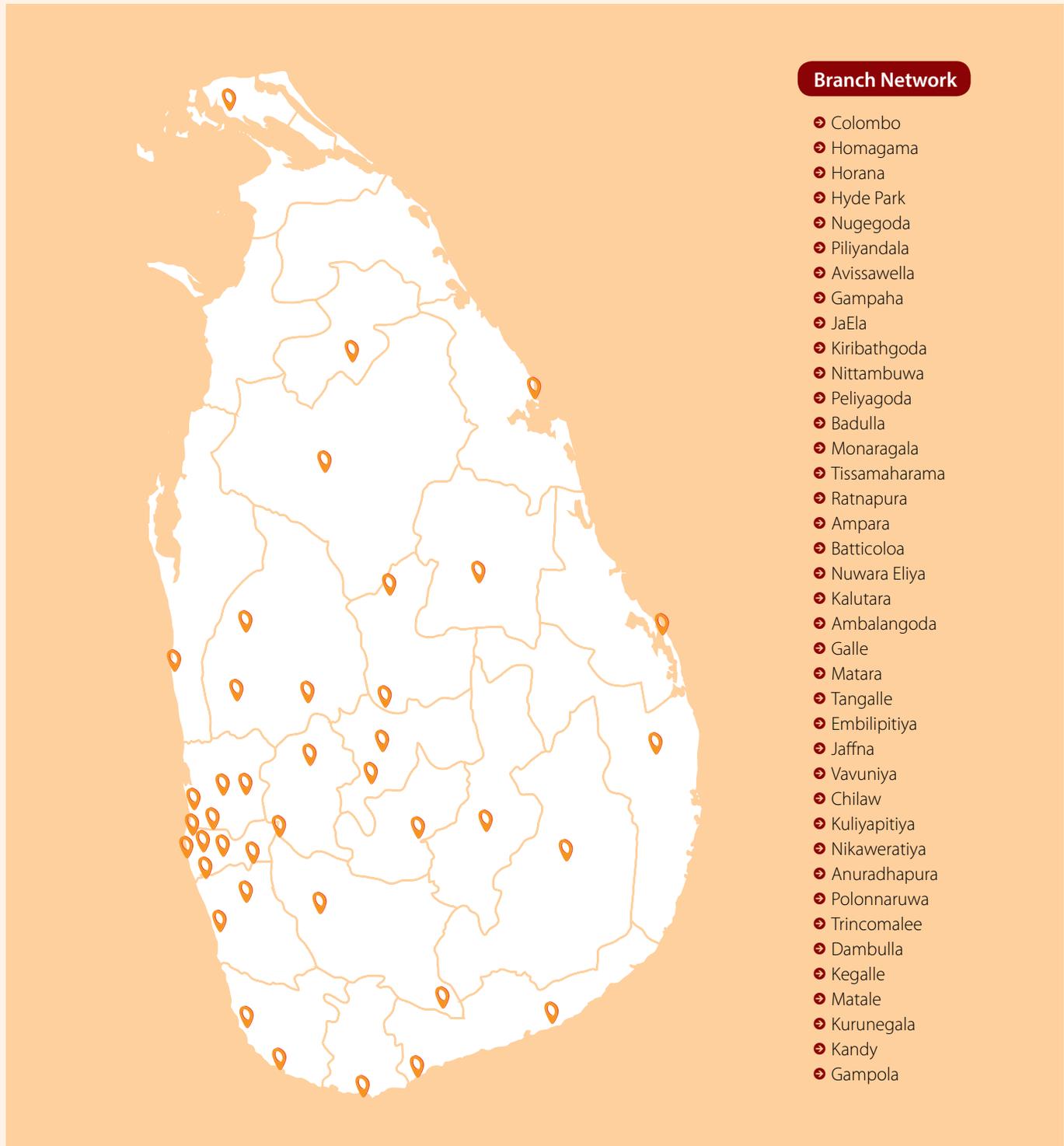
An insurance backed pension plan uniquely designed to protect the account holder and the family before as well as after the retirement



## Smart Goals

A savings product which is ideal for those who want to achieve their aspirations in a relatively short period

## NETWORK MAP



**DIRECTED  
TO BRINGING  
NEW  
PRODUCTS  
AND  
SERVICES  
THROUGH  
OUR  
VISIONARY  
PLAN FOR  
THE FUTURE**

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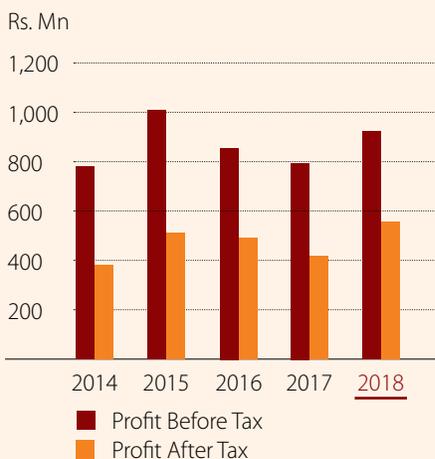
## FINANCIAL HIGHLIGHTS

	2018 LKR. Mn	2017 LKR. Mn	Change %
<b>Results for the year</b>			
Income	7,120	6,978	2
Profit Before Taxation	919	821	12
Provision for Taxation	354	407	(13)
Profit After Taxation	564	414	36
Revenue to the Government	359	412	(13)
<b>At the year end</b>			
Shareholders' Fund	4,757	4,232	12
Deposits from Customers	37,016	36,655	1
Gross Loans & Advance to Customers	38,812	35,735	9
Total Assets	49,285	49,724	(1)
<b>Information per Ordinary share</b>			
Earnings ( Basic ) ( Rs. )	8.72	6.40	36
<b>Financial Ratios</b>			
Return on Average shareholders' Fund ( % )	12.56	10.29	22
Return on Average Assets ( % )	1.14	0.87	31
Shareholders' Equity to Total Assets ( % )	9.65	8.51	13
<b>Statutory Ratios</b>			
Liquid Assets ( % )	20.56	27.58	(25)
Common Equity Tier 1 -Minimum Required 6.37%	16.41%	13.52%	
Total Tier I ( % ) - Minimum Required -7.87 %	16.41%	13.52%	
Total Capital ( % ) - Minimum Required -11.87 %	16.41%	13.52%	
<b>Other Information</b>			
Branches	39	39	-
Employees ( No of Staff )	561	567	(1)
Credit Rating - Fitch Ratings (Lanka)	BB+(lka)	BBB-(lka)	

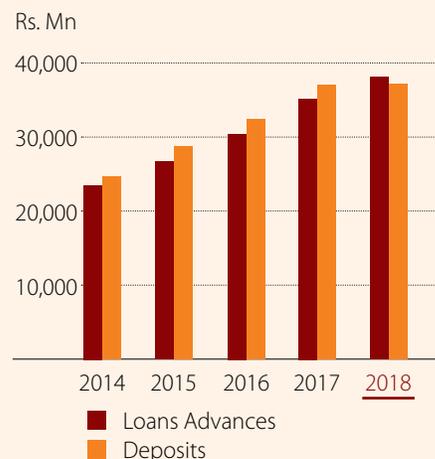
### Income



### Profit Before Tax & Profit After Tax



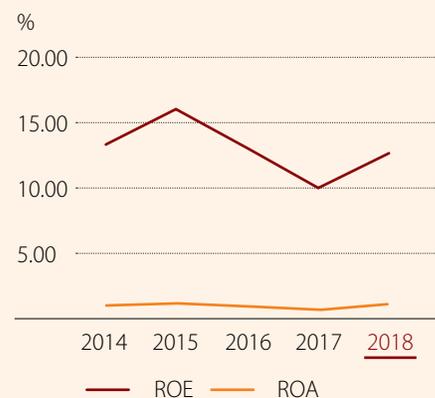
### Loans Advances & Deposits



# Rs. 918 Mn

## PROFIT BEFORE TAX

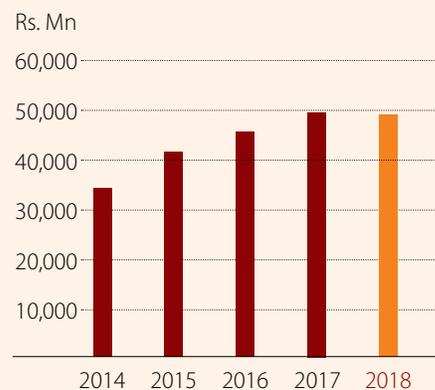
### ROA & ROE



# Rs. 38,812 Mn

## HOUSING LOANS

### Total Assets



## CHAIRMAN'S MESSAGE



# “The Banks fundamentals are growing stronger, and the foundation is set for future sustainable growth”

I am pleased to present to our esteemed shareholders the audited financial statements and annual report, of HDFC Bank for the financial year 2018, and to announce a reasonably good performance by your Bank during the year under review.

Given that 2018 presented some exceptional challenges, I believe your Bank has recorded a commendable financial performance. We closed the year with profit after tax reaching Rs. 564 million which is an 36% growth against 2017.

## **Realising Our Strategic Objectives**

I am pleased to report that HDFC's performance, in terms of meeting strategic objectives for the year, has also been fairly good. Our primary objective for the year was to comply with the minimum capital requirement of the Central Bank. At the start of the year, we were short on Tier 1 capital in absolute terms despite having healthy capital ratios, and as the government is the majority shareholder of the Bank, we had already commenced discussions with the Ministry of Finance on possible options to

bridge the shortfall. In April 2018 we received Cabinet approval to infuse Rs 1.4 billion in core capital through a perpetual bond, which will be issued by HDFC Bank, to the Treasury. We are confident that by mid-June 2019 we will be able to reach the Rs 5 billion Tier 1 requirement. This equity infusion will not result in any change to the current ownership structure of the Bank. The 51% ownership by the Government and 49% private holdings, will remain unchanged.

The second strategic objective was to further strengthen HDFC's alignment with the Government's national development agenda. One of the main Government objectives, is to provide low cost housing solutions for mid and low income communities and HDFC is expected to be a key enabler in this endeavour through the provision of affordable housing finance. However, to date, HDFC has had difficulty meeting this national objective, of supplying low cost or below market rate, housing finance for mid and low income populations. This is due to the Bank's inability to access low cost funds. As a specialised bank, HDFC cannot raise low cost funds through such tools as current accounts. Therefore, the only options for continuous inflows of low cost funds are through the Government, or some other external source, such as concessionary credit lines, or concessionary lending agencies. We are already looking into these options and we are in the process of devising a sustainable, long term solution.

A third priority for the year, was to conclude a new collective agreement with the Bank's

36 %  
**PROFIT  
GROWTH**

## CHAIRMAN'S MESSAGE

Union, which was pending from early 2018. The delay in finalising the three year agreement caused some de-motivation within the workforce, discouraging productivity. Therefore, signing the new collective agreement in the third quarter of 2018 has palpably improved cooperation and productivity of the staff. In this regard, I appreciate the pragmatic attitude of the Union, which made it possible to agree on some critical areas. Firstly, it was agreed to stagger the negotiated salary increases over a 3-year period, which has made the wage increase more bearable to the Bank's cash flows. A second impactful achievement was the introduction of a performance based bonus. A third achievement, is that the amicable negotiations with the Union has boosted staff cooperation above and beyond the call of duty with regards to addressing crucial operational aspects of the Bank, such as the NPL ratios.

### Meeting Shareholder Expectations

Within the limits of internal and external constraints faced by the Bank, I believe HDFC has done fairly well in 2018 in terms of financial achievements. I request our shareholders to please refer the GM/CEOs Review and the Financial Capital Review, for more information on this subject.

In the context of financial gains for shareholders in the form of dividend payouts, we have fallen short. This is due to the Central Bank directive restricting distribution of profits until the minimum Tier 1 capital requirement is met.

I wish to stress that as at end December 2018, HDFC is financially stable and all solvency criteria except the minimum capital requirement of Rs.5.0Bn have been met. Therefore, I believe we have done well for shareholders in terms of future sustainability.

**“The new financial year, 2019, will be a year of growth for HDFC, as the Bank will be able to comply with the capital adequacy criteria, which will allow the Bank to move full steam ahead with business expansion plans under the 4-Year Corporate Plan of 2017-2020”**

We have also aligned ourselves, as much as possible, with the Government agenda by supporting SMEs, agriculture and other vulnerable segments, thereby meeting our major shareholder - the Government's- expectations from the Bank.

### Strategy and Resource Allocation

The new financial year, 2019, will be a year of growth for HDFC, as the Bank will be able to comply with the capital adequacy criteria, which will allow the Bank to move full steam ahead with business expansion plans under the 4-Year Corporate Plan of 2017-2020. In 2019, we will continue to align with the Bank's 4-year strategy and aggressively focus on market penetration for all our existing market segments, within a strong financial discipline framework. Therefore, we have already allocated resources for improved internal controls and risk management, marketing, new technologies, new recruitments and training and development, in line with our 4 year growth strategy.

An area of special emphasis will be technology adaptation. The Bank was

dependent on an outdated IT system until a modern core banking system was implemented in 2017-18. Therefore, going forward, we will focus on adapting new age marketing tools and skills for business development and marketing. We will also invest in ICTs to enhance governance systems, internal controls and risk management. Thirdly, we will harness modern technologies to enhance overall operational efficiency, while reducing administrative costs.

In line with the diversification strategy of the Bank, our markets and customer segments have also been changing. Therefore, a core application of modern ICTs will be to develop technology solutions to interact with different customer segments, both from a transactional and communication perspective, among other strategic interventions, the internet banking capabilities of HDFC will be enhanced to support this objective. I believe our new core banking system has the capability to drive significant changes across the Bank, both from an administrative and a stakeholder

engagement perspective. Therefore, we will speed up the transition to digital platforms, to reposition HDFC as a modern, technology driven housing finance specialist.

During the past year we have invested time and funds extensively on upgrading our HR policies, on business continuity planning including drawing up a pipeline of key personnel, and on training and development, to equip the Bank with the correct skills and capabilities to sustainably drive our growth strategy. Please refer the section on Human Capital for more details on the status of HDFC's human resource base as at end December 2018. Our branches have also been fully integrated with the core banking system and with each other, to facilitate better internal controls and communications. HDFC is now poised to move forward and I am confident we will see faster progress within 2019 and 2020 - once the capital injection is concluded.

I take this opportunity to extend my gratitude for the direction and support given by the Minister of Housing, Construction and Cultural Affairs, the Hon. Sajith Premadasa, the Secretary to the Ministry and other Ministry officials. As always, I appreciate the hard work and dedication of all our staff and I look forward to a year of progress. We face the future with confidence, as a strong team of professionals working in cooperation towards the objective of serving our nation.

Sincerely



**R. H. Meewakkala**

Chairman

17th May 2019

## GENERAL MANAGER/ CHIEF EXECUTIVE OFFICER'S REVIEW



# “HDFC Bank faced a challenging year in 2018 but has continued to make headway in its strategic objectives and core mission”

HDFC Bank faced a challenging year in 2018 but has continued to make headway in its strategic objectives and core mission of national welfare through the provision of housing finance for mid and low income communities in the country.

## Financial Performance

Although 2018 was a somewhat difficult year in general for the entire country, HDFC was able to close the year on a stronger financial footing than in 2017. This is due to a number of strategic decisions that contributed towards revenue growth and a more robust balance sheet. This includes re-evaluating our investment portfolio and liquidating low yielding investments, and continuing to diversify both our lending and deposit portfolios, to gain maximum cost-benefit advantages.

# 564 MN

## NET PROFIT

In terms of operational profitability, the Bank's profit before taxes and profit after tax improved from Rs 821 million and Rs 414 million in 2017, to Rs 918 million and Rs 564 million, respectively. Our profit after tax is a growth of 36% which is extremely good, given the macro environment of 2018 and the new Debt Repayment Levy (DRL), VAT

and NBT. In fact the Bank's tax payments increased by 25%, to Rs 289 million from Rs 232 million in 2017, which accounted for almost 5% of the Bank's total turnover.

Profit growth was mainly achieved through the growth of our lending portfolio that expanded by about 9% from Rs 35 billion,

## GENERAL MANAGER/ CEO'S REVIEW

**“HDFC is a State owned bank. Further, HDFC shares are listed on the Colombo Stock Exchange, which increases good governance requirements and transparency”**

to Rs 38 billion. During the year we strengthened the lending portfolio by centralizing business credit evaluations to our specialised corporate lending unit, at head office. This approach will help capture more large corporate customers through the availability of specialised services.

Excess liquidity, which was maintained for contingencies, was reduced based on a re-evaluation of risks. This helped reduce losses on margins for the year and also contributed to the bottom line.

The deposit base expanded by 1% to Rs 37 billion and the composition of retail deposits moved up from 44% to 51% of the total deposits in the year 2018. This growth in deposits under difficult economic conditions can be attributed to HDFC's unique value proposition. HDFC is a State owned bank, but unlike other State banks, HDFC is also listed on the Colombo Stock Exchange, which increases good governance requirements. This is a unique combination of the highest level of security with a high level of transparency. The HDFC Board comprises private sector directors representing 49% of shareholdings, which also enhances the Bank's business orientation.

### **Strengthening the Financial Base**

My primary area of focus in 2018 was credit quality and credit risk management and we have started systematically attacking the NPL ratios with a long-term perspective. The Bank's Gross NPL ratio excluding EPF loans, which is well above industry average at 10%, is the biggest sticking point of HDFC's otherwise relatively healthy financial position. The Bank's NPLs have historically proven to be difficult to compress due to various reasons, including HDFC's statutory mandate to make housing credit available to low and mid income social categories that are financially more vulnerable and have a higher risk of default. In 2018, NPLs were made a priority and all bank staff were aligned to bring them down.

We implemented a multi pronged approach of systematically identifying and chasing default accounts, including taking legal action. The process has proven to be extremely time consuming and tedious, due to long standing arrears and low level of digital integration of records in previous years across the branch network. I am confident we will see faster progress in the new financial year, as we gain momentum in aligning all systems and staff in this direction.

While cutting down our current NPLs, it is crucial that we improve our credit risk management system to prevent further deterioration of the credit portfolio. Therefore, we have initiated an overhaul of the lending procedures and lending criteria, and we now have in place a far more stringent and controlled credit risk management system. Controls include, rationalising the delegated authority structure for lending approvals and enhanced segregation of duties, while leveraging branch management for customer relationship building. For objective management of loan disbursements, we introduced a system where the second approval comes from the centralised credit administration unit. We also introduced risk based pricing, instead of the standard pricing

22%

**RETAIL FIXED  
DEPOSIT GROWTH**

model, which we believe attract better quality customers. We have also hired a new Chief Operating Officer from the private sector to improve the quality of our portfolio. These changes have been accompanied by more pertinent and objective performance evaluation criteria to instil a sense of accountability among all levels of staff. We expect a significant reduction in NPLs with these initiatives, which will also improve our credit rating.

Another noteworthy development towards better financial discipline within HDFC, was the inclusion in the new collective agreement, for the first time, a performance based bonus payment mechanism which will also be linked to a new performance evaluation system from 2019. In 2018 a performance bonus was distributed to staff. I feel the response from the staff and the Union have been extremely positive, both towards the new credit risk management systems and the performance evaluation system. Therefore, I am confident the Bank's financial fundamentals will continue to improve in 2019.

### **Capital Position**

The main challenge in 2018 arose from the Bank's shortfall in Tier 1 capital, required to conform to the CBSL Direction of having a minimum capital of Rs.5.0billion. Consequently, Fitch Rating downgraded HDFC's credit rating to BB+ from the previous BBB-. However, I would like to clarify that the current rating is based on HDFC's stand-alone fundamentals and not dependent on government support. All ratings have been removed from Rating Watch Negative, and the Outlook is Stable. Further, I am happy to report that all legalities to issue the

Additional Tier 1 Bond to the Government Treasury have now been completed and the capital shortfall will be bridged in 2019. This will allow HDFC to upgrade its credit rating in 2019.

Despite the above shortfall to meet the CBSL minimum capital requirement of Rs.5.0billion, I am happy to report that your Bank has already complied with the minimum capital ratios under Basel III guidelines and the CBSL Direction No. 01 of 2016.

### **Plans for the New Financial Year**

Once the core capital requirement is achieved, HDFC will have greater business expansion and operational flexibility, particularly as the Bank is now equipped with a modern core banking system that enables many new products and services.

Our target for 2019, is to grow our loans and advances portfolio by 7 billion, while shaving our Gross NPL ratio of 2018, by 25%. We will also continue to rebalance the risk profile, with emphasis on higher profit retail lending. Currently 80% of our lending portfolio is in housing, but we will attempt to reduce this concentration to 70% by growing leasing, gold loans and business loans, over the next few years. All new lending will be controlled within a 3% NPL rate.

Deposit growth is essential to provide the Bank with low cost funding. Therefore, we will continue to pursue new market segments for deposits, with emphasis on the retail sector.

With the core banking system now fully operational, HDFC has a range of new, modern products and services lined up. A number of these new projects have already

been initiated and these include an EMV compliant, chip based JCB debit card. EMV chip technology is an international standard and offers an extremely high level of security for debit card based transactions. The Bank is collaborating with JCB and the Sri Lankan payment gateway operator, Lank Clear, on the Bank's first international debit card project.

By now almost all financial services providers are expanding their digital footprint. HDFC will also step up its digital presence by revamping and upgrading the HDFC website to be more user friendly and with more features and transactional facilities. I believe this will help modernise the HDFC brand and also attract different customer segments.

The new technologies will also support internal efficiency. For instance, we are introducing an automated system for paperless Board meetings and Board subcommittee meetings, using iPads.

HDFC's Loan Origination System will also be made paperless by digitizing movement of all documents across the branches and head office. This will increase the speed of loan approval and monitoring, for better customer service and will also be more environmentally friendly.

A key aspect of the Bank's risk management will be improvements to the disaster recovery (DR) system. In 2019, we plan to initiate an online, real time transfer facility for the DR system. The new method will detect any changes/interruptions to routine operations and will intervene automatically, instead of the previous, time consuming, manual restorations.

## GENERAL MANAGER/ CEO'S REVIEW

I believe overall operational aspects will continue to improve as we introduce performance based bonuses from 2019. HDFC did not have a performance based reward system previously but from 2019 the performance bonus will be tied to the ROA of the Bank and a new performance evaluation system.

### Appreciations

I would like to thank the Minister of Housing, Construction and Cultural Affairs, the Honourable Sajith Premadasa and acknowledge with gratitude the assistance extended by the Secretary to the Ministry, Mr Bernard Wasantha de Silva, towards HDFC Bank's efforts to comply with capital adequacy. Our customers and depositors have been our bedrock in these challenging times and I am grateful for their continued patronage and loyalty. I also wish to thank the Board and Chairman of HDFC for their confidence in me, and the HDFC staff and the Union for their support throughout the year. Cooperation is essential for HDFC to succeed and I look forward to the continued support of all staff and the Union in the new financial year.

Sincerely



**Palitha Gamage**

*General Manager / CEO*

17th May 2019

## CHANGES TO CAPITALS IN 2018

### Capitals Material to HDFC Bank

HDFC Bank has identified the four capitals of

1. Financial Capital
2. Intellectual Capital
3. Human Capital
4. Social Capital

As the most 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 due to land clearing, ground water extraction, energy and water consumption, and pollution, stemming from third party activities financed by the Bank, via housing and business loans, 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.

In addition, the Bank monitors resource consumption (water, electricity and paper) within its head office and encourages a conservation mindset among employees. To further reduce environmental impacts the Bank is rapidly digitizing its internal processes.

## FINANCIAL REVIEW

### Changes to Financial Capital in 2018

The Financial Capital Review explains the status of financial capital management by the Bank in 2018. Please refer the Financial Highlights and the financial statements, for further details.

Given below is a summary of changes to HDFC Bank's key financial capitals during the 3-year period 2016-2018.

Key financial capitals	2016	2017	2018
Total income (Rs Mn)	5,928	6,978	7,120
Profit After Tax (Rs Mn)	483	414	564
Total Assets (Rs Mn)	45,679	49,724	49,285
Loans and advances (net) (Rs Mn)	30,259	34,968	37,934
Borrowings (Rs Mn)	8,862	7,917	6,653
Equity (Rs Mn)	3,821	4,231	4,756

### Operational Profitability

The financial year 2018 has been a more rewarding year for HDFC Bank, compared to 2017. The operational profitability improved substantially during the year as demonstrated by the 12% increase in profit before taxation against 2017. This improvement was achieved by managing liquid assets at optimum level throughout the year. Part of the Bank's liquid assets was liquidated to reduce interest cost substantially in absolute terms. As a result, the Bank was able to improve the net interest income ratio (NII) from 28.29% to 33.5%. Profitability was further improved by closely monitoring and enhancing the loan portfolio based non-interest and fee based income.

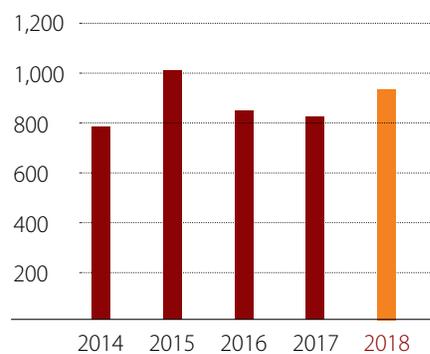
Overall profitability of the Bank as measured by the return on Average Assets (ROA) has improved from 0.87%, to 1.14% and the return on shareholders' equity (ROE) has improved from 10.29% to 12.56%. The Bank also benefitted significantly from the change in tax laws pertaining to the leasing business, compared to the financial year 2017.

### OPERATING STATEMENT

	2014	2015	2016	2017	2018
Interest Income	4,378	4,660	5,472	6,613	6,679
Less -Interest Expense	(2,535)	(2,539)	(3,509)	(4,742)	(4,441)
Net Interest Income (NII)	1,843	2,121	1,963	1,871	2,238
Add-Other Income	188	265	454	365	441
Operating Income	2,031	2,804	2,417	2,236	2,679
Less-Operating Expenses	1,123	1,288	1,409	1,472	1,668
Less- Impairment loss	131	89	160	(57)	93
Profit Before Taxes	777	1,009	848	821	919
Profit after Taxation	375	509	483	414	564
ROA %	1.21	1.33	1.10	0.87	1.14
ROE %	13.72	16.30	13.46	10.29	12.56

### Profit Before VAT & Corporate Tax

Rs. Mn



### Interest and non-interest Income

During the year the Bank has achieved a 10% increase in interest income, compared to 2017. This increase was mainly due to loan book growth and high interest earning lending for the year. With the limitation of re pricing the existing loan portfolio, the new lending was priced with an appropriate interest spread reflecting the rising interest cost. HDFC being a housing finance bank mainly focusing on low and middle income clientele, there is limited potential for transferring the increased financial cost to existing loan book customers.

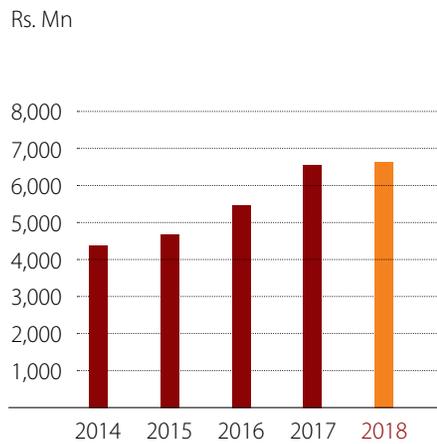
Financial investments also contributed to the interest income during the year. Interest income from the statutory liquid assets portfolio and other investments contributed 20% of the total interest income compared to 27% in 2017.

Non-interest income has contributed around 6% of the total income of the Bank in 2018. Fee and commission income and fair value appreciation of investment properties are the main contributors to the noninterest income, which has recorded an impressive 22% growth year-on-year. The main sources of loan portfolio based non-interest income

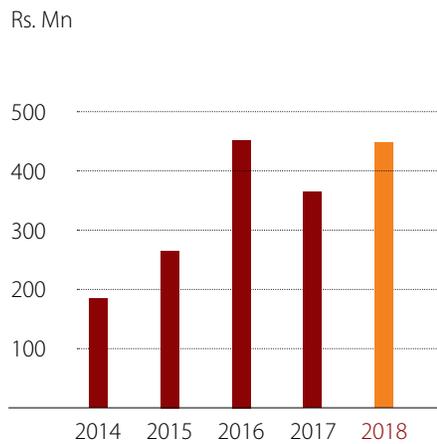
are loan documentation charges, legal fees, valuation, annual review fees, technical fee etc.. During the year, the Bank also introduces several other services to customers to enhance fee based income, which affirms the bank's greater focus on non interest income in a challenging interest rate environment.

Revaluation gain on investment properties was Rs. 61.69 million in 2018, compared to Rs. 16.9 million in 2017, which has contributed largely towards the profitability of 2018.

### Interest Income



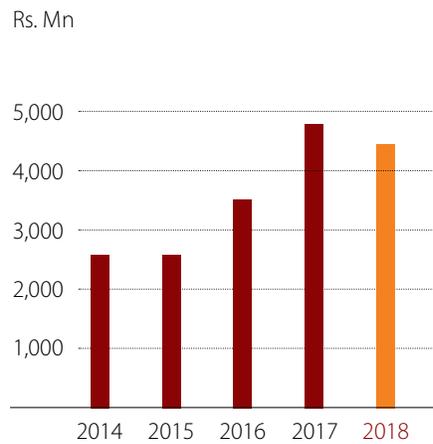
### Non- Interest Income



### Interest Expenditure

While interest income has increased by 10%, interest expenditure has recorded a desired 6% decline compared to the financial year 2017, in absolute terms resulting in significant improvements in profitability. This has leveraged the net interest income (NII) ratio from 28% to 33% generating a significant favorable impact on the bottom line. The decision to de-scale the deposit portfolio that had been invested in low yielding liquid assets helped to manage the interest cost more favourably, even in a challenging finance market environment. Three to six months tenure deposits that account for a substantial portion of the fixed deposit portfolio puts significant pressure for upwards re-pricing of the liability base in a volatile financial market.

### Interest Expenditure



### Operating expenditure

Operating expenditure increased by 13.19% year-on-year from Rs 1,472 million to 1,668 million. Staff cost, which increased from Rs. 941 million to RS. 1,113 million during the year represented 67% of the operational cost, as against 64% in 2017. The key drivers of staff cost increase were promotions and outcomes from the new collective

agreement with the trade union, with effect from 1st of January 2018. Increased business development and marketing activities were the other major drivers of operational expenditure over the last year.

### Operating Expenditure



### Impairments and SLFRS 9 application

Impairment charges for loans and advances and other receivables recorded a sharp increase from Rs. 56.74 million negative provision (reversal), to a Rs. 92.70 million loss. The Bank has fully complied with the change of impairment model from the provision for incurred loss, to provision for expected loss, as stipulated by the Sri Lanka Financial Reporting Standards 9 (SLFRS9) with effect from 1st January 2018. Accordingly, the impairment provision for the year 2018 is calculated in accordance to SLFRS9. The adopted policies and assumptions are described under the accounting policies. Gain on re-measuring of available-for-sale financial assets Rs. 32,051,025, which was presented under the other comprehensive income in 2017, was combined and stated under the impairment charges/reversal in the comparative figures for 2017 in the income statement of 2018, in accordance with the SLFRS9 requirement.

## FINANCIAL REVIEW

### Asset Growth

HDFC Bank ended the financial year under review with total assets of Rs. 49.28 billion, down from Rs. 49.72 billion in 2017. It should be noted in terms of year-on-year growth, that the Bank's total assets declined by Rs. 440 million, due to the strategic decision to reduce the low yielding investment portfolio and liquid assets. However, the Bank has maintained an 9% growth in the core business of loans and advances and receivables. Liquid assets and other financial investments recorded a negative growth of 25%.

### ASSETS AND LIABILITIES

	2014	2015	2016	2017	2018
Loans and advances (net)	23,357	26,685	30,260	34,967	37,934
Liquid assets and investments	9,847	14,474	13,858	12,935	9,698
Property plant and equipment	296	435	457	513	466
Other assets	918	319	1,104	1,305	1,184
<b>Total Assets</b>	<b>34,418</b>	<b>41,913</b>	<b>45,678</b>	<b>49,723</b>	<b>49,285</b>
Customer Deposits	24,479	28,592	32,122	36,654	37,016
Borrowings	6,213	9,037	8,862	7,919	6,650
Other Liabilities	840	920	896	919	859
Shareholders' funds	2,886	3,364	3,728	4,231	4,756
<b>Total liabilities</b>	<b>34,418</b>	<b>41,913</b>	<b>45,678</b>	<b>49,723</b>	<b>49,285</b>

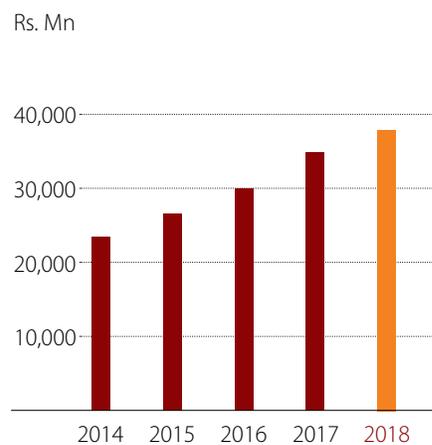
### Total Assets Growth



### Loans and Advances

HDFC's loan book has expanded to Rs. 37.934 billion in 2018 from Rs. 34.967 billion in 2017. The loan portfolio was mainly driven by the core business of housing finance, which accounts for 80% of the loan book as at 31st December 2018. Leasing, micro finance, corporate finance and business loans also made a substantial contribution to the growth of the loan portfolio. The loan book is diffused throughout the island backed by diverse collateral.

### Loans and Advances



### Investment Portfolio

The record financial performance was further supported by other strategic investments. Other than the compulsory liquid assets portfolio, the Bank took a strategic decision in 2016 to diversify its investment portfolio by 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 and 2018.

### Deposit Mobilization

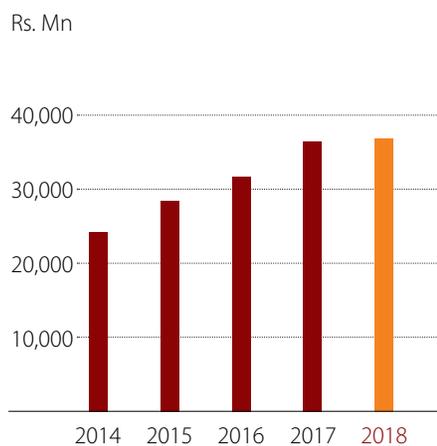
The Bank has expanded its deposit base from Rs. 36.654 billion to 37.016 billion during the year representing a marginal year-on-year growth of 1% by maintaining a strong focus on attracting retail fixed deposits. Savings deposits, which represented 15% of total deposits in 2017 has improved to 16% in 2018, underpinned by several strategies implemented during the year to support savings mobilisation.

HDFC mobile banking operations, which contributes largely towards savings

mobilisation, recorded a successful year capturing low cost funds from peripherals regions by targeting the lower and middle income group.

As at 31/12/2018, customer deposits included Rs. 5.76 billion in savings deposits and Rs. 31.25 billion in fixed deposits. The Bank extends a continuous effort to enhance the savings base and achieved a year-on-year savings growth of 5%.

### Deposits Growth



### Borrowing and Corporate Debentures

HDFC Bank floated a successful debenture in 2013 and another debenture amounting to Rs. 4 billion in 2015. Rs 500 million worth of debentures which were issued in 2013, were settled in 2016 on the due date and another Rs. 1,080 million in debentures was settled on 24th October 2018.

### Equity and Minimum Capital

Value creation for our shareholders was our uppermost priority and shareholder funds increased by 12% in the period under review. Net asset value per share grew from Rs. 65.39 to Rs. 73.51 in 2018, which marks a

12.4% increase. Meanwhile, earning per share improved from Rs. 6.40 to Rs.8.72 during the year, due to increased profitability.

The Core Capital Ratio (Tier 1) and Total Capital Ratio remain above the minimum requirement at 13.52%, as against the regulatory minimum requirements of 6.37%, 7.87% and 11.87%.

However, as per the Central Bank (CBSL) direction No. 02/17/402/0073/002, issued in conjunction with the Master Plan on Consolidation of the Financial Sector, dated 17th January 2014, and the subsequent extension granted by the CBSL, HDFC Bank should maintain a Rs. 5,000 million core capital balance as at 1st January 2019. This deadline was further extended up to 30th June 2019, in consideration of the ongoing proceedings to issue an Additional Tier -1 (AT1) bond to raise perpetual debt capital from the Government, which is qualified as core capital under the Basal 111 guidelines. The Bank is also taking action to improve profitability, to increase retained earnings, to cushion the minimum capital base.

### Equity



### 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) well above the regulatory minimum requirement of 20% of total deposits.

Meanwhile, the Bank maintained a Liquidity Coverage Ratio (LCR) in line with the regulatory requirement throughout the year. In addition, the Bank maintains unutilised approved credit lines from other banking institutions as an additional liquidity cushion.

### Asset Quality

The Bank's overall NPL stood at 19.08% as at 31/12/2018. The high NPL is due to the high non-payment level in the EPF balances backed loan portfolio, which is recovered on a yearly basis from the Central Bank. Excluding EPF backed housing loans, the NPL ratio of the Bank was recorded as 10.34%. The above industry average NPL reflects the credit risk of the Bank due to concentration in the low and middle income housing finance market. The management of HDFC Bank is highly committed towards reducing the NPLs going forward, and tackling NPLs was democratised rather than dedicated to a single department.

## HUMAN CAPITAL

### Status of Compliance with Labour Laws

HDFC Bank is fully compliant with all applicable labour laws and has made all statutory employee related payments on time, including EPF and ETF payments. The Bank did not face any fines or penalties for non compliance, or delays in compliance pertaining to any applicable labour law.

### HDFC HR Policies

During the 2018, most of the Bank's HR policies were reviewed and improved, to bring these policies up to date and to also reflect Central Bank guidelines.

### New Collective Agreement

In December 2018, HDFC Bank signed a new collective agreement with the Bank's Union for a period of three years from 2018- 2020. Almost all of HDFC Bank's permanent employees ( 99.7%) including corporate management, are members of the Ceylon Bank Employees' Union. The 2018 negotiations for a new collective agreement were conducted successfully and received the full cooperation of the Union.

The key features of the latest collective agreement are:

1. To stagger the negotiated salary increases over a 3-year time frame
2. The inclusion of a performance linked bonus payment, which is expected to motivate all employees and support the Bank's strategic plan



EXCO of CBEU, HDFC

### Training and Development

The Bank spent in excess of Rs 8 mn, in 2018 in training and scholarships for its employees. Training programmes encompassed 98% of executive and other staff, while 2% of corporate management and senior management were also expose to training.

#### Total training investment in 2018

Category	%
Training & Scholarships (Rs Mn)	6.88
Foreign Training Expenses (Rs Mn)	1,16

#### Percentage of employees trained 2018

Category	%
Corporate Management & Senior Management	2.00%
Executive & Other Staff	98.00%

#### Changes to human capital in 2017

The cost per employee has continued to increase reflecting salary increases and benefits.

Year	2016	2017	2018
Total number of employees	679	647	640
Cost per employee (Rs Mn )	1.31	1.45	1.73

#### Total employees by employment type 2017 vs 2018

Type	2017		2018	
	Male	Female	Male	Female
Permanent	259	200	299	224
Probation	70	32	26	8
Contract	23	13	19	10
Trainees	48	2	53	1
<b>Total</b>	<b>400</b>	<b>247</b>	<b>397</b>	<b>243</b>

### Total employees by employment category and gender 2017 Vs 2018

Category	2017		2018	
	Male	Female	Male	Female
Corporate Management	9	4	8	4
Senior Managers	5	8	6	7
Regional Managers	6	1	6	1
Executive Staff	85	118	85	117
Non Executive Staff	172	109	168	110
Business Promotion Assistants	46	4	46	3
Junior Business Promotion Assistants	29	1	25	-
Business Promotion Trainees	48	2	53	1
<b>Total</b>	<b>400</b>	<b>247</b>	<b>397</b>	<b>243</b>

### Employment Benefits

HDFC employees continued to enjoy a high level of benefits although types of benefits varied according to employment category.

Benefit	Permanent	Probation	Contract	BPT
Medical Reimbursement	√	√	-	-
Housing Loan	√	-	-	-
Distress Loan	√	-	-	-
Guarantor Loan	√	√	-	-
Bike Leasing	-	-	-	√
Bonus	√	√	√	√
Leave Encashment	√	√	√	-
Subsistence	√	√	√	√
Risk Allowance(Cashier & Palm Top only)	√	√	√	√
Commission	-	-	-	√
Vehicle Loan	√	-	-	-
Festival Advance	√	√	√	-
Difficult Area Payment	√	-	-	-
Honorarium	√	-	-	-
Key Handling Allowance(Safe Key)	√	-	-	-
Branch Manager Allowance	√	√	-	-
Second Officer Allowance	√	√	-	-

## SOCIAL CAPITAL

HDFC's Bank's primary social capital is the Bank's trusted brand and unblemished reputation. The Bank leverages its service delivery channels and products and services to support its status and credibility among the public. Marketing and promotional activities are used throughout the year, to gain social recognition and consolidate the brand image. HDFC Bank and its branches also engage in various corporate social responsibility activities to engage with the general public.

Despite the credit rating downgrade from BBB- to BB+, which was due to lack of timely intervention by the state, HDFC Bank was extremely successful in strengthening its social capital base in 2018. Despite the highly competitive nature of the financial services markets, HDFC Bank continued to expand its deposit base and grow its lending portfolio, amply demonstrating the public confidence in the Bank.

### Service Channels HDFC Branches

The total number of HDFC branches remained unchanged from 2017, at 39 as the Bank could not expedite branch expansion during 2018, due to the capital shortfall. However, the Bank continued to focus on training of branch and head office staff to enhance service standards, while also recruiting key personnel to enhance the Bank's skill base, both at head office and branches, to maintain the public trust in the Bank. HDFC Bank branches were reorganised into a cluster model with increased authority to regional offices and a centralised credit disbursement system was introduced.

### HDFC Mobile Banking

As at end December 2018, HDFC's palmtop banking force consisted of 106 personnel. This highly personalised, door-step banking

service is growing in popularity, particularly among small traders, due to its high level of customer convenience and the HDFC palmtop bankers are gaining headway in penetrating rural and urban customer segments.

### Customised ATM Booths

All 17 HDFC ATM kiosks were given a face lift with a new vibrant colourscheme to stand out from the crowd. This move has differentiated HDFC ATMs and increased the HDFC brand visibility, while also contributing to a more youthful and modern positioning of the HDFC brand.

### Credit Marketing Unit

The Exclusive Banking Centre at Hyde Park Corner was overhauled into a dedicated credit marketing unit to proactively canvas for clients, as part of the Bank's strategy to reach out to top end customers creating a fitting ambience at their convenience, and also meeting customers at their own place of work, instead of waiting for customers to come to the Bank.

### HDFC Website

HDFC Bank is in the process of upgrading its e-banking capabilities by introducing a more sophisticated website. The Bank hopes to build its social capital base by expanding its digital footprint and also enhance customer convenience by enabling more digital transactions.

The Bank is currently in the process of selecting a suitable vendor to upgrade its website.

### New Products

HDFC Bank continued to introduce new products to the market in 2018 and 2019 to enhance services to its customers.

### Set for Life

In March 2018, HDFC Bank introduced this unique wealth creation scheme specially designed for young people. An extension of the Bank's existing Vishrama Rekawarana investment scheme, Set for Life, is aimed at helping young people to plan for their future. The scheme also provides many other benefits.

### Addendum to the Rathnabhimani Scheme

HDFC Bank has introduced the 'Rathnabhimani' life insurance and pension scheme in collaboration with the Ministry of Vocational Training and Skills Development. The scheme is unique in its high level of benefits for policy holders and their families. The insurance partner for this unique product is Fair First Insurance.

In 2018 the Bank signed an addendum with Fair First Insurance to streamline insurance benefits and strengthen various aspects of the insurance scheme to enhance customer convenience.



### Marketing and Branding

HDFC Bank maintained its marketing and promotional campaigns during the year to promote its products and services among the general public and a number of new campaigns were conducted to introduce new products. The Bank also enhanced its digital presence through greater online, social media activity.

### Exhibitions

In addition to promotional campaigns the Bank participated in the BUILD SRI LANKA a exhibition and the INCO exhibition to educate the public about the wide range of products and services offered by HDFC Bank and to enhance HDFC Bank's brand visibility.



### CSR Activities in 2018



Signing an MOU with Sanasa Insurance Company Limited in respect of granting life and total permanent disability insurance protection to the bank's loan customers. This will be a value-added service which would provide further financial security to the loan customers of the Bank and their families.



With the objective of promoting Children's savings account of the bank, a special program for the World Children's day 2018 was arranged by the Bank. With the collaboration of Mihira newspaper of Lake house a competition among kids was organized and the winners were given gifts at a function held at the HDFC head office.

## SOCIAL CAPITAL

### HDFC Corporate & Development Finance

HDFC's Corporate and Development Finance Division is the specialised financial services provider for SME and corporate sectors in the country. These credit lines have been developed to support HDFC Bank's 2017 to 2020 Corporate Plan, which aims to rebalance the portfolio risk by growing non-housing lending by 25%.

The Bank's Micro Finance Department which was established in 2014 was converted into a Development Credit Division in 2015, to strengthen support further to the SME sector. The Department was revamped as 'Corporate and Development Finance,' in the latter part of 2017 to include corporate financing as part of the Bank's diversification strategy. To enhance administrative efficiency in micro lending, HDFC has adopted a model of bulk micro finance for the well reputed microfinance Institutions (MFIs), where instead of carrying the cost and risks associated with individual micro finance loans, the Bank lends corporate loans to specialised MFIs for relending among their clientele.

	2017	2018	% change
Micro lending (Rs)	55,050,000	19,150,000	-65%
SME lending (Rs)	481,660,000	275,695,000	-43%
Corporate lending (Rs)	613,500,000	954,003,274	56%

The total bulk disbursement for MFIs increased in 2018 against 2017. However, SME disbursements declined in 2018 against 2017, due to the ending of some concessionary credit lines by the Central Bank. However, HDFC's own SME credit lines continued to be used to disburse funding for SMEs. The corporate finance portfolio experienced significant growth in

2018 compared to 2017 due to marketing campaigns and increased customer awareness.

### Future Plans

In 2019, the Bank will integrate all three credit schemes of Corporate Finance, Development Finance and Business Loans, into one single lending product called the Development Finance Credit Scheme. The new credit line will focus mainly on the corporate, SME and business community, which includes individuals, partnerships and companies. The Bank is now in the process of conducting marketing campaigns through the newly established Credit Marketing Unit to attract corporate clients that generally prefer commercial banks. In line with the Central Bank requirement of a 10% disbursement into the agriculture sector, HDFC is currently targeting businesses in this sector, to strengthen its agricultural lending sub-portfolio.

### Special Events Conducted to Promote the SME and Corporate Sector in 2018

Special marketing campaigns were conducted by participating at national level exhibitions relating to the construction industry.



HDFC STALL AT INCO 2018 – BMICH



HDFC STALL AT BUILD SL 2018- BMICH



SIGNING OF MOU WITH AMANA TAKAFUL FOR CATTLE INSURANCE.

**DIRECTED  
TO CREATING  
EFFICIENT  
BUSINESS  
PRACTICES  
THAT  
IMPROVES OUR  
PRODUCTIVITY  
IN ALL  
ASPECTS  
OF THE  
BUSINESS**

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## RISK MANAGEMENT REPORT

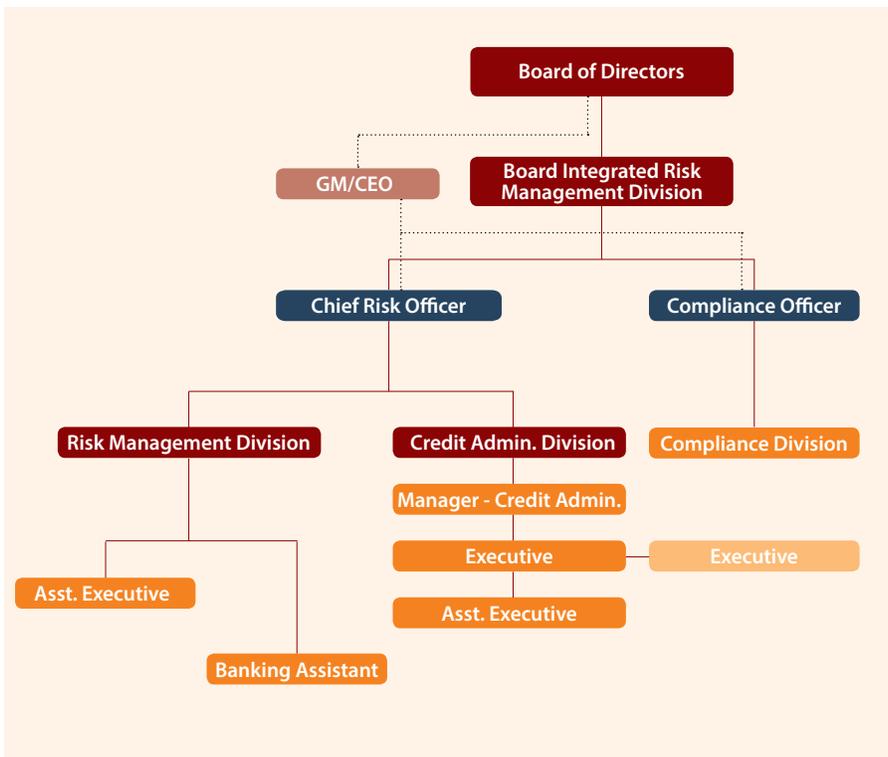
**“We are committed to continuous improvements of our Risk Management Framework towards long term growth and sustainability of our banking business.”**

### Overview

As a licensed specialised bank, HDFC Bank has continued to foster an internal culture geared towards sound internal controls and risk management, reflecting its accountability to all stakeholders. The risk appetite of the Bank for all material and relevant risk categories and the risk capital positions have been revised and established to support the overall risk management system. Consequent to ongoing reviews and revisions, the Bank has further strengthened its risk management culture to enhance day-to-day aspects of risk assessment, quantifying, managing and reporting, while also fine tuning the overall risk management framework. Risk management is integrated with the Bank’s growth strategy to ensure that business and risk management goals and responsibilities are aligned across the bank which is heart of the Bank. We believe a strong risk ownership culture promotes a culture of responsibility and contributes towards business sustainability.

### Risk Culture

The success of the IRMF is largely dependent on a strong risk culture. We believe a proactive risk intelligence culture that helps to identify and effectively manage potential risks that may have an impact on the day-to-day operations of the Bank, is the key to achieving our medium to long-term growth targets on a sustainable basis. Robust risk practices are in place to continually assess



the risk culture across all operations and ensure that Risk Management goes hand in hand with the way that our employees work, think and respond to challenges.

### Risk Governance Structure

The HDFC risk governance model includes a senior management committee to support transparent risk reporting and discussion with overall risk and control oversight provided by the Board and its committees. The CEO and Senior Executive Team determine long-term direction within the Bank’s risk appetite and apply it to the businesses. Risk Management, headed by the chief risk officer (CRO) sets risk strategy and Risk Management Policy and provides independent oversight to support a comprehensive and proactive risk management approach. The ultimate and collective responsibility of establishing the risk management policies and Risk

Management Framework and continuous monitoring of its effectiveness is vested with the Board of Directors.

### Risk Management Framework

The Board of Directors provides oversight to ensure that all risks faced by the Bank are comprehensively evaluated, monitored and controlled by management at all times. To achieve this, the Board sub-committee on Integrated Risk Management applies an Integrated Risk Management Framework (IRMF) to identify, assess, monitor and control risks within the Bank’s established risk appetite. At the heart of the IRMF is the “three-lines-of-defense” model, which underpins the symbiotic roles and responsibilities needed for the effective management of risk across the Bank.

## HDFC's Three-lines of Risk Management



The first line of defence involves the supervision and monitoring of risk management practices by the Risk Department.

The Risk Department is responsible for measuring and monitoring risk at operational levels on an ongoing basis to ensure compliance with the parameters set out by the Board/ BIRMC and other Executive Committees for carrying out the overall risk management function in the Bank. The department is involved with product or business strategy development and entering into new business lines and gives input from the initial design stage throughout the process from a risk management perspective.

The second line of defence is enforced through a number of management committees including the Asset and Liability Committee, the Credit Committee, the Investment Committee the IT Steering Committee, the ICAAP Review Committee

and Strategic Process Implementation Committee. The responsibilities and tasks of these Committees are stipulated in the Board-approved Charters and Terms of References (TORs) and the membership of each committee is defined to bring an optimal balance between business and risk management.

At the highest level, the function of independent risk monitoring, validation, policy review and compliance is implemented by the Board Integrated Risk Management Committee (BIRMC), the Board Audit Committee and Related Party Transactions Committee

### **Board Integrated Risk Management Committee (BIRMC)**

The BIRMC is the Board subcommittee which oversees the risk management function. The BIRMC functions under the responsibilities set out in the Board-approved Charter for the BIRMC, which incorporates corporate

governance requirements for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL). BIRMC sets the policies for bank-wide risk management including credit risk, market risk, operational risk, cyber security risk, and liquidity risk.

The BIRMC meets at least on a quarterly basis and reviews the risk information and exposures. Risk reporting includes reports on overall risk analysis relating to the Bank's capital, risk appetite, limits position, stress testing, any strategic risks faced by the Bank. Additionally, they include reports covering the main risk areas such as credit risk, market risk, liquidity risk, operational risk, information systems security risk, and compliance risk.

### **Risk Appetite and Tolerance**

Risk appetite is the maximum level of risk the Bank is prepared to accept in g its objectives and have been defined based on regulatory requirements, borrowing covenants, and internal limits for prudential purposes. The Risk Appetite Framework, where risk appetite and tolerance levels are 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

In the event the risk tolerance threshold has been breached or it is approaching the levels not desirable by the Bank, risk mitigating measures and business controls are implemented to bring the exposure level back within the accepted range. Risk appetite and tolerance therefore, translate into operational measures such as new or enhanced limits or qualitative checks for the dimensions such as capital, earnings volatility, and concentration of risks.

## RISK MANAGEMENT REPORT

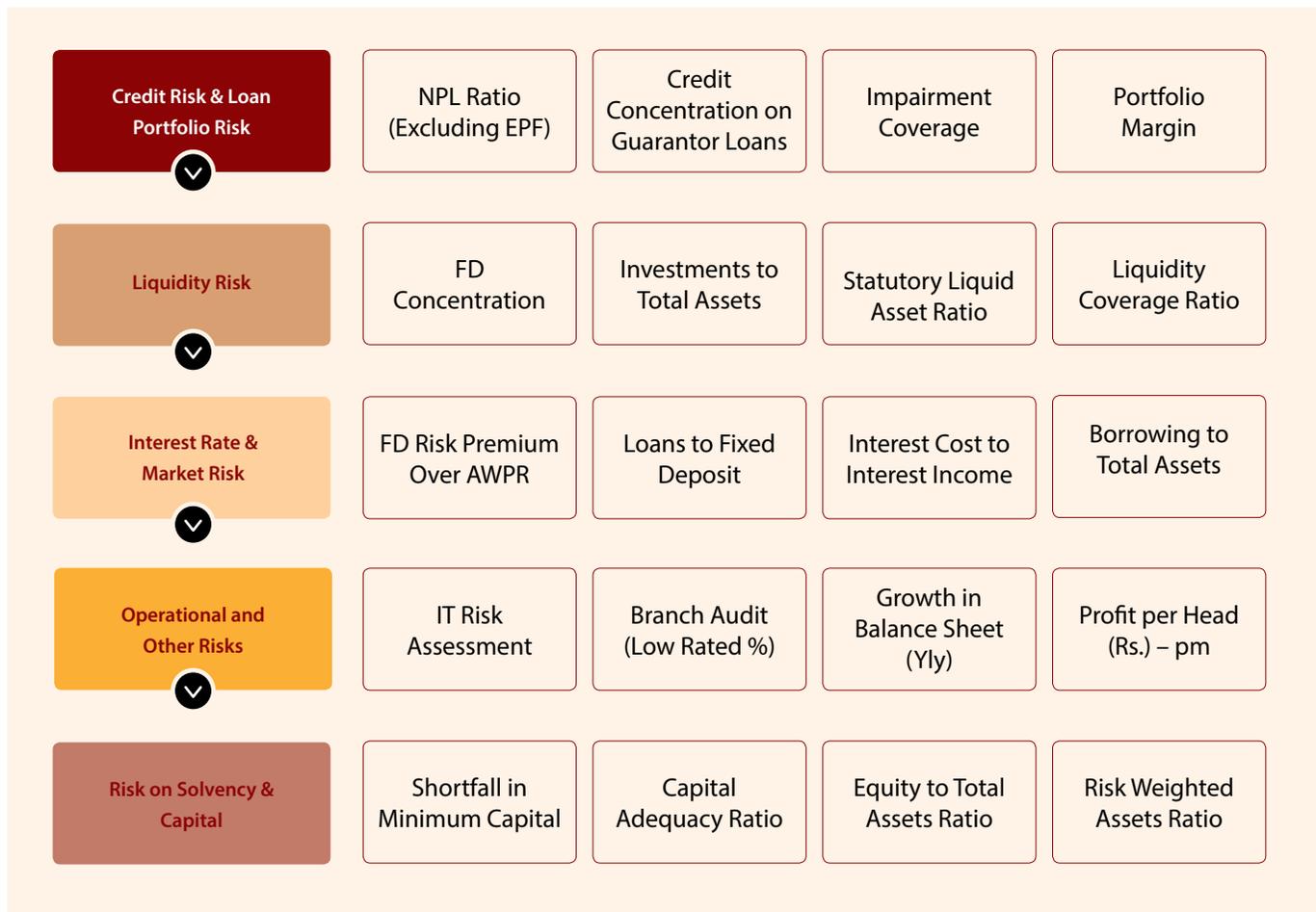
### Stress Testing

Stress testing is an integral part of our risk management process. It helps determine the Bank's potential vulnerability to adverse macro-economic scenarios, identify and define mitigating actions before the onset of an adverse event. Stress testing is conducted at least quarterly for all major risk categories, while portfolio-specific stress testing is conducted quarterly for highly sensitive aspects of the business;

mainly lending, interest sensitive asset/liability and liquidity. The results of the stress tests are used to calibrate the thresholds and establish boundaries of the Bank's Risk Appetite. Regular stress testing is also done in conjunction with the Internal Capital Adequacy Assessment Process (ICAAP). All stress tests are formally documented, with all mitigating actions for different scenarios being recorded in detail and reported to Management Committees and Board.

### Our Key Risks

We have analysed and identified the key risks that may impact our ability to grow sustainably. These Risks are the cornerstone of our overall risk control strategy and as such are under continuous scrutiny with ongoing improvements forming part of the Bank's cohesive risk control framework.



## Scope and main content of risk reporting to Board and Senior Management

Risk type	Scope and Main Content of Risk Reporting
Overall risk	<ul style="list-style-type: none"> <li>• Review of the Internal Capital Adequacy Assessment Process (ICAAP),</li> <li>• Regulatory capital adequacy position and trends compared with limits overall risk limit system, including regulatory and advisory/internal limits,</li> <li>• Stress testing of key risks and overall exposures. Reports on top and emerging strategic and overall business risk analysis</li> </ul>
Capital risk	<ul style="list-style-type: none"> <li>• Meeting regulatory capital requirement</li> <li>• Monitoring and reporting Capital Adequacy Ratio</li> </ul>
Credit risk	<p><b>Pre-Credit Risk Management</b></p> <ul style="list-style-type: none"> <li>• Credit Risk Rating for loans valued at over 2.5 Mn</li> <li>• Credit risk policies and delegation of authority</li> <li>• Review of credit risk management policies</li> <li>• Staff training and knowledge sharing sessions</li> <li>• Disbursement centralisation under Credit Administration Division</li> </ul> <p><b>Post-Credit Risk Management</b></p> <ul style="list-style-type: none"> <li>• Loan review mechanism</li> <li>• Reports on validation results and changes implemented for risk rating models</li> <li>• Risk appetite limit monitoring</li> <li>• Reviewing of Watch List</li> <li>• Implementation of new risk based pricing mechanism</li> </ul>
Market and liquidity risk	<ul style="list-style-type: none"> <li>• Review and updating liquidity and market risk management policies</li> <li>• Reports on liquidity and treasury market risk analysis</li> <li>• Treasury middle office and review of any limits</li> <li>• Liquidity risk monitoring on BASEL III requirements</li> <li>• Reviewing of recommendations by ALCO</li> </ul>
Operational risks, IT and systems security risk	<ul style="list-style-type: none"> <li>• Reports on business continuity plan and disaster recovery drills undertaken</li> <li>• Review and updating operational risk management policies</li> <li>• Monitoring reporting of KRIs</li> <li>• Analysing internal loss events and risk from external events</li> <li>• Monitoring of IT system risks, legal risk, people risk</li> </ul>
Compliance risk	<ul style="list-style-type: none"> <li>• Status of the Bank's compliance with rules and regulations.</li> <li>• Results of compliance tests undertaken and assessment of compliance risk levels,</li> <li>• Report on new rules and regulations</li> <li>• Review of compliance related policies and procedures</li> </ul>

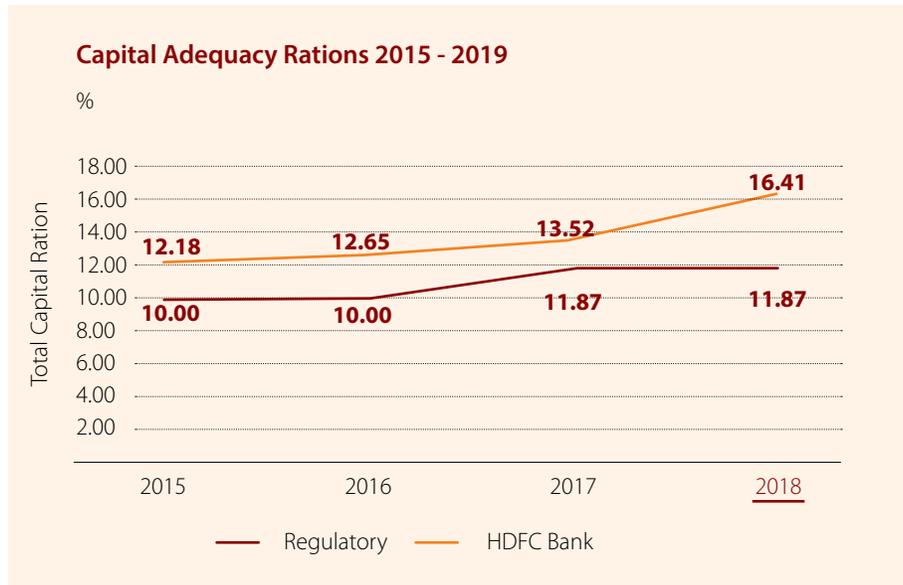
## RISK MANAGEMENT REPORT

### Capital Management

Central Bank of Sri Lanka set the minimum capital requirement of Rs. 5,000 million in respect of licensed specialized banks that HDFC bank requires to be complied. The bank has been negotiating with General Treasury for Additional Tier 1 capital complied perpetual bond. The extended deadline for achievement of the minimum capital requirements is until 30th June 2019. The Bank will meet the threshold of Rs. 5,000 million within the timeline. Further, Strategies have been in place under the internal capital adequacy process (ICAAP) in meeting the next capital threshold.

### Capital Adequacy Management

BASEL III is the new global regulatory standard on managing capital and liquidity of banks which is currently in effect. With the introduction of BASEL III from mid-2017, the capital requirements of banks have increased with an aim to raise the quality, quantity, consistency and transparency of capital base and improve the loss absorbing capacity. Additionally, the Pillar II (Supervisory Review Process - SRP) under the Basel regulations requires banks to implement an internal process, called the Internal Capital Adequacy Assessment Process (ICAAP), for assessing capital adequacy in relation to the risk profiles as well as a strategy for maintaining capital levels. The Bank has in place an ICAAP, which has strengthened the risk management practices and capital planning process. It focuses on formulating a mechanism to assess the Bank's capital requirements covering all relevant risks and stress conditions in a futuristic perspective in line with the level of assumed risk exposures through its business operations. The ICAAP formulates the Bank's capital targets, capital management objectives and capital augmentation plans.



### Improvements to Risk Management at HDFC In 2018

The adoption of the Basel III Regulatory Standards by the banks in Sri Lanka from mid-2017 continuing into 2018 has resulted in a number of changes to the risk management landscape of HDFC Bank that has contributed towards more stringent and comprehensive risk management. In addition to the regulatory specifications of the Central Bank and Basel 111, ongoing changes in business strategy, industry factors and international best practices were also considered in the improvement process. The key improvements to the risk management system are listed below.

- All the Board-approved risk management frameworks, charters, and TORs were reviewed during the period, especially considering the changes in new regulations and the Bank's business model.
- As part of the risk management practices, the Bank computed the key credit risk quantification parameters such as Probability of Default (PD), Exposure at Default (ED), Loss Given Default (LGD) and the loss ratios which are defined and recommended under the Basel III and IFRS.
- A new credit workflow was implemented to ensure that every credit proposal except for centrally processed retail loans, is evaluated by an independent authority not connected to business lines.
- Focusing to arrest the high NPL ratios, Loan origination processes were reviewed and centralisation of disbursement approval, limiting loan approval delegations, implemented.
- A risk based pricing mechanism was introduced enabling to gauge the specific risk underlined to the loan facilities and attract quality customers.

- To enhance the independency of the credit risk evaluation, screening of early warnings credit administration function was strengthened.
- Prudential risk limits were reviewed in order to reflect the current risk appetite of the Bank by setting new limits wherever necessary.
- New limits were set for liquidity risk in order to manage deposit concentration with close monitoring of the related ratios.
- Periodic validation of the credit rating models was carried out for better discriminatory power, while new scorecards were introduced for retail lending.
- The stress testing framework was strengthened during the year to include stress testing in relation to the economic and macro environmental factors.
- Staff awareness programmes on operational risk were held across the Bank especially for the newly appointed branch managers.

### **Key Risk Challenges in Year 2019**

Technological breakthroughs, innovative and complex banking products, tech-based-fraud tightening regulatory and compliance requirements, lower value additions due to high taxations etc.. have given rise to many challenges to the banking system. While meeting industry challenges, HDFC bank has unique challenges in the year to come.

- Meeting of the CBSL's minimum capital requirements.
- Upgrading the credit rating from BB+[Stable] to investment grade.
- Enhancing cyber security and developing IT infrastructure.
- Restructuring funding mechanism to minimise the concentration risk.

## CHAIRMAN'S STATEMENT ON COMPLIANCE

It is with great pleasure, that we present our Corporate Governance Report 2018.

This report illustrates the fundamental areas of the governance structure. The Board continued to improve our internal control mechanisms 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 the highest standards in corporate governance and the Bank's compliance status with the corporate governance regulations of 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 the 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 the 'Sri Lanka Standard on Related Services Practices Statement 4400,' have been incorporated into this report.



**R.H. Meewakkala**  
*Chairman*

Colombo, Sri Lanka  
17th May 2019

## COMPLIANCE REVIEW

The compliance status of the HDFC Bank for financial year 2018 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.  
Guideline Complied Status Not

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) The Board approval of the Bank's strategic objectives and corporate values.	<b>Complied with</b> Strategic objectives and values are incorporated in the Board approved Corporate Plan for the period 2017-2020.
	The Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank.	The 2018 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.
	b) The Board approval of the overall business strategy of the Bank.	<b>Complied with</b> Board approved Corporate Plan, which includes the overall business strategy for the period 2017-2020 is available.
	That the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Risk Policy, Risk Appetite Framework have been approved by the Board in line with the Corporate Plan.
	That the overall business strategy contains measurable goals, for at least the next three years.	
	c) Availability of appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	<b>Complied with</b> Risk Department and Integrated Risk Management Committee was established, Risk Policy adopted by the Committee and as given above.
		The Integrated Risk Management Committee setting governors structure implementing, monitoring and managing the principle risks.
	d) The Board has approved and implemented a policy of communication with all stakeholders, including deposits, creditors, shareholders and borrowers;	<b>Complied with</b> Sustainability measures applied.
	e) The Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information system;	<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.

## 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 is vested in the Board of Directors as per the HDFC Act. Key Management Personnel targets are connected with the overall budgetary targets and respective departmental targets.  However, Board approved goals and targets (key performance indicators) were not available.
	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 2018 was carried out in February 2019 and a summary was 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 KMPs.
	j) The Board has a succession plan for key management personnel.	<b>Complied with</b> Board approved Succession plan is in place. Board has approved Succession Plan for 2019 on 14th Feb2019.
	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> KMPs are regularly involved in Board Meetings, Board Sub Committee Meetings and Management Committee Meetings on strategy, policies performance and other matters pertaining to their subject areas.
	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>
	m) The Board has a process in place for hiring and oversight of external auditors.	<b>Complied with</b> According to the constitution of the country and HDFC Act external auditor is the Auditor General. Being a State-owned enterprise.

Section	Requirement of Corporate Governance	Level of Compliance as Given in the Auditor General's Report
3(1)(ii)	<p>The Board has appointed the Chairman and the Chief Executive Officer (CEO).</p> <p>The functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.</p>	<p><b>Complied with</b></p> <p>The HDF Act separates the position of the Chairman and General Manager/Chief Executive Officer to balance of power. Chairman has been appointed by the Minister in charge of the subject, whilst the General Manager/Chief Executive Officer has been appointed by the Board.</p> <p>Their functions and responsibilities are clearly defined in the HDFC Act.</p>
3(1)(iii)	<p>The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.</p>	<p><b>Complied with</b></p> <p>Board meetings are held monthly while special meetings are scheduled on a need basis.</p> <p>14 Meetings were held during the year 2018.</p>
3(1)(iv)	<p>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.</p>	<p><b>Complied with</b></p> <p>The Chairman advise the Secretary to do the agenda and all Directors are free to include the matters of their own consulting the Chairman and the Secretary.</p>
3(1)(v)	<p>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.</p>	<p><b>Complied with</b></p> <p>Notice of the meeting, Agenda and Board papers for the Board meetings are circulated within the stipulated time.</p>
3(1)(vi)	<p>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.</p>	<p><b>Complied with</b></p> <p>All the Directors attended the required number of meetings.</p>
3(1)(vii)	<p>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.</p>	<p><b>Complied with</b></p> <p>Attorney at Law had been appointed as Secretary to the Board with relevant qualifications in compliance with the provisions of Banking Act.</p> <p>She is responsible for the secretariat services to the Board and to carry out functions specified in the statutes and other regulations.</p>
3(1)(viii)	<p>The process to enable all Directors to have access to advice and services of the Company Secretary.</p>	<p><b>Complied with</b></p> <p>All the Directors have full access to the advice and service of the Company Secretary.</p>

## 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 and have access to the past Board papers and minutes.
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.
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> There is provision for Directors to obtain independent professional advice in appropriate circumstances.
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>
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> There have been no situations where the Bank's solvency has been in doubt. Monthly Financial Statement submitted to the Board for assure the Bank's position.
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, grace period of six months granted by the Monetary Board to meet the minimum capital requirement of Rs.5 billion was expired. (However, the Monetary Board had given a further extension until 30th June 2019)
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 2018.
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 in February 2019 and these records maintained with Secretary to the Board.
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>
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 year end 2018.
	(b) In the event of any Director serving more than 9 years, that the transitional provisions have been applied with.	<b>Complied with</b> No Director has exceeded nine years of services as per CBSL requirement.

Section	Requirement of Corporate Governance	Level of Compliance as Given in the Auditor General's Report
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 on the Board.
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> All Directors are Non-Executive and Independent.  However, one Director who resigned on 09/11/2018 represents National Housing Development Authority with a shareholding of 49.73% as at the year end.
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.	There is no such directors was appointed.
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 2018.
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.	<b>Not arisen</b>
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.
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> All Directors are under 70 years of age.
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> No Director holds Directorships of more than 20 companies.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as Given in the Auditor General's Report
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> The HDFC ACT separates the positions of the Chairman and General Manager /Chief Executive Officer. Roles of Chairman and General Manager / 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 and Independent 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.
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.

Section	Requirement of Corporate Governance	Level of Compliance as Given in the Auditor General's Report
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
	<p>c) That the Committee has made recommendations on matters in connection with:</p> <p>(i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) The implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) The application of the relevant accounting standards; and</p> <p>(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.</p>	<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>
	<p>d) That the Committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLSRS.</p>	<p><b>Not Applicable</b></p> <p>Since the independence and effectiveness of Auditor General is guaranteed under the Constitution of the country.</p>
	<p>e) 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> <p>This does not arise since the Auditor General is the Auditor of the Bank.</p>
	<p>f) That the Committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLSRS before the audit commences.</p>	<p>The scope and extent of audit have been determined by the Auditor General.</p>
	<p>g) 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> <p>(i) major judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) the going concern assumption; and</p> <p>(iv) the compliance with relevant accounting standards and other legal requirements, and;</p> <p>(v) in respect of the annual financial statements the significant adjustments arising from the audit.</p>	<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>

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: 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>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>Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.</p> <p>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>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; <ul style="list-style-type: none"> <li>(i) Explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) The resources which it needs to do so;</li> <li>(iii) Full access to information; and</li> <li>(iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>	<b>Complied with</b>
	n) That that the Committee has met, at least four times and maintained minutes.	<b>Complied with</b> Committee has met 6 times for 2018.
	o) That 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 2018.
	p) That 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 Remuneration of CEO/GM and KMP'S is determined by the Human Resources / Remuneration Committee on the basis of the Collective Agreements.
	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.

Section	Requirement of Corporate Governance	Level of Compliance as Given in the Auditor General's Report
	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> Updated Succession plan for the key management personnel is available for 2019.
	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>

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as Given in the Auditor General's Report
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> The Committee meets on a quarterly basis. The Committee met four times during 2018.
	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> Formal documented disciplinary action procedures are in place for the purpose.
	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.
	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.

Section	Requirement of Corporate Governance	Level of Compliance as Given in the Auditor General's Report
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 2019.
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>
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 no such relate party transactions were not reported.

## COMPLIANCE REVIEW

Section	Requirement of Corporate Governance	Level of Compliance as Given in the Auditor General's Report
3(8)	<b>Disclosures</b>	
3(8)(i)	<p>That the Board has disclosed, 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.</p> <p>Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	<p><b>Complied with</b> Presented in the Annual Report 2018</p> <p><b>Complied with</b> Quarterly financial statements are published in the newspapers with applicable CBSL requirements.</p>
3(8)(ii)	<p>That the Board has made the following minimum disclosures in the Annual Report:</p>	
	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 2018
	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 2018
	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 2018
	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 2018
	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> Available in the Annual Report 2018

Section	Requirement of Corporate Governance	Level of Compliance as Given in the Auditor General's Report
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> Available in the Annual Report 2018
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 2018
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 2018
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.	<b>No such situation has arisen</b>

## COMPLIANCE REVIEW

### SECTION TWO

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

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A. Directors				
A.1 The Board	<b>Complied with</b>			
	The Board comprises only with Non-Executive Directors.			
	Please refer Director Profiles.			
A 1.1	<b>Complied with</b>			
1. Meeting				
	Please refer status of compliance for 3(1)(iii) of CBSL Rules			
A 1.2	<b>Complied with</b>			
2. Board Responsibilities				
	The overall responsibility for the good governance of the Bank is vested with the Board.			
A 1.3	<b>Complied with</b>			
3. Access to Independent Professional Advice				
A 1.4	<b>Complied with</b>			
4. Board Secretary				
	The Board Secretary plays an intermediary role between the Company and the stakeholders and Advice and services is available for all Directors for ensuring that Board procedures are correctly adhered in line with applicable laws of the Bank and she is an Attorney-at-Law.			
A 1.5	<b>Complied with</b>			
5. Independent Judgment				
A 1.6	<b>Complied with</b>			
6. Dedication of adequate time and effort by the Board and Board Committee				

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
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. D. P. Wimalasena 02. Mrs. R. A. Chulananda 03. Mr. L. Jayasinghe 04. Mr. N. Wijeyanathan 05. Mr. J. R. U. De Silva 06. Mr. U. H. C. Priyantha 07. Mr. P. M. Gunawardhana (resigned – 16/01/2018) 08. Mr. S. A. N. Saranathissa (resigned –10/05/2018) 09. Mr. R. J. De Silva (retired – 30. 09.2018) 10. Mr. M. Surendran (resigned – 30/09/2018) 11. Dr. R. H. Meewakkala (resigned –09/11/2018) 12. Mr. L. S. Palansuriya (resigned – 09/11/2018)</p>			
A 5.6 16. Senior Independent Director				N/A
A 5.7 17. Confidential discussion with the Senior Independent Director				N/A
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>			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A.7 Appointment to the Board				
A 7.1 22. Nomination Committee	<b>Complied with</b> For further details Please refer the Board Nomination Committee Report on Page 82.			
A 7.2 23. Assessment of Board composition	<b>Complied with</b> The Nomination Committee reviews the composition of the Board and makes necessary recommendations.			
A 7.3 24. Disclosure of details of new Directors to Shareholders	<b>Complied with</b> All Director 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	<b>Complied with</b> 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>			

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
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>			
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 Page 90 to 93.			
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 Corporate Plan of the bank.			
A 11.2 34. Evaluation of the performance of the GM/CEO	<b>Complied with</b>			
B. Directors Remuneration				
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 are 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 81 of the Annual Report for details.			
B 1.3 37. Remuneration of the Non-executive Directors				N/A Please refer B.1
B 1.4 38. Consultation of the Chairman and access to professional advice	<b>Complied with</b> External professional advice is sought, on need basis.			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
Level and make-up of the Remuneration				
B 2. Level and make-up of the Remuneration			N/A Please refer comments for B 1.	
B 2.1 39. Level and make-up of the remuneration of both Executive and Non-Executive Directors			N/A Please refer comments for B 1.	
B 2.2 40. Executive Directors' remuneration should be designed to promote the long-term success of the company			N/A Please refer comments for B 1.	
B 2.3 41. Comparison of remuneration with other companies			N/A Please refer comments for B 1.	
B 2.4 42. Comparison of remuneration with other companies in the group			N/A Please refer comments for B 1.	
B 2.5 43. Performance related payment to Executive and Non-executive Directors			N/A Please refer comments for B 1.	
B 2.6 44. Executive share option for Directors			N/A Please refer comments for B 1.	
B 2.7 45. Designing the Executive Directors remuneration			N/A Please refer comments for B 1.	
B 2.8 46. Early termination benefits of Directors			N/A Please refer comments for B 1.	
B 2.9 47. Early termination benefits of Directors (not included in the initial contract)			N/A Please refer comments for B 1.	
B 2.10 48. Level of remuneration of the Non-Executive Directors.			N/A Please refer comments for B 1.	
<b>B 3. Disclosure of Remuneration</b>				
B 3.1 49. Disclosure of Remuneration	<b>Complied with</b> Please refer comments for B 1.			

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
C Relations with Shareholders				
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 Companies Act No. 07 of 2007 which materially affected the HDFC's net asset base.			
D. Audit and Accountability				
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 Page 72 to 76 of this Annual Report.			
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 Page 104 of the Annual Report.			

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D 1.4 59. Management discussions and analysis	<b>Complied with</b> Please refer Page No14 to 32.			
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 Page 72 to 76 of the Annual Report.			
D 1.6 61. Summoning an EGM to notify serious loss of capital				N/A
Internal Control				
D.2 Internal Control	<b>Complied with</b> Please refer page No 77 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 page No 77 for report on Directors' Statement on Internal Control.			
D 2.2 63. Need for internal audit function	<b>Complied with</b> Please refer Page No 86, 87 for Audit Committee.			
Audit Committee				
D 3 Audit Committee	<b>Complied with</b> Please refer page No 86, 87 for Audit Committee Report.			
D 3.1 64. Composition and terms & conditions of the Audit Committee	<b>Complied with</b> Please refer page No 86, 87 for Audit Committee Report.			
D 3.2 65. Duties of the Audit Committee	<b>Complied with</b> Please refer page No 86, 87 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 Page 86, 87.			
D 3.4 67. Disclosures of the Audit Committee	<b>Complied with</b> Please refer the Board Audit Committee report on Page 86, 87 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>			

## COMPLIANCE REVIEW

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D 4.2 69. Affirmation of the code of conduct & ethics				N/A As mentioned above in D 4.2
<hr/>				
E Institutional Shareholders				
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.			
<hr/>				
E 2 Evaluation of Corporate Governance initiatives	<b>Complied with</b>			
<hr/>				
F. Other Investors				
F1 Investing / Divesting Decision	<b>Complied with</b>			
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.				
<hr/>				
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.			
<hr/>				
F 2.1 72. Individual Shareholder Voting	<b>Complied with</b>			
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### SECTION THREE

Given below is HDFC's compliance status 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				N/A
7.10.3 (c) (vi) Brief resume of each Director	<b>Complied with</b>	Please refer Directors' Profiles on Pages 90 to 93.		
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 Pages 69.		
7.10.5 (a) (ix) Separate Remuneration Committee	<b>Complied with</b>			

## COMPLIANCE REVIEW

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable
7.10.5.(a) (x) Chairman of the Remuneration Committee	<b>Complied with</b> Mr. U. H. C. Priyantha (a Non-Executive, Independent Director)			
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 81.			
7.10.5 (c) (xii) Names of the Directors in the Remuneration Committee	<b>Complied with</b> Please refer Page 69.			
7.10.5 (c) (xiii) Remuneration Policy	<b>Complied with</b> Please refer the report of the Human Resource and Remuneration Committee on Page 81.			
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.09 of the Financial Statement on Page 129.			
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, Audit Committee comprises of the required number of Independent Non-Executive Directors in accordance with Rule 7.10.6(a).			
7.10.6 (a) and 7.10.6 (c) (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			
7.10.6 (c) (xviii) Names of the Directors in the Audit Committee	<b>Complied with</b> Please refer Page 70.			

Disclosures regarding the Board of Directors	Full compliance	Partial compliance	Non compliance	Not applicable
7.10.6(a) and 7.10.6 (c) (xix) Chairman of the Audit Committee	<b>Complied with</b> Mr. M. Surendran- Period February to August 2018 (Non-Executive, Non- Independent Director)  Mr. D. P. Wimalasena Period October to December 2018 (Non-Executive, Independent Director)			
7.10.6 (a) and 7.10.6 (c) (xx) Chairman's qualifications	<b>Complied with</b> Please refer Directors profiles on page 90 to 93.			
7.10.6 (a) and 7.10.6 (c) (xxi) Attendance of CEO and CFO for the Committee Meetings	Complied with			
7.10.6 (c) (xxii) External Auditors independency				N/A The External Auditor of the Bank is the Auditor General of Sri Lanka.

## GOVERNANCE AND ETHICS

### Attendance for Board Meetings - 2018

Names	Directorship Status as at 31/12/2018	Number of Meetings Held - 2018	Number of Meetings Entitled	Number of Meetings Participated
Mr. D.P. Wimalasena	Non –executive/ Independent Director	14	14	13
Mr. L. Jayasinghe	Non –executive/ Independent Director	14	14	14
Mrs. R.A. Chulananda	Non –executive/ Independent Director	14	14	13
Mr. N. Wijeyanathan	Non- executive / Independent Director	14	14	13
Mr. J.R.U.De Silva (Appointed on 29th June 2018)	Non- executive / Independent Director	14	05	04
Mr. U.H.C. Priyantha (Appointed on 23rd Aug. 2018)	Non- executive / Independent Director	14	04	04
Dr. R.H. Meewakkala (Resigned from board on 09th Nov. 2018)	Non –executive/ Independent Director (Chairman)	14	13	10
Mr. R. J. De Silva (Resigned from board on 30th Sep. 2018)	Non - executive / Independent Director (Chairman)	14	12	12
Mr. M. Surendran (Resigned from board on 30th Sep. 2018)	Non - executive / non Independent Director	14	12	10
Mr. L.S. Palansuriya (Resigned from board on 09th Nov. 2018)	Non- executive / non Independent Director	14	13	13
Mr. P.M. Gunawardhana (Resigned from board on 16th Jan. 2018)	Non- executive / Independent Director	14	01	01
Mr. S.A.N Saranathissa (Resigned from board on 10th May 2018)	Non- executive / Independent Director	14	07	07

### Nomination Committee Meetings – 2018

Names	Directorship Status as at 31/12/2018	Number of Meetings Held - 2018	Number of Meetings Entitled	Number of Meetings Participated
Mr. D. P. Wimalasena	Non- executive / Independent Director	03	03	03
Mrs. R. A. Chulananda	Non - executive / Independent Director	03	02	02
Mr. U. H. C. Priyantha	Non - executive / Independent Director	03	01	01
Mr. R. J. De Silva (Resigned from board on 30th Sep. 2018)	Non- executive / Independent Director	03	02	02
Dr. R.H. Meewakkala (Resigned from board on 09th Nov. 2018)	Non- executive / Independent Director	03	01	01
Mr. S. A. N. Saranathissa (Resigned from board on 10th May 2018)	Non- executive / Independent Director	03	01	01

### Human Resource / Remuneration Committee Meetings – 2018

Names	Directorship Status as at 31/12/2018	Number of Meetings Held -2018	Number of Meetings Entitled	Number of Meetings Participated
Mr. M. Surendran	Non- executive/ Non Independent Director (Chairman of the Committee)	04	04	04
Mr. R. J. De Silva	Non- executive / Independent Director	04	04	04
Mr. J.R.U. De Silva (Appointed HR Sub Committee 02nd Aug. 2018)	Non- executive / Independent Director	04	02	02
Mr. U.H.C. Priyantha (Appointed HR Sub Committee 27th Sep. 2018)	Non- executive / Independent Director	04	01	01
Mr. S.A.N Saranathissa (Resigned from board on 10th May 2018)	Non- executive / Independent Director	04	02	02

## GOVERNANCE AND ETHICS

### Integrated Risk Management Committee Meetings – 2018

Names	Directorship Status as at 31/12/2018	Number of Meetings Held -2018	Number of Meetings Entitled	Number of Meetings Participated
Mr. N. Wijeyanathan	Non- executive/ Independent Director (Chairman of the Committee)	04	04	03
Mr. L. Jayasinghe	Non- executive / Independent Director	04	04	04
Mr. D.P. Wimalasena	Non- executive / Independent Director	04	02	02
Mr. R.J. De Silva (Resigned from board on 30th Sep. 2018)	Non- executive / Independent Director	04	03	03
Mr. M. Surendran (Resigned from board on 30th Sep. 2018)	Non- executive/ Non Independent Director	04	01	01
Mr. P.M. Gunawardhana (Resigned from board on 16th Jan. 2018)	Non- executive / Independent Director	04	01	0

### Board Audit Committee Meetings – 2018

Names	Directorship Status as at 31/12/2018	Number of Meetings Held -2018	Number of Meetings Entitled	Number of Meetings Participated
Mr. D.P. Wimalasena	Non- executive / Independent Director (Chairman)	06	06	06
Mr. L. Jayasinghe	Non- executive / Independent Director	06	06	05
Mr. U.H.C. Priyantha	Non- executive / Independent Director	06	01	01
Mr. M. Surendran (Resigned from board on 30th Sep. 2018)	Non- executive / Non- Independent Director	06	05	04

## Related Party Transaction Monitoring Committee Meetings – 2018

Names	Directorship Status as at 31/12/2018	Number of Meetings Held -2018	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	03	03
Mr. M. Surendran	Non- executive / Non – Independent Director	03	03	03
Mr. D.P. Wimalasena	Non- executive / Independent Director	03	01	01
Mr. N. Wijeyanathan	Non- executive / Independent Director	03	01	0

## THE REPORT OF THE DIRECTORS

### 01. General

The Board of Directors of HDFC Bank presents the Annual Report 2018 to the shareholders, together with the audited financial statements, and the Auditor's Report.

The Report covers the financial year 2018 (1st January to 31st December, and hereinafter referred to as the "period under review") and complies with the requirements of the Bank's Act of incorporation, namely the Housing Development Finance Corporation Act No. 07 of 1997 (amendments), Companies Act No.07 of 2007 (where applicable), Banking Act No. 30 of 1988 and Listing Rules of the Colombo Stock Exchange, etc.

The Board of Directors presents the Annual Report for the period under review in accordance with the statutory, regulatory requirements and prevailing best accounting practices. All information of the Bank which is material and for the best interest of the Shareholders and for the Bank were disclosed.

The relevant financial statements were reviewed and approved by the Board.

### 02. Principal Activities

The principal business of the Bank continued as providing financial assistance for housing and housing related activities without any change to the mandate of the Bank. The Bank continued to engage in other banking business, as provided in the schedule (iv) of the Banking Act, as a licensed specialised bank. There were no significant changes in the nature of the principal activities.

### 03. Review of Business

The Vision and Mission statements of the Bank are given on page 03 of the Annual Report.

The Chairman's Message (pages 14 to 17) and GM/CEO's review (pages 18 to 22) discuss the overall financial position, performance, state of affairs and significant events that took place in the Bank during the period under review .

An operational review during the financial year 2018 and operational results are given in Income Statement from page 110 .These reports form an integral part of the Annual Report of the Board of Directors

### 04. Future Developments

The future developments of the Bank will be aligned with the aforesaid HDFC Act, and policy decisions of the state for development of housing. For further details please refer the above mentioned Chairman's Message and GM/CEO's review.

### 05. Financial Statements

The financial statements were prepared in accordance with Sri Lanka Accounting Standards and in conformity with the Companies Act No.07 of 2007 and Banking Act No. 30 of 1988. The financial statements for the year ended 31st December 2018 forms an integral part of the Annual Report of the Board of Directors.

### 06. Significant Accounting Policies

The significant accounting policies adopted in preparation of Financial Statements during the year are given on pages 115 to 125 of the Annual Report. The impact of changes in equity is given on page 113 of the Annual Report.

### 07. Auditors' Report

The Auditor General of Sri Lanka, who is the auditor of HDFC Bank, performed the audit on the Financial Statement of HDFC Bank for the period under review and the relevant Auditor's Report is contained in pages 105 to 109 of the Annual Report.

### 08. Going Concern

The Board of Directors have reviewed and are satisfied that HDFC Bank has adequate resources to continue its operations in the foreseeable future.

Therefore, we continue to adopt the going concern basis in preparing the Financial Statements in compliance with Sri Lanka Accounting Standards.

### 09. Income

The income of the Bank for the year ended 31st December 2018 was LKR 7,120 Mn. An analysis of the income is given in Notes 01, 02, 03, 04 and 05 to the Financial Statements.

### 10. Profit and Appropriation

The profit before income, Tax, VAT, DRL & NBT on Financial Services of the Bank for the year ended 31st December 2018 was LKR. 919 Mn. and the profit after tax for the year ended 31st December 2018 was LKR 564 Mn.

For the year ended 31st December 2018	2017 (Restated)	2018
	Rs. Mn	Rs. Mn
VAT, DRL & NBT on financial services	232	289
Provision for taxation	175	64
Profit on ordinary activities after tax	414	564
Retained profit /(accumulated losses) b/f	2,493	2,845
Profit available for appropriation	2,907	3,409
Appropriation First & Final Dividend proposed	-	-
Transfer to Reserve Funds	62	85
Retained Profit carried forward	2,845	3,324

### 11. Reserves

The total Reserves as at 31st December 2018, is LKR 4,756 Mn. The details are given in the Statement of Financial Position, on notes 30, 31, 32. of the Financial Statements.

### 12. Donations

During the year Bank has not made any donations.

### 13. Statutory Payments

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

### 14. Provision for Taxation

Income tax for 2018 has been provided at 28% on the taxable income arising from the operations of the Bank and has been disclosed in Note 11 to the Financial Statements on pages 130 to 131 of this Annual Report.

### 15. Dividend

In considering the regulatory requirement of the Bank to increase the minimum capital of Rupees Five Billion, dividends will not be paid for the financial year 2018.

### 16. Property, Plant and Equipment, Freehold Property

Capital expenditure on property, plant and equipment amounts to LKR 45 Mn., the details of which are given in Note 19 of the Financial Statements on page 136.

### 17. Market Value of Freehold Properties

Details of the market value of freehold properties are given on Note 19.2 of the Financial Statements on page 138.

### 18. Events Occurring after the Date of the Statement of Financial Position

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

### 19. Stated Capital

The stated capital of the Bank as at 31st of December 2018 was LKR 962 Mn. consisting of 64,710,520 ordinary shares.

### 20. Share Information

Share related information are given on pages 155 to 157 of this Annual Report.

### 21. Debentures

Further, HDFC had issued listed secured redeemable debentures of 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 25 of the Financial Statements on page 141. The Bank had listed these debentures on the main board of the Colombo Stock Exchange (CSE).

### 22. Equitable Treatment to all Stakeholders

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

## THE REPORT OF THE DIRECTORS

### 23. The Board of Directors

Please refer chapter on Board of Directors on pages 88 to 93 for full list of Directors and their qualifications and experience.

Appointments and resignations to the Board during the period under review

No	Name	Appointments during the review period	Resignations during the review period
01.	Mr. M. Surendran	29/06/2018 (Re-appointment)	30/09/2018
02.	Mr. L. S. Palansuriya	29/06/2018 (Re-appointment)	09/11/2018
03.	Mr. J. Rohan U. De Silva	29/06/2018	-
04.	Dr. R. H. Meewakkala	01/10/2018 (Appoint to the Chairman of the Board)	09/11/2018
05.	Mr. U. H. C. Priyantha	23/08/2018	-
06.	Mr. Maura Gunawansha	09/11/2018	20/12/2018
07.	Mr. P. M. Gunawardhana	-	16/01/2018
08.	Mr. S.A.N Saranathissa	-	10/05/2018
09.	Mr. R. J. De Silva	-	30/09/2018

### 24. Board Sub Committees

As stipulated under the Corporate Governance Directives of the Central Bank of Sri Lanka, Colombo Stock Exchange, etc. relevant Sub Committees were appointed and the membership, duties, responsibilities and performance of the above Sub Committees are given on pages 81 to 87 of the Annual Report.

### 25. Directors Meetings

Please refer the section on Board and Board Sub Committee attendance at meetings, on pages 68 to 71.

### 26. Director' Responsibility for Financial Reporting

The Directors are responsible for the preparation of financial statements of the Bank to reflect a true and fair view of the state of affairs of the HDFC Bank. Please refer the statement of Directors' responsibility for Financial Reporting is given on page 104 which form an integral part of the Annual Report of the Board of Directors.

### 27. The Directors Interest

The Bank made the necessary declarations of the Directors interests given on page 148 Other than those disclosed, the Directors have no direct or indirect interest in a contract or a proposed contract that has to be disclosed to the shareholders. Directors abstained from participating at the discussions, or in the approving process, or voting on matters or contracts, in which they were interested.

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

## 28. Directors' Interest in Shareholding

Directors' shareholdings are as follows:

	31/12/2018	01/01/2018
Mrs. R. A. Chulananda	Nil	Nil
Mr. D. P. Wimalasena	Nil	Nil
Mr. L. Jayasinghe	1,000	1,000
Mr. N. Wijeyanathan	3,979	3,979
Mr. J. Rohan U. De Silva	2,241	Nil
Mr. U. H. C. Priyantha	Nil	Nil
Total	7,220	4,979

## 29. Directors' Interests in Debentures

Individual debenture holding of Directors were as follows:

As at December 31, 2018	2018	
	No. of Debentures	Value (Rs.)
Mrs. R. A. Chulananda	Nil	Nil
Mr. D.P. Wimalasena	Nil	Nil
Mr. L. Jayasinghe	Nil	Nil
Mr. N. Wijeyanathan	Nil	Nil
Mr. J. Rohan U. De Silva	Nil	Nil
Mr. U. H. C. Priyantha	Nil	Nil
Total	Nil	Nil

## 30. 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 page no 148 to the financial statements forming part of the Annual Report of the Board of Directors. further the board declares that the bank had complied with the RPT Rules for Related Party Transactions (During the period under review)

## 31. Directors' Remuneration

Directors' remuneration, for the financial year ended 31st December 2018 is given on Note 09 to the financial statement on page 129.

## 32. Environmental Protection

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

## 33. Risk Management and System of Internal Controls

The Bank adopted continuous risk assessment process through the Risk Department and Integrated Risk Management Committee (IRMC) and at the Board level. Please refer Risk Assessment Report on pages 34 to 39.

In addition, the Board Audit Committee(BAC) reviews the internal control process on a regular basis. Both the IRMC and BAC and directly submit Committee minutes to the Board. Accordingly the Board is ensuring that the Bank has a comprehensive Internal Control and Risk control Framework, for smooth functioning of its operations

Please refer the Board Audit Committee Report on pages 86 to 87.

## 34. Corporate Governance

Please refer Corporate Governance report given on pages 41 to 67 as required by Corporate Governance Directions for Licensed specialised 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).

## THE REPORT OF THE DIRECTORS

### 35. Compliance with Applicable Laws and Regulations

The Compliance Officer directly reports the compliance status of the Bank pertaining to governing laws to the IRMC. 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.

However as at 31st December 2018, Minimum capital requirement of 5 BN to be met and having completed the formalities awaiting for Treasury investment.

### 36. Appointment of Auditors

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

### 37. Auditors Remuneration and Interest in Contract with the Bank

The Auditors were paid Rs. 649,800 for the year ended 31st of December, 2018 as audit fees by the Bank. The Auditors do not have any other relationship or interest in contracts with the Bank.

### 38. Audit Committee

The composition of the Audit Committee and their report is given on pages 86 to 87 of this Annual Report.

### 39. Notice of Meeting

The 34th Annual General Meeting of the Bank will be held on Friday the Twenty Eight (28th) day of June 2019 at Sri Lanka Foundation (Hall No. 08), No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 at 10.00 a.m

The Notice of the meeting is given on page 161 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors



**R. H. Meewakkala**  
Chairman



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

17th May 2019

## 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 financial information and records or against financial losses or frauds.

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

### The Key Processes Adopted in Ensuring that Adequate and Effective System of Internal Control is in Place

- The Board Sub-Committees namely Board Audit Committee, Integrated Risk Management Committee, Nomination Committee, Human Resources and Remuneration 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, policies and business directions that have been approved.
- Various Management committees including the Asset & Liability Committee, the Credit Committee, the Investment Committee and the Information Technology Steering Committee have been established with appropriate empowerment to ensure effective management and supervision of the bank's core areas of business operations.
- The Board approves and reviews the overall business strategies and significant policies of the bank, understands the major risks run by the bank and directs senior management to take necessary steps to identify, measure, monitor and control those 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.
- There are proper guidelines for hiring and termination of staff, formal training programs for staff, annual performance appraisals and other relevant procedures in place to ensure that staff are competent and adequately trained in carrying out their responsibilities. The Board reviewed and approved the Disciplinary Code of the Bank during the concerned financial year.
- The internal audit division provides independent assurance on the efficiency and effectiveness of the internal control systems and monitors compliance with policies and procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all branches and departments in accordance with the annual audit plan approved by the Board Audit Committee. The frequency of audits of departments and branches are determined by the level of risk assessed. Findings of the internal audit are submitted to the Board Audit Committee for review at their periodic meetings.

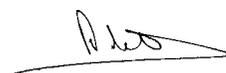
### Confirmation

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

### Review of Statement by External Auditors

The External Auditors have reviewed the above Director's Statement on Internal Control included in this Annual Report of the Bank for the year ended 31st December 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board at the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their report to the Board is disclosed on pages 78, 79 of this Annual Report.

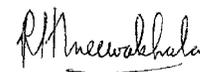
By order of the Board,



**Palitha Gamage**  
General Manager / CEO



**K D Gunawardana**  
Chairman – Audit Committee



**R H Meewakkala**  
Chairman

At Colombo  
17th May 2019

# ASSURANCE REPORT OF THE AUDITOR GENERAL ON INTERNAL CONTROLS



## ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல. }  
My No. }

BAF/01/C/HDFC/IC/18/27

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

17 May 2019

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 Directors' 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 2018.

### 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 aspect of any significant problems disclosed in the annual report will, in fact, remedy the problems.

#### **Conclusion**

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



W.P.C. Wickramaratne

Auditor General

## ASSURANCE REPORT OF THE AUDITOR GENERAL ON CORPORATE GOVERNANCE



**ජාතික විගණන කාර්යාලය**  
**தேசிய கணக்காய்வு அலுவலகம்**  
**NATIONAL AUDIT OFFICE**



මගේ අංකය  
 எனது இல. }  
 My No. }

BAF/01/C/HDFCB/CG/2018/28

ඔබේ අංකය  
 உமது இல. }  
 Your No. }

දිනය  
 நாள் }  
 Date }

17 May 2019

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 2018.**

I have performed the procedures enumerated in an Annexure - 01 to this 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 (SLSRS4400) 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 - 01 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.

  
 W.P.C. Wickramaratne  
 Auditor General

## BOARD SUB COMMITTEE REPORTS

### BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee is a Board Sub Committee responsible for effective functioning of Human resources of the Bank.

Accordingly the Human Resources and Remuneration Committee was responsible for the following:

01. Determination of a Remuneration Policy (salaries, allowances and other financial payments) relating to, the Chief Executive Officer (CEO) and Key Management Personnel of the bank.
02. Defining goals and targets for the, CEO and the Key Management Personnel.
03. Performance evaluation of the CEO and Key Management Personnel against the set targets and goals periodically and determination of basis for revising remuneration, benefits and other payments of performance-based incentives.
04. Making necessary recommendations 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 during the period under review was keen on consistent development of human resources of HDFC through employee skill development and capacity building/ training / development initiatives.

Accordingly, the Committee took necessary initiatives to review the existing policies and approve several important policies (such as Training policy Physical Security Policy, Honorarium Policy, and Whistle Blowing Policy, Outsource Policy etc. In addition the Committee made necessary recommendations to the Board at the Collective Agreement finalizing process.

Four (04) Committee Meetings were held during 2018. The membership of the Committee and Committee meeting attendance are given on page 69 of the Annual Report.



**U. H. C. Priyantha**  
*Chairman*



**Dharshani De Silva**  
*Company Secretary*

At Colombo,  
13th May 2019

## BOARD SUB COMMITTEE REPORTS

### BOARD NOMINATION COMMITTEE

The Nomination Committee is a Board Sub Committee responsible for the following;

01. for implementing a procedure to select / appoint new Directors, CEO and Key Management Personnel.
02. For making recommendations for 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.
03. For adopting suitable criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.
04. for adopting a suitable system to 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 asset out in the Statutes.
05. for recommending (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 necessary initiatives according to the mandate of the Nomination Committee, as given above.

The membership of the Committee and attendance of the Committee members at the meeting is given on Page 69 of the Annual Report. The Nomination Committee met Three (03) times during 2018.



**R. H. Meewakkala**  
Chairman



**Dharshani De Silva**  
Company Secretary

At Colombo,  
02nd May 2019

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Board Integrated Risk Management Committee ("the Committee"), is a Board Sub Committee responsible for integrated Risk management of the Bank.

### Scope and Commitment

In line with the Corporate Governance directions of the CBSL the BIRMC with established for the following mandate;

01. 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.
02. The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks of the bank on a monthly basis through appropriate risk indicators and management information.
03. 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.
04. 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

05. The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.
06. 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.
07. 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.
08. 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.

Accordingly, BIRMC involved in following functions during the year:

01. Risk Management Policies: Policies related to Risk Management and Compliance areas were Reviewed during the year and amended as appropriate, and have been incorporated within the Bank.
02. Risk Appetite: Risk Appetite limits and Key Risk Indicators for all key risk areas were set and periodically monitored using the Risk Dash Board.

03. Progress on BASEL II/BASEL III Recommendations: Progress on the implementation of key components of BASEL II/BASEL III against set targets were reviewed and monitored to ensure that the Bank is able to meet the timelines set by the Central Bank of Sri Lanka (CBSL).
04. Stress Testing: The overall Stress Testing Framework was reviewed during the year and the results of the tests were monitored. Necessary recommendations to improve the Bank's Stress Tolerance levels were discussed and Implemented as mandatory.
05. Internal Capital Adequacy Assessment Process (ICAAP): ICAAP document was developed for 2017 Year-end position, and was reviewed and approved by the Committee and the Board. This document was forwarded to the Regulator in 2018.
06. Compliance: The Committee received Compliance Reports from the Compliance Officer and reviewed same to assess the extent of compliance with the Regulatory requirements.
07. Internal Controls: Internal Loss Event Reports and the adequacy of internal control and procedures were reviewed regularly and recommendations for improvements were made. Progress on implementation of recommendations was also monitored.

## **BOARD SUB COMMITTEE REPORTS**

08. IT Systems Support:

Recommendations were made to enhance efficiency of monitoring and minimizing risks through the use of IT Systems in respect of Credit and Operational Risk Management in the Bank.

The Committee actively encouraged all the participants in Committee meetings to view risks, focusing on the future and taking into account event and circumstances external to the Bank, which may not get captured in standard risk measures.

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 membership of the Committee and attendance of the Committee members at the meeting is given on Page 70 of the Annual Report. During the period under reviewed the Committee met Four (04) times.



**N. Wijeyanathan**  
*Chairman*



**Dharshani De Silva**  
*Company Secretary*

At Colombo,  
02nd May 2019

## **BOARD RELATED PARTY TRANSACTIONS MONITORING COMMITTEE**

The **Related Party Transactions Monitoring Committee** is a Board Sub Committee responsible for monitoring related party transactions of the Bank to ensure that the bank complies with the rules set out by the regulatory entities.

Relevant rules are issued by regulatory authorities such as Securities and Exchange Commission, (SEC), Colombo Stock Exchange (CSE), and Central Bank (CBSL) from time to time.

### **Scope and commitment**

The Committee is responsible for taking necessary initiatives 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.

Further the Committee is responsible to developing and maintaining principles on dealing with RPTs consistent with the provisions of the Securities and Exchange Commission of Sri Lanka (SEC Code) and the Colombo Stock Exchange. (CSE Rules).

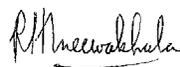
Therefore the Committee during the period under review took necessary measures to adopt a Related Party Policy (02/04/RPTC/2017). The Committee reviewed in advance relevant Related Party Transactions to ensure there is no more favorable treatment and thereby confirming that Bank is not engaging in such transactions on favorable terms to related parties, and avoiding any conflict of interest.

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

In addition to above, the mandate of the Committee includes advising the Board in making appropriate disclosures on RPT in the Annual Report as required by Section 9 of listing rules of CSE (CSE Rules).

Moreover monitoring systems are in place to capture and feed relevant information on RPT which also includes information on Key Management Personals (KMP), Directors and their Close Family Members (CFM) in to the Banks data collection system and the accuracy of such information.

The membership of the Committee and attendance of the Committee members at the meeting is given on Page 71 of the Annual Report. During the period under reviewed the Committee met Three (03) times. (The fourth meeting which was fixed in December was postponed due to unavoidable situation prevailed in the country and some Directors relinquished their positions at the Board as a result.)



**R. H. Meewakkala**  
*Chairman*



**Dharshani De Silva**  
*Company Secretary*

At Colombo,  
02nd May 2019

## BOARD SUB COMMITTEE REPORTS

### BOARD AUDIT COMMITTEE

The Audit Committee presents this report for the financial year ended 31st December 2018 to comply with the "Listing Rules" of the Colombo Stock Exchange, "Code of best practices on Corporate Governance" issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and to comply with the Corporate Governance requirements of Central Bank of Sri Lanka.

#### Composition of the Audit Committee

The Board appointed Audit Committee, comprised of three (3) Non-Executive Directors and is in line with the composition requirements specified in the Banking Act Direction No 12 of 2007. Profiles of the members are given on pages 90 to 93.

#### Charter of the Audit Committee

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments and concerns are adequately addressed.

The Audit Committee is responsible to the Board of Directors and reports its activities to the Board regularly. The functions of the Audit Committee are geared to assist the Board of Directors in its general oversight responsibility on financial reporting, internal controls and functions relating to internal and external audits.

#### Audit Committee Meetings

The Committee held six meetings during the financial year ended December 31st, 2018. The attendance of the members at meetings are given in the Corporate Governance section of the Annual Report.

Chief Internal Auditor and Chief Finance Officer normally attends meetings. The Chief Internal Auditor functioned as the Secretary to the Committee. The General Manager/ Chief Executive Officer, Chief Operating Officer, Risk Officer and Compliance Officer attended the meetings by invitation. Other officials were invited to attend the meetings on need basis. On the invitation of the Committee, the Bank's External Auditor, attended 05 meetings during the year.

#### Methodology Adopted by the Committee

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

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

#### Summary of Activities

Performed following activities during the year.

##### Financial Reporting

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

##### Internal Controls, Risk Management systems and Compliance requirements

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

- **Internal Audit**

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

The Committee reviewed, assessed and approved the internal audit plan. Appraisals of Head of Internal Audit and senior staff were 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 liaise with corporate management for taking proactive actions to obviate violations, fraud and errors.

### **Ethics and Good Governance**

The Committee promotes the good governance among the internal audit staff by reviewing and approving the internal audit charter and continuously emphasizes on upholding ethical values of the staff members. In this regard, two Corporate Management members have been appointed to receive information from all members of staff if any wrong doing or other improprieties are taken place. This ensures that highest standards of good governance is maintained and followed by the Bank.

### **Internal Financial Controls, Accounting Practices and Bank Financial Statements.**

Based on the work of the Bank's assurance providers, nothing has come to the attention of the Committee which indicates that the Bank's system of internal financial controls and accounting practices provide a basis for unreliable annual financial statements. The Committee is satisfied that the Bank's annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and Sri Lanka Accounting Standards and recommended the financial statements for approval of the Board.



**K D Gunawardana**  
*Chairman:*

*Board Audit Committee*

02nd May 2019

## BOARD OF DIRECTORS



01

**Dr. K. D. Gunawardana**  
(Non – Executive, Independent  
Director)

02

**Dr. R. H. Meewakkala**  
(Non – Executive, Independent  
Director)

03

**Mr. U. H. C. Priyantha**  
(Non-Executive, Independent  
Director)

04

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



05

**Mr. L. Jayasinghe**

(Non – executive, Independent Director)

06

**Mr. N. Wijeyanathan**

(Non-Executive, Independent Director)

07

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

(Non-Executive, Independent Director)

08

**Mrs. Noor Rizna Anees**

(Non-Executive, Independent Director)

09

**Mr. L. S. Palansuriya**

(Non – Executive, Non-Independent Director)

## PROFILES OF THE BOARD OF DIRECTORS

### **Dr. R. H. Meewakkala**

*(Non – Executive, Independent Director)*

Dr. Meewakkala was appointed as a Director and the Chairman of the HDFC Bank with effect from 02nd January 2019.

Dr. 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 Honolulu. 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 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 & Cultural Affairs.

Dr. Meewakkala is also a non-executive Director at Ceylon Beverage Holdings and Ceylon Brewery Ltd from 01st October 2017.

### **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, Construction and Cultural Affairs. 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 Jayawardenepura.

### **Mr. L. Jayasinghe**

*(Non – executive, Independent Director)*

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

Mr. Lionel Jayasinghe is an Information Security (IS) Consultant with thirty five 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 specialized 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, specializing 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. 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 S.Thomas College, Mt. Lavinia.

**Mr. J. R. U. De Silva**  
*(Non-Executive, Independent Director)*

Mr. Rohan De Silva has over forty one years of experience in management, in the mercantile and government sector. He is a specialist in shipping, marine, aviation and hotels business processes with a vast knowledge in the implementation of pioneering business ventures and the innovation of professional services in the mercantile sector.

Mr. De Silva is currently the Chairman of the McLarens Group of Companies, one of the biggest diversified conglomerates in Sri Lanka. He also holds the title of the Honorary Consul of the Republic of Namibia in Sri Lanka. Mr. De Silva is a member of both the

Ceylon Association of Ships Agents Advisory Committee and the Advisory Council on Ports, Shipping and Maritime Affairs of the Ministry of Ports & Shipping.

In the past, he served as a member of the Presidential Task Force to formulate shipping policy, a Director of Sri Lanka Telecom, a Director of Road Development Authority and Director of Airport & Aviation Services (Sri Lanka) Limited. Mr. De Silva also served on the Audit Committee of Airport & Aviation Services (Sri Lanka) Limited.

Mr. De Silva has received several awards recognizing his services and contribution to the Sri Lankan Shipping Industry including a special award at the Colombo International Maritime Conference 2015 and special recognition as a 'Shipping Personality', by the Institute of Chartered Shipbrokers, UK – Sri Lanka Branch. He was also awarded the "Central Bank Governor's Challenge Trophy – 2012" for Global Commerce Excellence.

**Mr. U. H. C. Priyantha**  
*(Non-Executive, Independent Director)*

Mr. U. H. C. Priyantha is Senior Officer of the Special Grade of the Sri Lanka Administrative Service. Presently he is the Additional Secretary to the Ministry of Labour and Trade Union Relations. Being the Additional Secretary of the Ministry of Labour he is responsible to the matters of Administration, Planning and Parliament Affairs.

His Academic and Professional Qualifications comprise of a Bachelor of Science (Business Administration) Special Degree

with a Second Class at the University of Sri Jayewardenepura, Master of Business Administration(MBA) Degree at the University of Wayamba, Master of Arts(Sociology) Degree at the University of Kelaniya, Postgraduate Diploma in Management at the University of Sri Jayewardenepura, Postgraduate Diploma in International Relations at the Bandaranayke Center for International Studies(BCIS) and some other various Diplomas from respective Universities.

He has also had local and foreign trainings in the fields of Trade, Management, Business and Public Administration, International Relations, Immigration Administration, Labour Relations and Information Technology.

Prior to being appointed as the Additional Secretary of the Ministry of Labour and Trade Union Relations he held the positions of Deputy Director General (Administration, Finance and Cooperate Affairs) of the Telecommunications Regulatory Commission, Senior Deputy Controller of Immigration and Emigration, Assistant Secretary to various Ministries, Authorised Officer of the Department of Immigration and Emigration and an Audit Examiner of the Auditor General's Department.

Mr. Priyantha's carrier in the public service including with Government Corporation is more than 31 years and he is having wide experience in the fields of Management, Public Administration, Finance, Policy Making, Planning Matters and holding highest positions in many governmental organizations.

## PROFILES OF THE BOARD OF DIRECTORS

### **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 as 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.

Mr. Palansuriya holds a General Degree from the University of Peradeniya (1975) 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 1984 to date.

### **Dr. K. D. Gunawardana** *(Non – Executive, Independent Director)*

Dr. Kennedy D. Gunawardana is Professor of Accounting Information Systems at the Department of Accounting, University of Sri Jayewardenepura, Sri Lanka.

In addition to being the professor of Accounting in his Department, he is the Chairman of the Board of studies and Coordinator of the PhD in Management Program of Management, Faculty of Management studies and Commerce in the same University. He Teaches Cost and Management Accounting, Accounting Information Systems, Artificial Neural Networks for Accounting and Research Methodology in Accounting and Finance for the undergraduates and Postgraduates students.

Dr. Gunawardana worked in several public sector and private sector organization as Chairman and presently, he is Board member of the Post Graduate Institute of Sri Jayewardenepura (PIM) and member of the Syndicate Committee of Institute of Human Resource Advancement, University of Colombo (IHRS).

Dr. Gunawardana is the first Sri Lankan who made link with Artificial Intelligence to the Field of Accounting and Finance for Corporate sector predictions, he has developed new course unit called, artificial neural network for accounting and it is very popular course among the University students today.

Dr. Gunawardana is working as a Visiting Faculty member of the University of Moratuwa, University of Kalaniya and University of Colombo in their MBA programme in the area of Accounting, Management Information Systems and Research Methodology. With over 100 research articles published in refereed conferences proceedings, numerous other papers and monographs, 6 text books in English and 3 books in Sinhala, 2 chapters of the International books come under his credentials. Dr. Gunawardana ranks in the top number one in teaching, training and research in the field of Academia. At the moment he is serving as senior professor of Accounting Information Systems in University of Sri Jayewardenepura, Sri Lanka.

### **Mrs. Noor Rizna Anees** *(Non-Executive, Independent Director)*

Mrs. Noor Rizna Anees has been appointed as a Board of Member of the HDFC on 25.03.2019. Mrs. Anees is currently working as the Director General of the Department of Development Finance, Ministry of Finance. She started her career as an Assistant Director Sri Lanka Planning Service at the Department of National Planning, Ministry of Policy Planning and Implementation from 1994.

Then she continued her career as the Deputy Director of the Department of Development Finance, until 2011 and Director (2011-

2016) and Additional Director General (2016 – 2019) of the Department of External Resources. Accordingly, she has more than 25 years' experience in the government service. She has also experiences in the executing and implementing projects in various capacities relating to micro, small and medium enterprises and rural finance funded by the World Bank, Asian Development Bank and etc.

She holds a Bachelor of Commerce (Hon.) Degree from the University of Peradeniya, a Post Graduate Diploma in Labour Studies from the University of Colombo and a Master of Science in Agricultural Science from the Nagoya University, Japan. Currently she is reading a Doctorate of Business Administration at the Cambridge College, Asian University, Malaysia.

She has completed Microfinance Training of Trainers Blended Distance Learning Course offered through the Global Development Learning Network, conducted by SLIDA in collaboration with multilateral development partners and Training of Trainers (TOT) on Public Private Partnership (Basic Level , Intermediate Level and High Level) organized by USAID in collaboration with the Ministry of Finance. In addition, she has participated in many international and local training programmes on project management, micro finance, SME, financial market, infrastructure project planning and etc.

She has experience in serving as a treasury representative at various Director Boards, and Technical Evaluation Committees.

## CORPORATE MANAGEMENT



01

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

02

**Ms. W.N.D. Boteju**  
Chief Manager - HR & Admin

03

**Mr. Palitha Gamage**  
General Manager/CEO

04

**Mr. M.K. Nambiyarooran**  
Chief Operating Officer

05

**Ms. H.S. Gunathilake**  
AGM -BD&M

06

**Mr. K.R.M.A. Bandara**  
Chief Manager - Compliance



07

**Ms. W.W.D.S.C. Perera**  
AGM- Legal

08

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

09

**Mr. A.J. Athukorala**  
Chief Internal Auditor

10

**Mr. D.M.D.M.K. Dissanayake**  
Head of Credit

11

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

12

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

13

**Mr. A.M. Neelachandra**  
Acting Head of IT

## PROFILES OF THE CORPORATE MANAGEMENT

### **Mr. Palitha Gamage** *CEO/ GM*

Mr. Palitha Gamage, a Senior Banker with over 30 years of experience in banking has been appointed as CEO/GM of HDFC Bank of Sri Lanka on the 16th of August 2018.

Mr. Gamage commenced his banking career at the DFCC Bank in 1987. Prior to joining DFCC Bank in 1987, he worked as a Civil Engineer at State Engineering Corporation of Sri Lanka.

At the DFCC, he served in several senior managerial positions in Corporate Banking, SME Banking, Investment Banking, Planning and Operations. In addition, he also served as Head of Corporate Credit at DFCC Vardhana Bank.

At the time of joining the HDFC Bank as its GM/CEO, he held the position of Executive Vice President (Integrated Risk Management) / Chief Risk Officer of DFCC Bank. He served as a member of the Governing Board of the National Institute of Business Management for three years from 2010 and as a Non-Executive Director of the National Asset Management Ltd [NAMAL] for four years from 2014. Additionally he served as the Chairman, Board Audit Committee of NAMAL for two years and Head of Risk Management Committee of Acuity Securities Ltd.

During his career, Mr. Gamage has attended a multitude of local and foreign training programs and workshops covering various aspects of banking.

Mr. Gamage holds a B. Sc (Engineering) Hons degree from the University of Moratuwa, Sri Lanka and an MBA from the Asian Institute of Technology, Thailand. He is a Passed Finalist of the Chartered Institute of Management Accountants (CIMA), UK and a Corporate Member of the Institution of Engineers, Sri Lanka.

### **Mr. M.K. Nambiyarooran** *Chief Operating Officer*

Mr.M.K.Nambiyarooran appointed Chief Operating Officer of the HDFC Bank of Sri Lanka on the 16th July 2018.

Mr. Nambiyarooran holds multi-disciplinary qualifications, a Master's degree in Financial Economics from the University of Colombo and a Master's degree in Business Administration from the PIM, University of Sri Jayewardenepura. He is also a fellow of the Chartered Institute of Management Accountants- UK and Fellow of the CPA – Australia. He is also a Fellow of the Institute of Bankers.

He also holds wide exposure of more than 27 years in Banking and Finance specializing in Credit, Leasing, Product development, branch operations, Finance, Budgetary planning & control, Treasury and Strategy.

Mr. Nambiyarooran has also worked at Abans group of Companies for more than 7 years as Head of Group Treasury and at Abans Finance PLC as the General Manager.

His overseas exposure includes functioning as Alternate Director to MD/CEO at Delma Exchange – Abudhabi, Majan Exchange – Oman and Commercial Interlink – Canada.

### **Mr. D. Vidana Pathirana** *Chief Finance Officer* *BSc, MBA, FCA, FCMA, FCPM*

Date of appointment -15th September 2004

He has over 34 years' experience in the fields of Auditing, Accounting, Financial Management, Projects and Investment Promotion, Management Accounting, Project Finance, Business Development and Marketing, Banking, Treasury Management both in Sri Lanka and overseas. He is currently responsible for Finance and Planning Department of the Bank.

### **Mr. A J Atukorala** *Chief Internal Auditor* *BSc, ACMA, CISA, CISM, Dip in Computer System Design (NIBM)*

Date of appointment -01st July 2009

He counts over 31 years of executive experience in banking industry specializing in audit function. He has the exposure to both private and public sector banks.

### **Mrs. W. W. D. S. C. Perera** *Assistant General Manager – Legal* *Attorney at Law and Notary Public*

Date of appointment -16th November 1992

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 26 years of professional experience in the field of law, specializing 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 34 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 merchant & specialized Banking sector.

**Mr. Manjula Kithsiri Dissanayake**

*Head of Credit  
ACA, ADCM (IBSL)*

Date of appointment -18th June 2012

He has over 20 years' experience in the field of Credit and Finance. Prior to joining HDFC Bank he served as Credit Officer, Account Manager, Senior Account Manager, Accountant and Senior Manager Credit and Operations in major private sector financial institutions. He has experience in the field of Auditing, Financial Management, Taxation, Operations and Credit Management.

**Ms. K. T. Dharshani D. De Silva**

*Bank / Board Secretary / Chief Manager  
Attorney-at-Law & Notary Public,  
LLM, MBA, Higher diploma in Banking  
Finance & Insurance*

She had started her HDFC career as a lawyer attached to the Legal Department and thereafter appointed as the Secretary to the Bank/Board. She counts experience of more than 25 years as an attorney at law and possess experience in Litigation, Recovery, Human Resources etc., in addition to her present engagement in the Company Secretarial field. She was attached to the Civil Bar at the initial stages of her career and thereafter worked at Alliance Finance Company, prior to HDFC.

She holds Masters in Business Administration (MBA), Masters in Law (LLM) and Higher Diploma in Banking Finance and Insurance.

**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 mobilization, branch operation, accounting, financial management, taxation, auditing, treasury management, compliance, corporate financial reporting and annual reports, budgeting and financial planning.

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

**Ms. W.N.D. Botejue**

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

Date of appointment -01st July 1995  
She counts over 24 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 29 years' experience in the field of Auditing, Accounting in organizations in the public & private sectors. Prior to joining HDFC bank he served as specializing in auditing of public corporations and forging funded projects. He was appointed Head of Compliance with effect from 02nd January 2012.

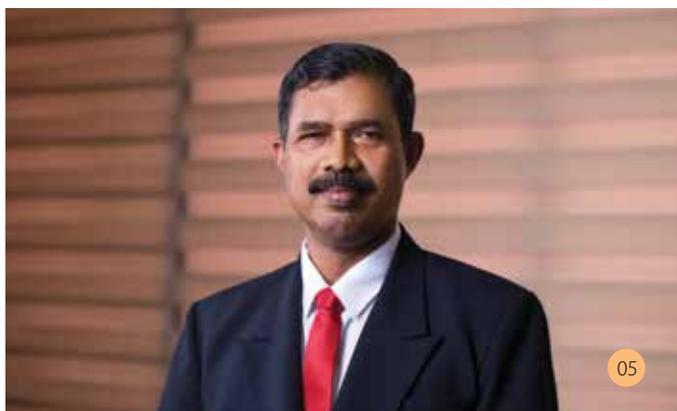
**Mr. A.M. Neelachandra**

*Acting Chief Manager – Information  
Technology  
BSc, NIBM*

Date of appointment - 01st December 1997.

He has over 23 years of experience as an IT professional in Banking & Public Sector. He has extensive experience in installing, configuring and maintaining a wide range of UNIX based systems, configuring and Maintaining Databases, Network Administration. He worked as the Project Manager of HDFCs New Core Banking implementation and System transformation. He has also worked in the Computer and Technology Council for two years.

## HEAD OF DIVISIONS



- 1 Mrs. L.A.S.C. Wijetunga - Senior Manager - Property
- 2 Mr. W.M. Chandrasena - Manager - Valuation
- 3 Mr. P.S. Pitawela - Senior Manager - Administration
- 4 Mr. B.M.P. Perera - Manager - Credit Administration & In Charge of Other Income
- 5 Mr. T.B. Karunabandu - Manager - Gold Loan
- 6 Mr. D.M.A. Dissanayake - Manager - Corporate and Development Finance



- 7 Mr. I. Nishantha - Risk Officer - Senior Manager
- 8 Mrs. L. Gunatilaka - Senior Manager - Recoveries
- 9 Mrs. L.D.S.H. Liyanage - Manager - (Payment)
- 10 Mrs. K.A.A. Nirmali - Manager - Accounts Control
- 11 Mr. D.N. Dharmaratna - Senior Manager - Leasing
- 12 Mrs. M.U.S. De Costa - Manager - Operations

## REGIONAL MANAGERS



- 1 Mr. W.D. K. Senevirathne - Regional Manager
- 2 Mrs. R.R. Gunawardena - Regional Manager/Chief Manager - Credit
- 3 Mr. H.M. Thilakarathne - Regional Manager
- 4 Mr. I.K. Dawatanga - Acting Regional Manager
- 5 Mr. R.A.J.N. Ranasinghe - Acting Regional Manager
- 6 Mr. B.W.M.C. Kumarasiri - Acting Regional Manager

## BRANCH MANAGERS

Name	Branch	Designation
Mr. S.H.K. Gamage	Chilaw	Branch Manager
Ms. N.A.A.N.S. Nissanka	Gampola	Branch Manager
Mr. W.B. Rajasinghe	Rathnapura	Branch Manager
Ms. D.T.A. Jayasinghe	Avissawella	Branch Manager
Mr. S.M.S.K. Bandara	Nuwara - Eliya	Branch Manager
Mr. L.S.B. Rathnayake	Kandy	Branch Manager
Mr. P.A. Senarathna	Matale	Actg. Branch Manager
Mr. G.W.A.N. Kalinda	Matara	Branch Manager
Ms. M. Malani	Kuliyapitiya	Actg. Branch Manager
Mr. H.M.U. Samaraweera	Kurunegala	Branch Manager
Mr. D.K.P. De Silva	Nugegoda	Branch Manager
Ms. R.S.I. Silva	Kalutara	Branch Manager
Ms. T.M.D.D.K. Madatuwa	Ja-Ela	Branch Manager
Ms. A.A.S.I.T. Somathilaka	Galle	Branch Manager
Ms. U.K. Samaraarachchi	Colombo	Branch Manager
Mr. E.D.D. Sampath	Hyde Park	Branch Manager
Mr. A.I. Kiriella	Piliyandala	Branch Manager
Mr. H.A.S.L. Hapangama	Kiribathgoda	Branch Manager
Mr. A.M.U.S.B. Attanayake	Nittambuwa	Branch Manager
Mr. P. Ekanayake	Embilipitiya	Branch Manager
Mr. M.A.S. Desapriya	Tangalle	Branch Manager
Mr. M.L.N. Anuradha	Tissamaharama	Branch Manager
Ms. W.B.M.A. Fernando	Gampaha	Branch Manager
Ms. M.G.D.P. Seneviratne	Badulla	Branch Manager
Mr. S.A.R.C.P. Kumara	Ambalangoda	Branch Manager
Mr. T.G.R.M.R.M. Ratnayake	Dambulla	Branch Manager
Mr. D.A.N.P.K. Piyadasa	Nikawaratiya	Branch Manager
Mr. H.R.M. Tharaka	Polonnaruwa	Actg. Branch Manager
Mr. T.H.M.A. Hewage	Peliyagoda	Branch Manager
Mr. T.V.D. Nayanajith	Monaragala	Actg. Branch Manager
Mr. K.A.A.P.S. Kumara	Homagama	Branch Manager
Mr. R.A.C.S. Pushpakumara	Kegalle	Branch Manager
Mr. T. Jegatheepan	Batticaloa	Branch Manager
Mr. P.A. Viraj Sampath	Horana	Actg. Branch Manager
Mr. M.S.M. Kadafi	Ampara	Actg. Branch Manager
Mr. D.S.R. Dissanayake	Anuradhapura	Actg. Branch Manager
Ms. S. Suyaniya	Jaffna	Actg. Branch Manager
Mr. A.G. Stephan	Trincomalee	Actg. Branch Manager
Mr. P. Rajarajan	Vavuniya	Branch Manager

## **FINANCIAL REPORTS**

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**DIRECTED  
TO BRINGING  
IN BEST  
PRACTICE  
AS WE  
EMPOWER  
LIVES BY  
CREATING  
SHELTER FOR  
THE NATION**

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## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors in relation to the financial statements of the Bank, 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 Auditor General.

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 2018, 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 2018; 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 have adequate resources to continue its operations 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. 07 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 2018 are given on page 77 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 78, 79 of the Annual Report.

The Directors have taken appropriate steps to ensure that the Bank maintains proper books

of accounts and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee. The report of the said Committee is given on pages 86 to 87. 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) and 152 (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



**R. H. Meewakkala**  
Chairman

17th May 2019  
Colombo

## AUDITOR'S REPORT



# ජාතික විගණන කාර්යාලය

## தேசிய கணக்காய்வு அலுவலகம்

### NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல. }  
My No. }

BAF/01/C/HDFC/01/18/26

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

13 May 2019

Chairman  
Housing Development Finance Corporation Bank

**Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Housing Development Finance Corporation Bank for the year ended 31 December 2018 in terms of Section 12 of the National Audit Act, No. 19 of 2018.**

### 1. Financial Statements

#### 1.1 Opinion

The audit of the financial statements of the Housing Development Finance Corporation Bank ("Bank") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

අංක 306/72, පොල්දොර මාරු, පිත්තරමුල්ල, ශ්‍රී ලංකාව

இல. 306/72, பால்தொழில் வீதி, பித்தரமுல்லை, இலங்கை.

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

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+94 11 2 88 72 23

ag@auditorgeneral.gov.lk

www.auditorgeneral.gov.lk

## AUDITOR'S REPORT

**1.2 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Bank is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Bank.

**1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee

that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

## AUDITOR'S REPORT



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.
- The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;
- to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018;



- to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018;
- to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne

Auditor General

## INCOME STATEMENT

For the Year Ended 31st December 2018 (Figures in LKR)

Description	Notes	Bank	
		2018	2017 (Restated)
<b>INCOME</b>		7,120,235,055	6,978,337,211
Interest Income		6,679,052,243	6,613,531,208
Interest Expenses		(4,440,675,426)	(4,741,843,197)
<b>Net Interest Income</b>	1	2,238,376,817	1,871,688,011
Fee and Commission Income	2	380,261,924	347,834,881
Fee and Commission expenses		-	-
<b>Net Fee and Commission Income</b>		380,261,924	347,834,881
Net Trading Gain/(Loss)	3	-	-
Net gain/(loss) from Financial Instruments designated at Fair value through Profit or Loss	4	(750,000)	-
Other operating income(net)	5	61,670,888	16,971,122
<b>Total Operating Income</b>		2,679,559,629	2,236,494,014
Less: Impairment Charges / (Reversal)	6	92,705,576	(56,739,589)
<b>Net Operating income</b>		2,586,854,053	2,293,233,603
<b>Less : Expenses</b>			
Staff Costs	7	1,113,360,522	941,324,990
Depreciation & Amortization expenses	8	85,714,476	96,133,064
Other Expenses	9	469,116,368	434,390,682
<b>Total Expenses</b>		1,668,191,365	1,471,848,736
<b>Operating Profit/(loss) before VAT NBT &amp; DRL</b>		918,662,687	821,384,866
Less : VAT, NBT & DRL On Financial Services	10	289,882,285	232,100,761
<b>Operating Profit/(loss) after VAT NBT &amp; DRL</b>		628,780,402	589,284,105
Share of Profits of associates and joint ventures		-	-
<b>Profit/(Loss) before tax</b>		628,780,402	589,284,105
Less:Tax expenses	11	64,389,592	175,013,385
<b>Profit/(Loss) for the year</b>		564,390,811	414,270,720
<b>Earnings Per Share on Profits</b>			
Basic Earning per Ordinary Share (Rs)	12	8.72	6.40
Diluted earnings per ordinary share		-	-

## STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31st December 2018 (Figures in LKR)

Description	Notes	Bank	
		2018	2017 (Restated)
<b>Profit for the Year</b>		564,390,811	414,270,720
<b>Items that will be reclassified to income statement</b>			
Exchange differences on translation of foreign operations		-	-
Net gains/(losses) on cash flow hedges		-	-
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income		-	-
Debt instruments at fair value through other Comprehensive Income		-	-
Others (specify)		-	-
Less: Tax expense relating to items that will be reclassified to income statement		-	-
<b>Total</b>		-	-
<b>Items that will not be reclassified to income statement</b>			
Change in fair value on investments in equity		-	-
Instruments designated at fair value through other comprehensive income		-	-
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss		-	-
Re-measurement of post-employment benefit obligations	26	(58,917,967)	(60,516,262)
Changes in revaluation surplus		-	-
Share of profits of associates and joint ventures		-	-
Gains and Losses on re-measuring available-for-sale Financial assets		-	-
Others (specify)		-	-
Less: Tax expense relating to items that will not be reclassified to income statement		16,497,031	16,944,553
<b>Total</b>		(42,420,936)	(43,571,709)
<b>Other comprehensive income for the year, net of tax</b>		(42,420,936)	(43,571,709)
<b>Total Comprehensive Income for the Year</b>		521,969,874	370,699,012
<b>Attributable to :</b>			
Shareholders		521,969,874	370,699,012
Non-Controlling Interest		-	-
<b>Total</b>		521,969,874	370,699,012

## STATEMENT OF FINANCIAL POSITION

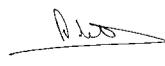
As at 31st December 2018 (Figures in LKR)

Description	Notes	Bank	
		2018	2017 (Restated)
<b>Assets</b>			
Cash and cash equivalents	13	210,466,904	282,575,053
Balances with central banks	14	89,723,067	43,830,758
Placements with banks	15	5,396,308,712	8,959,860,916
Financial assets recognized through profit or loss - measured at fair value	16	18,750,000	19,500,000
Financial assets at amortised cost - loans and advances	17	37,934,033,328	34,967,798,661
- debt and other instruments	18	3,980,888,836	3,879,970,501
Property, plant and equipment	19	466,243,583	513,425,480
Investment properties	20	871,500,000	836,940,000
Deferred tax assets	21	87,528,467	77,057,101
Other assets	22	229,848,191	142,834,644
<b>Total assets</b>		<b>49,285,291,088</b>	<b>49,723,793,115</b>
<b>Liabilities</b>			
Due to banks	23	1,001,987,444	1,207,947,710
Financial liabilities at amortised cost - due to depositors	24	37,016,036,358	36,654,963,892
- due to other borrowers	24	1,611,914,273	1,600,463,906
Debt securities issued	25	4,038,675,896	5,108,340,561
Retirement benefit obligations	26	554,254,947	432,437,673
Current tax liabilities	27	57,327,668	138,498,952
Other liabilities	28	248,482,126	349,541,600
<b>Total Liabilities</b>		<b>44,528,678,713</b>	<b>45,492,194,292</b>
<b>Equity</b>			
Stated capital/Assigned capital	29	962,092,936	962,092,936
Statutory reserve fund	30	188,424,906	160,313,355
Retained earnings	31	3,319,553,631	2,844,675,203
Other reserves	32	286,540,902	264,517,329
Total shareholders' equity		4,756,612,375	4,231,598,823
Non-controlling interests		-	-
<b>Total equity</b>		<b>4,756,612,375</b>	<b>4,231,598,823</b>
<b>Total equity and liabilities</b>		<b>49,285,291,088</b>	<b>49,723,793,115</b>
<b>Net Assets Value Per Share (Rs)</b>		<b>73.51</b>	<b>65.39</b>
Contingent liabilities and commitments	33	528,184,484	598,496,941
<b>Memorandum Information</b>			
Number of Employees		561	567
Number of Branches		39	39

The significant accounting policies and notes on pages 115 to 149 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



**Palitha Gamage**  
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,



**Dr. R H Meewakkala**  
Chairman



**L S Palansuriya**  
Director

Date : 10/05/2019  
Colombo

# STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31st December 2018 (Restated)

In LKR (000)	Number of voting shares	Stated Capital	Statutory Reserve Fund	OCI Reserve	Revaluation reserve	Retained earnings	Other Reserve	Total	Non-controlling interest	Total equity
Balance as at 01-01-2017	64,710,520	962,093	139,600	40,395	30,637	2,492,545	196,504	3,861,775	-	3,861,775
Differed Tax Restated	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	414,271	-	414,271	-	414,271
Other comprehensive income (net of tax)	-	-	-	-43,572	-	-	-	-43,572	-	-43,572
<b>Total comprehensive income for the year</b>	-	-	-	-43,572	-	414,271	-	370,699	-	370,699
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	-	-	20,714	-	-	-62,141	41,427	-	-	-
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>	-	-	20,714	-	-875	-62,141	41,427	-875	-	-875
<b>Balance as at 31-12-2017</b>	64,710,520	962,093	160,313	-3,176	29,762	2,844,675	237,931	4,231,599	-	4,231,599

In Rupees	Number of voting shares	Stated Capital	Statutory Reserve Fund	OCI Reserve	Revaluation reserve	Retained earnings	Other Reserve	Total	Non-controlling interest	Total equity
<b>Balance as at 01-01-2018</b>	64,710,520	962,093	160,313	-3,176	29,762	2,844,675	237,931	4,231,599	-	4,231,599
IFRS 9 Restatements	-	-	-108	-	-	-4,854	-216	-5,178	-	-5,178
Adjustments	-	-	-	-	-	-	9,097	9,097	-	9,097
Prior Year Adjustments	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	564,391	-	564,391	-	564,391
Other comprehensive income (net of tax)	-	-	-	-42,421	-	-	-	-42,421	-	-42,421
<b>Total comprehensive income for the year</b>	-	-	-	-42,421	-	564,391	-	521,970	-	521,970
Transactions with equity holders, recognized directly in equity	-	-	-	-	-	-	-	-	-	-
Share issue/increase of assigned capital	-	-	-	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-	-	-	-
Right issue	-	-	-	-	-	-	-	-	-	-
Transfers to reserves during the period	-	-	28,220	-	-	-84,659	56,439	-	-	-
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>	-	-	28,220	-	-875	-84,659	56,439	-875	-	-875
<b>Balance as at 31-12-2018</b>	64,710,520	962,093	188,425	-45,597	28,887	3,319,554	303,251	4,747,516	-	4,756,612

## STATEMENT OF CASH FLOWS

For the Year Ended 31st December 2018

	2018 LKR	Bank 2017 LKR
<b>Cash Flows From Operating Activities</b>		
Interest Receipts	6,224,050,114	6,272,402,920
Interest payments	(4,787,888,525)	(4,768,997,979)
Net commission Receipts	154,854,706	138,234,459
Trading Income	-	-
Payments to Employee	(1,006,373,760)	(822,225,435)
VAT,DRL & NBT on Financial Services	(327,182,644)	(257,749,964)
Receipt from other operating activities	210,944,426	206,390,395
Payments on other operating activities	(453,106,920)	(433,452,449)
<b>Operating profit before changes in operating assets</b>	<b>15,297,398</b>	<b>334,601,947</b>
<b>(Increase)/Decrease In Operating Assets :</b>		
Balances with Central Bank of Sri Lanka	(45,892,308)	(13,746,560)
Financial Assets at amortised cost - Loans and Advances	(2,678,782,767)	(4,409,562,127)
Other Assets	(35,176,821)	33,737,616
	<b>(2,759,851,897)</b>	<b>(4,389,571,071)</b>
<b>Increase / ( Decrease ) In Operating Liabilities</b>		
Financial Liabilities at amortised cost - due to Depositors	711,099,058	4,555,776,143
Financial Liabilities at amortised cost - due to Debt Security Holders	(1,072,816,895)	(435,283,497)
Financial Liabilities at amortised cost - due to Other Borrowers	(193,851,988)	(507,193,762)
Other Liabilities	(89,983,777)	(17,977,494)
	<b>(645,553,601)</b>	<b>3,595,321,390</b>
<b>Net cash from operating activities before income tax</b>	<b>(3,390,108,100)</b>	<b>(459,647,734)</b>
Income Tax Paid	(107,650,728)	(194,528,227)
<b>Net cash from operating activities</b>	<b>(3,497,758,828)</b>	<b>(654,175,961)</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of property, plant and equipment	(42,461,023)	(135,071,067)
Proceeds from Sale property, Plant and equipment	3,678,689	7,622,632
Purchase of Investment Securities	(1,680,581,402)	(1,846,478,661)
Proceeds from the sale & maturity of Financial Investments	5,144,808,014	2,671,877,319
Net purchase of intangible assets	-	-
Net cashflow from acquisition of investments in subsidiaries,associate & joint ventures	-	-
Dividends received from investments in subsidiareis & associates	206,400	180,000
Others	-	-
<b>Net cash from Investing activities</b>	<b>3,425,650,679</b>	<b>698,130,223</b>
<b>Cash Flows From Financing Activities</b>		
Net proceeds from the issue of Ordinary share capital	-	-
Net proceeds from the issue of Other equity instruments	-	-
Net proceeds from the issue of Subordinated debt	-	-
Repayment of Subordinated debt	-	-
Interest paid on subordinated debts	-	-
Dividends paid to non - controlling Interest	-	-
Dividends paid to shareholders of the parent company	-	-
Dividends paid to holders of other equity instruments	-	-
Others	-	-
Net cash from financing activities	-	-
Net increase/(decrease) in cash & cash Equivalents	(72,108,149)	43,954,262
Cash & cash equivalents at beginning of the period	282,575,053	238,620,792
Cash & cash equivalents at the end of the period	210,466,904	282,575,053
<b>Reconciliation Of Cash and Cash Equivalents</b>		
Cash In Hand	154,694,507	124,169,232
Cash at Bank	55,772,397	158,405,821
	<b>210,466,904</b>	<b>282,575,053</b>

# 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 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.

## ACCOUNTING POLICIES

### **3.2.1.1 Provision for Impairment Losses Policy applicable from 1 January 2018** *Expected Credit Losses on Financial Assets (ECL)*

The Company measures loss allowances using both lifetime ECL and 12-month ECL. When estimating ECL Company determine whether the credit risk of a financial asset has increased significantly since initial recognition. For this the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience, informed credit assessment and including forward-looking information.

### **Policy applicable before 01 January 2018**

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 Financial Reporting Standard (SLFRS) No. 09 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. 09 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 with Cash flow predicted with reasonable assurance are made on individual basis.

#### *3.2.1.1.2.2 Loans over Rs.10Mns.*

Individual Impairment is made for the loans excluding pawning & cash and including all guarantee loans over 36 months in arrears, over Rs.10Mn with reasonable assurance for future cash recoveries.

### **3.2.2. Changes in Accounting Policies**

The Bank has consistently applied the accounting policies as set out in Notes xx to xx on pages xx to xx to all periods presented in these financial statements, except for the changes arising out of transition to SLFRS 15 "Revenue from Contracts with Customers" and SLFRS 9 – 'Financial Instruments' explained below:

#### **SLFRS 15 – "Revenue from Contracts with Customers"**

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities will apply five step model to determine when to recognize revenue and at what amount. The model specified that revenue is recognized when or as an entity transfers control of goods and services to

a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized.

It replaces existing revenue recognition guidance, including LKAS 18 – "Revenue" and LKAS 11 – "Construction Contracts" and IFRIC 13 – "Customer Loyalty Programs". SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank has completed the initial review on potential impact over fee and commission income on its Consolidated Financial Statements. The initial review indicates that SLFRS 15 will not have a material impact to the financial statements on the timing of recognition or measurement.

#### **SLFRS 9 – 'Financial Instruments'**

The Bank has adopted SLFRS 9 - 'Financial Instruments', issued in July 2014, with a date of initial application of 1 January 2018. The requirements of SLFRS 9 represent a significant change from LKAS 39 - 'Financial Instruments: Recognition and Measurement'. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Bank's accounting policies resulting from its adoption of SLFRS 9 are summarized below.

#### **Classification of financial assets and financial liabilities**

SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing LKAS 39 categories of held-to-maturity, loans and receivables and

available-for-sale. The SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under SLFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

#### Impairment of financial assets

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets that are not measured at FVTPL and also to certain loan commitments and financial guarantee contracts but not to equity investments.

Under SLFRS 9, credit losses are recognized earlier than under LKAS 39.

#### Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2018 under SLFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of SLFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

#### 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
Computer Equipments	12.50

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

#### Intangible Assets

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

#### Basis of Recognition

An intangible asset is 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 Bank.

## ACCOUNTING POLICIES

### 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

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 different between carrying value and market value presented under other income in the income statement and group it under Financial Position.

## 3.3 Financial Assets

### 3.3.1 Recognition and Measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

Loans and advances are initially recognized on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortized cost.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Basis of measurement applicable before 1 January 2018 and after 1 January 2018 is set out in 3.3.3

## 3.3.2 Classification

### 3.3.2.1 Policy applicable before 1 January 2018

At the inception, a financial asset is classified and measured at fair value and classified as follows:

- **Loans and receivables** – at amortized cost.
- **Held to maturity** – non-derivative financial assets with fixed or determinable payments and fixed maturity (for example, bonds, debentures and debt instruments listed in the Colombo Stock Exchange) that the Bank has the positive intent and ability to hold to maturity are measured at amortized cost.
- **Fair value through profit or loss** – financial assets held-for-trade measured at fair value with changes in fair value recognized in the income statement.
- **Designated at fair value** – this is an option to deal with accounting mismatches and currently the Bank has not exercised this option.
- **Derivative assets** – are mandatorily measured at fair value with fair value changes recognized in the income statement.
- **Available for sale** – this is measured at fair value and is the residual classification with fair value changes recognized in other comprehensive income.

### 3.3.2.2 Policy applicable after 1 January 2018

On initial recognition, the Bank classifies financial assets into one of the following categories:

- Measured at amortized cost,
- Fair value through other comprehensive income (FVOCI); and,
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

### 3.3.2.2.1 Financial Assets measured at Amortized Costs

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model (explained in note 5.3.2.3) whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### 3.3.2.2.2 Financial Assets at Fair value through other comprehensive income

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

### 3.3.2.2.3 Financial Assets at Fair value through profit or loss

All financial assets other than those classified at Amortized Costs or FVOCI are classified as measured at FVTPL.

### 3.3.2.2.3.1 Financial Assets are mandatorily fair valued through profit and loss when the instruments

- are held for trading, or
- are managed, evaluated and reported internally on a fair value basis, or
- designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- Contains an embedded derivative that significantly modifies the cash flows which would otherwise have been required under the contract.

### 3.3.2.2.3.2 Financial Assets Designated at Fair Value through Profit or Loss

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Bank has not designated any financial asset upon initial recognition at fair value through profit or loss as at the Reporting date.

### 3.3.2.3 Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

## ACCOUNTING POLICIES

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

### 3.3.3 Reclassification

#### 3.3.3.1 Policy applicable before 1 January 2018

- Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category, in the following circumstances:
- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and

- Financial assets except financial assets that would have met the definition of loans and receivables at initial recognition may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

#### 3.3.3.2 Policy applicable after 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Bank's changes its objective of the business model for managing such financial assets.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

#### 3.3.3.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Bank reclassifies all affected assets prospectively from the first day of the next reporting period (the reclassification date). Prior periods are not restated.

#### 3.3.3.2 Measurement of reclassification of financial assets

##### 3.3.3.2.1 Reclassification of Financial Instruments at 'Fair value through profit or loss'

- To Fair value through other comprehensive income  
The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value are recognized in OCI.
- To Amortized Costs  
The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

##### 3.3.3.2.2 Reclassification of Financial Instruments at 'Fair value through other comprehensive income'

- To Fair value through profit or loss  
The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.

- To Amortized Costs

The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust the reclassified fair value. The adjusted amount becomes the amortized cost.

EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

##### 3.3.3.2.3 Reclassification of Financial Instruments at 'Amortized Costs'

- To Fair value through other comprehensive income  
The asset is remeasured to fair value, with any difference recognized in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.

- To Fair value through profit or loss  
The fair value on the reclassification date becomes the new carrying amount. The difference between amortized cost and fair value is recognized in profit and loss.

### 3.3.4. Derecognition of Financial Assets

Financial assets are derecognized when the contractual right to receive cash flows from the asset has expired; or when Bank has transferred its contractual right to receive the cash flows of the financial assets, and either –

- Substantially all the risks and rewards of ownership have been transferred;

or

- Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

### 3.3.5 Fair Value Measurement

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active, if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than

when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as end of the reporting period during which the change has occurred.

### 3.3.6 Identification and Measurement of Impairment

#### 3.3.6.1 Policy applicable before 1 January 2018

At each reporting date, the Bank assesses whether there is an objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) that can be estimated reliably.

#### 3.3.6.1.1 Loans and Advances and Held-to-Maturity Investment Securities

Objective evidence that loans and advances and held-to-maturity investment securities (e.g., debt instruments quoted in the Colombo Stock Exchange, Treasury Bills and Bonds) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific and collective level. Details of the individual and collective assessment of impairments are given in Note 17 on pages 133 and 134.

#### 3.3.6.1.2 Available-for-Sale Financial Assets

At each date of statement of financial position an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a “loss event”) and that loss event (or events) have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset’s acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous

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impairment loss recognized in the income statement, is removed from other comprehensive income and recognized in the income statement.

### 3.3.6.1.3 Available-for-Sale Debt Securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

### 3.3.6.1.4 Available-for-Sale Equity Securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In

assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognized on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognized in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognized in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognized in other comprehensive income. Impairment losses on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

### 3.3.6.2 Policy applicable after 1 January 2018

#### 3.3.6.2.1 Recognition of Impairment of Financial Assets

The Bank recognizes loss allowances for Expected Credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

#### 3.3.6.2.2 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;

- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components: The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

### 3.3.9 Write-off of Financial Assets

The Bank writes off a loan or an investment debt security, and any related allowances for impairment losses, when Bank determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/ issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status.

## 3.4 Financial Liabilities

### 3.4.1 Recognition and Measurement of Financial Liabilities

#### Policy applicable before 1 January 2018

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognized on the date at which they are originated. A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at fair value or amortized cost. The amortized cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount.

Policy applicable after 1 January 2018  
On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortized cost; and
- Financial liabilities at fair value through profit or loss,

#### 3.4.2 Classification and Subsequent Measurement of Financial Liabilities

The subsequent measurement of financial liabilities depends on their classification.

##### 3.4.2.1 Financial Liabilities at Amortized Cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognized initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortized cost.

The EIR amortization is included in 'Interest expense' in the Income Statement. Gains and losses too are recognized in the Income Statement when the liabilities are derecognized as well as through the EIR amortization process.

##### 3.4.2.2 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes

#### 3.4.3 Derecognition of Financial Liabilities

Bank derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

#### 3.4.4 Due to Banks, Customers, Debt Securities Issued and Other Borrowing

Financial liabilities are recognized when Bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortized cost, using the effective interest method to amortize the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

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### 3.4.5 Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

### 3.4.6 Sale and Repurchase Agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos"), they remain on the statement of financial position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ("reverse repos") are not recognized on the statement of financial position and the consideration paid is recorded in "Financial assets at amortized cost - Loans to and receivables from banks", "Financial assets at amortized cost - Loans to and receivables from other customers" as appropriate. The difference between the sale and repurchase price is treated as interest and recognized over the life of the agreement for loans and advances to banks and customers.

### 3.5.3 Retirement Benefits

#### 3.5.3.1 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.

### 3.5.3.2 Retirement Benefits – Defined Contribution plans

#### 3.5.3.2.1 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.

#### 3.5.3.2.2 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.

### 3.5.4 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.

## 3.6 Revenue Recognition

### 3.6.1 Interest Income on Loans and Advances

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

### 3.6.2 Overdue Interest Income

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

## 3.7 Expenses

### 3.7.1 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.

### 3.7.2 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.

### 3.7.3 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

#### 3.7.3.1 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".

#### 3.7.3.2 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.

### **3.7.3.3 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.

### **3.8 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.

#### **3.9.1 Statutory Reserve Fund**

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

#### **3.9.2 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.

### **3.10 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.

### **3.11 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.

### **3.12 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.

### **3.13 Interest in Other Entities**

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

### **3.14. New SLFRS Issued and Not Yet Effective**

#### **3.14.1 SLFRS 16 – "Leases"**

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases.

Instead, there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual reporting periods beginning on or after 01 January 2019. The Bank is assessing the potential impact on its financial statements resulting from the application of SLFRS 16.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Net Interest Income

In Rupees	2018	2017
<b>Interest income</b>		
Cash and cash equivalents	-	-
Balances with central banks	-	-
Placements with banks	655,234,369	1,257,078,640
Derivative financial instruments	-	-
Financial assets recognized through profit or loss	-	-
- measured at fair value	-	-
- designated at fair value	-	-
Financial assets at amortised cost	-	-
- loans and advances	5,575,871,570	4,843,321,332
- debt and other instruments	447,946,304	513,131,235
Financial assets measured at fair value through other comprehensive income	-	-
Others	-	-
<b>Total interest income</b>	<b>6,679,052,243</b>	<b>6,613,531,208</b>
<b>Interest expenses</b>		
Due to banks	115,026,531	142,787,077
Derivative financial instruments	-	-
Financial liabilities recognized through profit or loss	-	-
loss	-	-
- measured at fair value	-	-
- designated at fair value	-	-
Financial liabilities at amortised cost	-	-
- due to depositors	3,659,992,147	3,848,533,001
- due to debt securities holders	600,858,523	686,118,881
- due to other borrowers	64,798,225	64,404,237
Others	-	-
Total interest expenses	4,440,675,426	4,741,843,197
Net interest income	2,238,376,817	1,871,688,011

#### a. Net interest income from Sri Lanka Government Securities

In Rupees	2018	2017
Interest income	165,141,951	60,038,147
Less: Interest expenses	-	-
<b>Net interest income from Sri Lanka Government Securities</b>	<b>165,141,951</b>	<b>60,038,147</b>

## 2 Net Fee and Commission Income

In Rupees	2018	2017
Fee and commission income	380,261,924	347,834,881
Fee and commission expenses	-	-
Net fee and commission income	380,261,924	347,834,881
Comprising		
Loans	321,171,752	302,731,145
Cards	-	-
Trade and remittances	-	-
Investment banking	-	-
Deposits	-	-
Guarantees	-	-
Others	59,090,172	45,103,736
<b>Net fee and commission income</b>	<b>380,261,924</b>	<b>347,834,881</b>

## 3 Net Gain/(Loss) from Trading

In Rupees	2018	2017
Foreign exchange	-	-
- From banks	-	-
- From other customers	-	-
Fixed income securities	-	-
Equity securities	-	-
Derivative financial instruments	-	-
Others	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

## 4 Net Fair Value Gains/(Losses) From Financial Instruments at Fair Value Through Profit or Loss

In Rupees	2018	2017
Gains on financial assets at fair value through profit or loss	-	-
Losses on financial assets at fair value through profit or loss	(750,000)	-
Gains on financial liabilities at fair value through profit or loss	-	-
Losses on financial liabilities at fair value through profit or loss	-	-
<b>Total</b>	<b>(750,000)</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Net Gains/(Losses) From Derecognition of Financial Assets

In Rupees	2018	2017
Recognised at:		
- Fair value through profit or loss	-	-
- Amortised cost	-	-
- Fair value through other comprehensive	-	-
- income	-	-
<b>Total</b>	-	-

### 5 Net Other Operating Income

In Rupees	2018	2017
Gain/(Loss) on investment properties	58,622,137	11,969,200
Gain/(Loss) on sale of property, plant and equipment	3,048,751	5,001,922
Gain/(Loss) on revaluation of foreign exchange	-	-
Recovery of loans written-off	-	-
Less: Loans written off	-	-
Others	-	-
<b>Total</b>	61,670,888	16,971,122

### 6 Impairment Charges

In Rupees	2018	2017
Financial assets at amortised cost - loans and advances		
Stage 1	(36,207,699)	(24,688,564)
Stage 2	22,958,549	-
Stage 3	107,291,495	-
Financial assets at amortised cost – debt instruments		
Stage 1	2,106,153	(32,051,025)
Stage 2	-	-
Stage 3	-	-
Others Investments	(3,442,923)	-
<b>Total</b>	92,705,576	(56,739,589)

## 7 Personnel Expenses

In Rupees	2018	2017
Salary and bonus	723,513,632	614,296,242
Contributions to defined contribution plans	95,654,542	76,498,156
Provision for defined benefit obligations (Note 26.1)	80,337,132	61,781,289
Share based expenses	-	-
Others	213,855,215	188,749,304
<b>Total</b>	<b>1,113,360,522</b>	<b>941,324,990</b>

### 7.01 Remuneration to Key Management

Remuneration to Key Management	65,482,528	54,608,451
<b>Total</b>	<b>65,482,528</b>	<b>54,608,451</b>

## 8 Depreciation & Amortization

In Rupees	2018	2017
Depreciation	59,225,615	62,772,312
Amortization	26,488,861	33,360,752
<b>Total</b>	<b>85,714,476</b>	<b>96,133,064</b>

## 9 Other Expenses

In Rupees	2018	2017
Directors' emoluments	1,988,880	3,075,400
Auditors' remunerations	649,800	614,400
Non-audit fees to auditors	-	-
Professional and legal expenses	13,955,382	12,553,697
Operating lease expenses	-	-
Office administration and establishment expenses	159,295,429	158,388,912
Others	293,226,876	259,758,273
<b>Total</b>	<b>469,116,368</b>	<b>434,390,682</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 10 VAT, NBT &amp; DRL On Financial Services

	2018	2017
VAT - FS For the Year	229,859,199	204,794,789
Prior Year (Over)/Under Provision	(84,218)	-
<b>Total VAT FS</b>	229,774,981	204,794,789
NBT - FS for the Year	30,647,893	27,305,972
Prior Year (Over)/Under Provision	(1,131,471)	-
<b>Total NBT FS</b>	29,516,422	27,305,972
DRL - FS	30,590,882	-
<b>Total</b>	289,882,285	232,100,761

## 11 Tax Expenses

In Rupees	2018	2017
<b>Current tax expense</b>		
Current year	98,530,645	212,950,497
Prior years' provision	(40,166,718)	(43,341,004)
Deferred tax expense		
Effect of change in tax rates	-	-
Temporary differences	6,025,665	5,403,892
Prior years' provision	-	-
<b>Total</b>	64,389,592	175,013,385

## a. Reconciliation of tax expenses

In Rupees	2018	2017
Profit/(loss) before tax	625,964,648	789,333,841
Profit not deductible for tax Purpose	714,059,849	561,355,990
Profit deductible for tax Purpose	(988,129,338)	(590,152,342)
Income tax for the period (Accounting profit @ applicable tax rate)	175,270,102	221,013,476
Adjustment in respect of current income tax of prior periods	-	-
Add: Tax effect of expenses that are not deductible for tax purposes	199,936,758	157,179,677
(Less): Tax effect of expenses that are deductible for tax purposes	(276,676,215)	(165,242,656)
<b>Tax expense for the period</b>	98,530,644	212,950,497
<b>Effective Tax Rate</b>	16%	27%
<b>Effective Tax Rate with Differed Tax</b>	17%	28%

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

In Rupees	2018	2017
Deferred tax assets	17,611,806	6,440,529
Deferred tax liabilities	23,637,471	11,844,421
Other temporary differences	-	-
<b>Deferred tax (credit)/charge to income Statement</b>	<b>6,025,665</b>	<b>5,403,892</b>

**12 Earnings Per Share**

In Rupees	2018	2017
Net profit attributable to ordinary equity holders	564,390,811	414,270,720
Adjust:		
Interest on preference shares	-	-
Interest on convertible bonds	-	-
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	-	-
Weighted average number of ordinary shares for basic earnings per share	64,710,520	64,710,520
Effect of dilution	8.72	6.40
Convertible bonds	-	-
Convertible preference shares	-	-
Others	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	-	-
<b>Basic earnings per ordinary share</b>	<b>8.72</b>	<b>6.40</b>
<b>Diluted earnings per ordinary share</b>	<b>-</b>	<b>-</b>

**13 Cash and Cash Equivalents**

In Rupees	2018	2017
Cash in hand	154,694,507	124,169,232
Balances with banks	55,772,397	158,405,821
Money at call and short notice	-	-
<b>Total</b>	<b>210,466,904</b>	<b>282,575,053</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 14 Balances with Central Bank

In Rupees	2018	2017
Statutory balances with central banks		
- Central bank of Sri Lanka	-	-
- Other central banks	-	-
Non-statutory balances with central banks		
- Central bank of Sri Lanka	89,723,067	43,830,758
- Other central banks	-	-
<b>Total balances with central banks</b>	<b>89,723,067</b>	<b>43,830,758</b>

## 15 Placements with Banks

In Rupees	2018	2017
DFCC	-	832,405,143
MCB	1,057,202,549	1,578,734,835
RDB	-	818,082,680
SDB	529,532,951	1,132,775,356
UNION	-	532,565,542
PB	-	788,569,180
PABC	1,124,527,913	515,000,218
NDB	-	794,336,899
Seylan	529,051,462	-
BOC	2,155,993,836	1,967,391,062
Impairments	-	-
<b>Total</b>	<b>5,396,308,712</b>	<b>8,959,860,916</b>

## 16 Financial Assets Recognized Through Profit or Loss

In Rupees	2018	2017
Measured at fair value		
- Sri Lanka Government Securities (separately by instrument-wise)	-	-
- Equity securities	18,750,000	19,500,000
- Corporate debt securities	-	-
- Others	-	-
<b>Sub total</b>	<b>18,750,000</b>	<b>19,500,000</b>
Designated at fair value		
- Sri Lanka Government Securities (separately by instrument-wise)	-	-
- Equity securities	-	-
- Corporate debt securities	-	-
- Others	-	-
<b>Sub total</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>18,750,000</b>	<b>19,500,000</b>

In Rupees	2018	2017
<b>a. Analysis</b>		
By collateralisation		
Pledged as collateral	-	-
Unencumbered	-	-
Gross total	-	-
By currency		
Sri Lankan Rupee	18,750,000	19,500,000
United States Dollar	-	-
Gross total	18,750,000	19,500,000

## 17 Financial Assets at Amortised Cost – Loans and Advances

In Rupees	2018	2017
Gross loans and advances		
Stage 1	24,412,877,920	23,402,419,027
Stage 2	5,116,549,215	5,174,139,617
Stage 3	9,282,709,900	7,158,284,014
Total	38,812,137,035	35,734,842,659
(Less): Accumulated impairment under:		
Stage 1	(188,682,965)	(189,696,816)
Stage 2	(139,330,733)	(163,055,774)
Stage 3	(550,090,009)	(414,291,408)
<b>Total</b>	<b>(878,103,708)</b>	<b>(767,043,998)</b>
<b>Net loans and advances</b>	<b>37,934,033,328</b>	<b>34,967,798,661</b>

In Rupees	2018	2017
<b>a. Analysis</b>		
By product		
Overdrafts		
Trade finance		
Lease rental receivable	1,123,997,665	967,408,161
Credit cards		
Pawning	281,571,632	298,487,307
Staff loans	141,425,826	1,333,820,302
Term loans		
Short-term		
Long-term	37,265,141,912	33,135,126,888
Others		
Sri Lanka Government Securities (separately by instrument-wise)		
Others		
<b>Gross total</b>	<b>38,812,137,035</b>	<b>35,734,842,659</b>

## NOTES TO THE FINANCIAL STATEMENTS

In Rupees	2018	2017
By currency		
Sri Lankan Rupee	38,812,137,035	35,734,842,659
United States Dollar		
Great Britain Pound		
Others		
<b>Gross total</b>	<b>38,812,137,035</b>	<b>35,734,842,659</b>
By industry		
Agriculture and fishing	456,624,625	577,482,889
Manufacturing		
Tourism		
Transport	1,004,116,060	916,639,300
Construction	29,278,754,025	26,888,956,888
Traders		
New economy	5,322,751,848	4,735,575,265
Others	2,749,890,478	2,616,188,317
Gross total	38,812,137,035	35,734,842,659

In Rupees	2018	2017
<b>b. Movements in impairment during the year</b>		
Stage 1		
Opening balance as at 01-01	189,696,816	
Charge/(Write back) to income statement	(36,207,699)	
Write-off during the year		
Other movements	35,193,849	
<b>Closing balance at 31-12</b>	<b>188,682,965</b>	<b>189,696,816</b>
Stage 2		
<b>Opening balance as at 01-01</b>	<b>163,055,774</b>	
Charge/(Write back) to income statement	22,958,549	
Write-off during the year		
Other movements	(46,683,590)	
Closing balance at 31-12	139,330,733	163,055,774
Stage 3		
<b>Opening balance as at 01-01</b>	<b>414,291,408</b>	
Charge/(Write back) to income statement	103,628,428	
Write-off during the year		
Other movements	32,170,173	
<b>Closing balance at 31-12</b>	<b>550,090,009</b>	<b>414,291,408</b>
<b>Total</b>	<b>878,103,708</b>	<b>767,043,998</b>

## 18 Financial Assets at Amortised Cost – Debt and Other Instruments

In Rupees		2018	2017
Sri Lanka Government securities			
<b>Treasury Bills</b>			
Issuer	Reference No	Amount	Amount
The Government of Sri Lanka	LKA18218B236	-	493,561,980
The Government of Sri Lanka	LKA18219A251	497,198,390	-
The Government of Sri Lanka	LKA18219A251	397,758,712	-
The Government of Sri Lanka	LKA36419A255	99,436,669	-
The Government of Sri Lanka	LKA18219B085	495,573,418	-
The Government of Sri Lanka	LKA18219B085	495,573,418	-
<b>Sub Total</b>		1,985,540,608	493,561,980
<b>Treasury Bonds</b>			
The Government of Sri Lanka	LKB01518B013	-	20,895,113
The Government of Sri Lanka	LKB01518H150	-	15,329,640
<b>Sub Total</b>		-	36,224,753
Corporate debt instruments		1,995,317,628	2,095,807,542
Trust certificates		-	178,811,631
Others (Commercial Papers & Non Bank Deposits)		30,600	1,075,564,595
<b>Grand Total</b>		3,980,888,836	3,879,970,501

### a. Analysis

In Rupees		2018	2017
By collateralization			
Pledged as collateral		-	-
Unencumbered		-	-
<b>Gross total</b>		-	-
By currency			
Sri Lankan Rupee		3,980,888,836	3,879,970,501
United States Dollar		-	-
Others		-	-
<b>Gross total</b>		3,980,888,836	3,879,970,501

## NOTES TO THE FINANCIAL STATEMENTS

## 19 Property, Plant and Equipment

## a. Property, Plant and Equipment -Bank

In Rupees	Land and Buildings	Leasehold Properties	Computer Hardware	Computer Software	Office Equipment, Furniture and Fittings	Others	Total
<b>2018 (Current year)</b>							
<b>Cost/fair value</b>							
<b>Opening balance at 01/01/2018</b>	17,575,000	90,902,396	123,808,120	287,545,519	326,377,156	110,069,149	956,277,339
Additions	-	-	10,389,007	1,771,763	15,856,289	16,555,366	44,572,425
Disposals	-	875,361	7,318,221	-	6,870,851	4,611,402	19,675,834
Exchange rate variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	3,329,417	-	3,329,417
Closing balance at 31/12/2018	17,575,000	90,027,035	126,878,906	289,317,281	332,033,177	122,013,113	977,844,513
<b>(Less): Accumulated depreciation</b>							
Opening balance at 01/01/2018	3,630,900	17,078,597	77,797,691	97,792,231	164,719,709	81,832,731	442,851,860
Charge for the year	518,700	4,778,520	11,909,726	26,124,220	33,008,662	9,253,352	85,593,180
Additions	-	-	-	-	-	-	-
Disposals	-	-	6,410,012	-	5,385,464	2,500,000	14,295,476
Exchange rate variance	-	-	-	-	-	-	-
Adjustments	-	140,274	121,296	-	(2,810,204)	-	(2,548,634)
Closing balance at 31/12/2018	4,149,600	21,997,392	83,418,700	123,916,451	189,532,703	88,586,084	511,600,930
(Less): Impairment	-	-	-	-	-	-	-
<b>Net book value at 31/12/2018</b>	13,425,400	68,029,643	43,460,206	165,400,831	142,500,474	33,427,029	466,243,583
<b>Market value at 31/12/2018</b>	-	-	-	-	-	-	-
<b>2017 (Previous year)</b>							
<b>Cost/fair value</b>							
Opening balance at 01/01/2017	17,575,000	91,777,761	105,532,737	85,590,013	286,758,664	242,470,093	829,704,269
Additions	-	-	18,275,382	201,955,505	41,291,124	11,232,394	272,754,406
Disposals	-	875,365	-	-	1,672,632	143,633,338	146,181,335
Exchange rate variance	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
Closing balance at 31/12/2017	17,575,000	90,902,396	123,808,120	287,545,519	326,377,156	110,069,149	956,277,339
<b>(Less): Accumulated depreciation</b>							
Opening balance at 01/01/2017	3,112,200	12,091,342	63,875,304	64,796,121	131,502,645	76,209,553	351,587,166
Charge for the year	518,700	4,778,520	13,922,387	32,996,110	33,534,170	10,383,178	96,133,064
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	317,106	4,760,000	5,077,106
Exchange rate variance	-	-	-	-	-	-	-
Adjustments	-	208,736	-	-	-	-	208,736
Closing balance at 31/12/2017	3,630,900	17,078,598	77,797,691	97,792,231	164,719,709	81,832,731	442,851,860
(Less): Impairment	-	-	-	-	-	-	-
<b>Net book value at 31/12/2017</b>	13,944,100	73,823,798	46,010,429	189,753,288	161,657,446	28,236,418	513,425,480
<b>Market value at 31/12/2017</b>	-	-	-	-	-	-	-

### 19.1 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.

2018	Fully depreciated	Depreciating	Total
<b>Free hold PPE</b>			
Land and Buildings	-	17,575,000	17,575,000
Computer Hardware	26,314,121	77,904,533	104,218,654
Computer Software	72,423,220	216,894,062	289,317,281
Office Equipment, Furniture and Fittings	37,920,026	294,113,152	332,033,178
Plant and Mechinary	29,634,787	11,551,774	41,186,561
Tools	49,425	57,456	106,881
Motor Vehicle	39,038,039	20,411,735	59,449,774
Others	13,303,840	30,626,309	43,930,149
<b>Free hold PPE Total</b>	<b>218,683,458</b>	<b>669,134,021</b>	<b>887,817,478</b>
<b>Leased hold PPE</b>			
Land and Buildings	-	78,377,035	78,377,035
Motor Vehicle	-	11,650,000	11,650,000
Leased hold PPE Total	-	90,027,035	90,027,035
<b>Total PPE</b>	<b>218,683,458</b>	<b>759,161,056</b>	<b>977,844,513</b>
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 Mechinary	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	-	7,524,703	7,524,703
<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
Leased hold PPE Total	-	90,902,396	90,902,396
<b>Total PPE</b>	<b>191,005,651</b>	<b>765,271,689</b>	<b>956,277,340</b>

## NOTES TO THE FINANCIAL STATEMENTS

### b. Property, Plant and Equipment

#### c. Movements in Impairment during the Year

In Rupees	2018	2017
Opening balance at 01/01/2018	-	-
Charge/(Write back) to income statement	-	-
Net write-off during the year	-	-
Exchange rate variance and other adjustments	-	-
<b>Closing balance at 31/12/2018</b>		

### 19.2 Information on free hold land and Building of Bank

Location	Extent (Perches)	Building Square Feet	Net Book Value	Market Value
Kaluthara Branch - No 13, Gnanodaya Mawatha, Kaluthara South Kaluthara	7.535	3,520	13,425,400	38,000,0000

Name of the Valuar	W.D. Siripala, FIV(SL)
Qualification of the Valuar	Incorporated Valuer
Valuation Date	11th December 2018

## 20 Investment Properties

### a. Investment Properties at Cost/fair value

In Rupees	2018	2017
<b>Cost/fair value</b>		
Opening balance at 01/01/	836,940,000	870,549,500
Additions	58,151,600	17,685,150
Disposals	(23,591,600)	(51,294,650)
Exchange rate variance	-	-
Adjustments	-	-
Closing balance at 31/12/	871,500,000	836,940,000
<b>(Less): Accumulated depreciation</b>		
Opening balance at 01/01/	-	-
Charge for the year	-	-
Additions	-	-
Disposals	-	-
Exchange rate variance	-	-
Adjustments	-	-
Closing balance at 31/12/	-	-
(Less): Impairment	-	-
<b>Net book value at 31/12</b>	871,500,000	836,940,000
<b>Market value at 31/12</b>	871,500,000	836,940,000

## 20.1 Investment Properties Valuation details

Location	Extent (Perches)	Deed No	Bank	
			2018	2017
No; 441 Sangarajah Mw,Kotahena,Aluthkade East	59.20	1127	236,000,000	225,000,000
No.192 Srimath Bandaranayake Mw,,Kotahena Colombo 13.	123.20	1124	554,000,000	523,000,000
No.192 (Part) Sri Sangarajah Mawatha,Kotahena Colombo 13.	15.00	1126	67,500,000	63,000,000
Avissawella -Housing Project			14,000,000	25,940,000
<b>Total</b>			<b>871,500,000</b>	<b>836,940,000</b>

### 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 31st December 2018

### Revaluation of Avissawella -Housing Project

Name of the Valuar W.D. Siripala,FIV(SL)  
 Qualification of the Valuar Incorporated Valuer  
 Valuation Date 31st December 2018

## 21 Deferred Tax Assets/(Liabilities)

In Rupees	2018	2017
Opening balance 01/01/	77,057,101	(27,604,361)
Charge for the year recognized in		
- profit and loss	6,025,665	5,403,892
- other comprehensive income/Retained Earnings	(16,497,031)	(110,065,353)
<b>Closing balance 31/12/</b>	<b>87,528,467</b>	<b>77,057,101</b>

## NOTES TO THE FINANCIAL STATEMENTS

**22 Other Assets**

In Rupees	2018	2017
Receivables	145,300,285	105,898,315
Deposits and prepayments	23,835,990	24,792,218
Sundry debtors	18,898,384	15,123,470
Others	41,813,532	(2,979,359)
<b>Total</b>	<b>229,848,191</b>	<b>142,834,644</b>

**23 Due to Banks**

In Rupees	2018	2017
Borrowings	1,001,987,444	1,207,947,710
Securities sold under repurchase (repo) Agreements	-	-
Others	-	-
<b>Total</b>	<b>1,001,987,444</b>	<b>1,207,947,710</b>

**24 Financial liabilities at amortised cost**

In Rupees	2018	2017
Due to depositors	37,016,036,358	36,654,963,892
Debt securities issued by the bank	-	-
Securities sold under repurchase (repo) Agreements	-	-
Others	1,611,914,273	1,600,463,906
<b>Total</b>	<b>38,627,950,631</b>	<b>38,255,427,797</b>

**a. Analysis of amount due to depositors**

By product

Demand deposits (current accounts)		
Savings deposits	5,764,435,647	5,491,105,588
Fixed deposits	31,251,600,711	31,163,858,303
Other deposits	-	-
<b>Total</b>	<b>37,016,036,358</b>	<b>36,654,963,892</b>

By currency

Sri Lanka Rupee	37,016,036,358	36,654,963,892
United States Dollar	-	-
Great Britain Pound	-	-
Others	-	-
<b>Total</b>	<b>37,016,036,358</b>	<b>36,654,963,892</b>

## 25 Debt Securities Issued

In Rupees	2018	2017
Issued by the bank	4,038,675,896	5,108,340,561
Issued by other subsidiaries	-	-
<b>Total</b>	<b>4,038,675,896</b>	<b>5,108,340,561</b>
Due within 1 year	-	1,078,892,969
Due after 1 year	4,038,675,896	4,029,447,592
<b>Total</b>	<b>4,038,675,896</b>	<b>5,108,340,561</b>

### a. Details of Debt Securities Issued

Type	Face Value In Rupees	Interest Rate and Repayment Terms	Issue Date	Maturity Date	Bank	2018	2017
Issued by the bank							
Listed , secured, Redeemable & Rated 5 Year Debenture	1,080,000,000	16%	24th October 2013	23rd Oct 2018	-	-	1,078,892,969
Listed , secured, Redeemable & Rated 5 Year Debenture(Fixed Semi)	2,012,990,000	11%	20th November 2015	20th Nov. 2020	2,032,064,574	2,026,604,524	
Listed , secured, Redeemable & Rated 5 Year Debenture(Floating Qtr)	578,240,000	AWPLR+1.5	20th November 2015	20th Nov. 2020	585,743,604	584,185,759	
Listed , secured, Redeemable & Rated 10 Year Debenture(Fixed Annual)	1,408,770,000	12%	20th November 2015	20th Nov. 2025	1,420,867,719	1,418,657,309	
<b>Sub total</b>					<b>4,038,675,896</b>	<b>5,108,340,561</b>	

## NOTES TO THE FINANCIAL STATEMENTS

### Interest Rate of comparable government Securities

Debenture Type	Interest rate %		Gov. security Interest rate %	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
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)	
	31.12.2018	31.12.2017
Debenture 4 Years	-	28.30
Debenture 5 Years	12.56	9.16
Debenture - 5Years- 2015 (Floating Qtr 2020)	22.64	20.01
Debenture - 5Years- 2015 (Fixed Semi 2020)	7.93	7.21
Debenture - 10Years- 2015 (Fixed Annu. 2025)	10.03	9.05

### Debt/Equity

Debenture Type	Debt/Equity Ratio	
	31.12.2018	31.12.2017
Debenture 3 years		
Debenture 4 Years		
Debenture 5 Years	0%	25%
Debenture - 5Years- 2015 (Floating Qtr 2020)	12%	14%
Debenture - 5Years- 2015 (Fixed Semi 2020)	43%	48%
Debenture - 10Years- 2015 (Fixed Annu. 2025)	30%	34%

### Market Price of Debentures during the Year

Type of Debentures	2018			2017		
	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	N/T	N/T	N/T
Debenture 5 Years	N/T	N/T	N/T	N/T	N/T	N/T
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**

## 26 Retirement benefit obligations

In Rupees	2018	2017
Normal Gratuity Provision	318,079,099	251,958,937
Special Gratuity Provision	236,175,848	180,478,736
<b>Total</b>	<b>554,254,947</b>	<b>432,437,673</b>

### 26.1 Contributions to defined benefit plans

Actuarial Valuation of Gratuity Liabilities as at 31 December 2018 Accounting Disclosures :	Normal Gratuity Rs.	Special Gratuity Rs.	TOTAL Rs.
<b>Change in the Present Value of The Dified Benefit Obligation (PV-DBO)</b>			
Provision for PV-DBO as at 01 January 2018	251,958,936	180,478,736	432,437,672
Interest Cost for the period	27,715,483	19,852,661	47,568,144
Current Service Cost for the period	20,129,266	12,639,722	32,768,988
Gratuity paid for those who left during the period	(14,679,308)	(14,495,558)	(29,174,866)
Gratuity payable for those who left during the period	2,476,895	9,260,147	11,737,042
Actuarial (Gain)/Loss on PV-DBO	30,477,827	28,440,140	58,917,967
Provision for PV-DBO as at 31 December 2018	318,079,099	236,175,848	554,254,947

### AMOUNTS RECOGNIZED IN THE BALANCE SHEET AND INCOME STATEMENT

#### Liability recognised in the balance sheet

Provision for Gratuity as at 31 December 2018	315,602,204	226,915,701	542,517,905
Unrecognized actuarial Gains/(Losses) as at 31 December 2018	-	-	-
Liability recognized in the balance sheet as at 31 December 2018	315,602,204	226,915,701	542,517,905

#### Expenses recognised in the income statement

Interest Cost	27,715,483	19,852,661	47,568,144
Current Service Cost	20,129,266	12,639,722	32,768,988
Net Actuarial (Gain)/Loss recognized immediately	30,477,827	28,440,140	58,917,967
Expences recognized in the Income Statement	78,322,576	60,932,523	139,255,099

#### Movements in the Net Liability Recognised in the balance sheet

Opening Net Liability as at 01 January 2018	251,958,936	180,478,736	432,437,672
Expences recognized in the Income Statement	78,322,576	60,932,523	139,255,099
Gratuity paid for those who left during the period	(14,679,308)	(14,495,558)	(29,174,866)
Gratuity payable for those who left during the period	2,476,895	9,260,147	11,737,042
Closing Net Liability as at 31 December 2018	318,079,099	236,175,848	554,254,947

#### Valuation Assumptions:

Mortality : A 1967/70 Mortality Table

Disability : Standard

Staff Turnover Rates : 5%

## NOTES TO THE FINANCIAL STATEMENTS

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 :

3.5% p.a. with next revision due in given dates 2019

2.5% p.a. with next revision due in given dates 2020

22% p.a. once in three years with next revision due in given dates 2021

Salary Increment Scale revision:

3.5% p.a. with next revision due in given dates 2019

2.5% p.a. with next revision due in given dates 2020

22% p.a. once in three years with next revision due in given dates 2021

COLA: 3.5% p.a. with next revision due in given dates 2019

2.5% p.a. with next revision due in given dates 2020

22% p.a. once in three years with next revision due in given dates 2021

**Retiring Gratuity Formula** : Normal Gratuity - Half month's consolidated Salary for each completed year of service for those with at least 5 years service in the event of employees leaving of the company other than death.

**In the event of death** : For permanent Staff: two month's consolidated Salary for each completed year of service subject to minimum of 6 month's salary For Others: half of the above benefit is payable

**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	524	30,714,359	17,565,312	314,752,301	226,724,937	541,477,238
Trainee	80	1,098,500	0	629,490	140,439	769,929
Contract	31	1,837,366	29,458	220,413	50,325	270,738
Total	635	33,650,225	17,594,770	315,602,204	226,915,701	542,517,905

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

Assumption changed (while all other assumptions remain unchanged)	Total PV-DBO (Rs.) (Normal+Special Gratuity)
1% increase in discount rate	504,915,878
1% decrease in discount rate	585,102,242
1% increase in Salary Escalation rate	563,230,914
1% decrease in Salary Escalation rate	522,571,444

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

Experience adjustment (Financial and Demographic)	=	(27,380)
Due to changes in financial assumptions	=	62,381,027
Due to changes in demographic assumptions	=	(3,435,680)
Total	=	58,917,967

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

During fiscal year ending December 31, 2019	=	42,347,102
During fiscal year ending December 31, 2020	=	35,673,549
During fiscal year ending December 31, 2021	=	35,044,755
During fiscal year ending December 31, 2022	=	38,295,214
During fiscal year ending December 31, 2023	=	32,538,898
Beyond next 5 years	=	358,618,387
	=	542,517,905

Weighted Average Duration of Defined Benefit Obligation (Years)	=	8.12
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Name of the Actuary	M Poopalanathan
Date of the Actuarial Computation	23rd January 2019
Method of Valuation	Projected Unit Credit Method

**27 Current Tax Liabilities**

In Rupees	2018	2017
Opening balance 01/01/	138,498,952	189,337,098
Charge for the year	353,662,088	401,440,045
Tax Payments for the Year	(434,833,372)	(452,278,191)
Closing balance 31/12/	57,327,668	138,498,952

**28 Other Liabilities**

In Rupees	2018	2017
Sundry creditors	144,005,109	285,167,749
Interest payable	-	-
Impairment in respect of off-balance sheet credit exposures (Note 10)	-	-
Other payables	104,477,017	64,373,851
<b>Total</b>	<b>248,482,126</b>	<b>349,541,600</b>

## NOTES TO THE FINANCIAL STATEMENTS

**29 Stated Capital/Assigned Capital**

In Rupees	2018	2017
Capital	962,092,936	962,092,936
Total	962,092,936	962,092,936

**30 Statutory Reserve Fund**

In Rupees	2018	2017
Opening balance at 01/01/ IFRS 9 Opening Balance Adjustments	160,313,355 (107,990)	139,599,819 -
Transfers during the period	28,219,541	20,713,536
Closing balance at 31/12/	188,424,906	160,313,355

**31 Retained Earnings**

In Rupees	2018	2017
Opening balance at 01/01/ IFRS 9 Adjustments	2,844,675,202 (4,853,759)	2,492,545,090 -
Profit for the year	564,390,811	414,270,720
Transfers to other reserves and adjustments	(84,658,622)	(62,140,608)
Dividend	-	-
Closing balance at 31/12/	3,319,553,631	2,844,675,202

**32 Other Reserves****a. Bank - Current year (2018)**

In Rupees	Opening balance at 01/01/2018	Movement/ transfers and IFRS 9 Adjustments	Closing Balance 31/12/2018
General reserve	247,028,208	56,223,101	303,251,309
Revaluation reserve	29,762,134	(875,361)	28,886,773
Cash flow hedge reserve	-	-	-
Foreign currency translation reserve	-	-	-
OCI reserve	(3,176,244)	(42,420,936)	(45,597,180)
Others	-	-	-
Total	273,614,098	12,926,804	286,540,902

**b. Bank – Previous year (2017)**

In Rupees	Opening balance at 01/01/2017	Movement/ transfers	Closing Balance 31/12/2017
General reserve	205,601,136	41,427,072	247,028,208
Revaluation reserve	30,637,498	(875,364)	29,762,134
Cash flow hedge reserve	-	-	-
Foreign currency translation reserve	-	-	-
OCI reserve	31,558,957	(34,735,201)	(3,176,244)
Others	(41,147,795)	32,051,025	(9,096,769)
<b>Total</b>	<b>226,649,797</b>	<b>37,867,533</b>	<b>264,517,329</b>

**Non-controlling Interests**

In Rupees	2018	2017
Please specify		
<b>Total</b>		

**33 Contingent Liabilities and Commitments**

In Rupees	2018	2017
Guarantees	3,940,400	3,905,400
Bonds	-	-
Letters of credit	-	-
Other contingent items	-	-
Undrawn loan commitments	524,244,084	594,591,541
Others	-	-
<b>Total</b>	<b>528,184,484</b>	<b>598,496,941</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 34. 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 2018 ( 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	154,695	-	-	-	-	154,695
Due from Banks	55,772	89,723	-	-	-	145,495
Investments	7,389,308	1,176,950	829,690	-	-	9,395,948
Loans & Advances	1,366,315	6,160,681	8,799,245	6,469,764	15,138,028	37,934,033
Fixed Assets	-	-	-	-	466,244	466,244
Other Assets	63,822	71,094	12,467	11,831	1,029,663	1,188,878
<b>Total Assets</b>	<b>9,029,911</b>	<b>7,498,448</b>	<b>9,641,402</b>	<b>6,481,596</b>	<b>16,633,935</b>	<b>49,285,291</b>
Percentage 31st Dec 2018	18.32	15.21	19.56	13.15	33.75	100.00
Percentage 31st Dec 2017	22.29	20.26	18.73	13.87	24.85	100.00
<b>Liabilities</b>						
Total Capital Fund	-	-	-	-	4,756,612	4,756,612
Deposits	12,478,658	13,258,862	1,478,023	2,560,581	7,239,913	37,016,036
Borrowings	481,028	549,272	3,288,906	241,933	2,091,438	6,652,578
Other Liabilities	200,069	119,128	33,789	40,073	467,005	860,065
<b>Total Liabilities</b>	<b>13,159,755</b>	<b>13,927,262</b>	<b>4,800,719</b>	<b>2,842,588</b>	<b>14,554,968</b>	<b>49,285,291</b>
Percentage 31st Dec 2018	26.70	28.26	9.74	5.77	29.53	100.00
Percentage 31st Dec 2017	39.14	32.33	8.79	2.78	16.97	100.00

### 35. Related Party Transactions

#### 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	0.55%
Mrs.R.A.Choolananda	Director HDFC	Director	0.24Mn	Savings/ Fixed Deposit	0.01%
Mr.R.H.Meewakkala	Director HDFC	Chairman	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.D.P.Wimalasena	Director HDFC	Director	0.06Mn	Savings/ Fixed Deposit	0.00%
Mr.U.H.C.Priyantha	Director HDFC	Director	0.001Mn	Savings/ Fixed Deposit	0.00%
Mr.J.R.U.De.Silva	Director HDFC	Director	0.07Mn	Savings/ Fixed Deposit	0.00%
Mr.Lionel Jayasinghe	Director HDFC	Director	0.001Mn	Savings/ Fixed Deposit	0.00%

### 36. Events Occurring after the Date of Statement of Financial Position

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

### 37. Assets Pledge

	Type of Facility Rs Mn	Amount of facility	Nature of Security	Value of security Rs Mn	Balance as at 31-12-2018 Rs Mn
(1)	Overdraft (Sampath Bank)	300	Part of Portfolio	-	-222
(2)	Borrowing (Term Loan) (Sampath Bank)	1,250	Part of Portfolio	1,663	487
(3)	Borrowing (Term Loan) (NTB)	100	Part of Portfolio	-	-
(4)	Borrowing (MCB)	250	Part of Portfolio	335	170

	Type of Facility Rs Mn	Amount of facility	Nature of Security	Value of security Rs Mn	Balance as at 31-12-2018 Rs Mn
(1)	Listed , Secured, Redeemable Debenture	4,000	Part of Portfolio	-	4,039

## MEASUREMENT OF FINANCIAL INSTRUMENTS

### a. Analysis of Financial Instruments by Measurement Basis –as at 31.12.2018

In Rupees	AC	FVPL	FVOCI	OTHER	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	210,466,904	210,466,904
Balances with central banks	-	-	-	89,723,067	89,723,067
Placements with banks	5,396,308,712	-	-	-	5,396,308,712
Derivative financial instruments	-	-	-	-	-
Loans and advances	37,934,033,328	-	-	-	37,934,033,328
Debt instruments	3,980,888,836	-	-	-	3,980,888,836
Equity instruments	-	18,750,000	-	-	18,750,000
<b>Total financial assets</b>	47,311,230,876	18,750,000	-	300,189,971	47,630,170,846
Other Assets	-	-	-	1,655,120,241	1,655,120,241
<b>Total assets</b>	47,311,230,876	18,750,000	-	1,955,310,212	49,285,291,088

In Rupees	AC	FVPL	OTHER	Total
<b>LIABILITIES</b>				
Due to banks	1,001,987,444	-	-	1,001,987,444
Derivative financial instruments	-	-	-	-
Financial liabilities to Amortise cost	-	-	-	-
- due to depositors	37,016,036,358	-	-	37,016,036,358
- due to debt security holders	4,038,675,896	-	-	4,038,675,896
- due to other borrowers	1,611,914,273	-	-	1,611,914,273
<b>Total financial liabilities</b>	43,668,613,971	-	-	43,668,613,971
Other Liabilities	-	-	860,067,742	860,067,742
Equity	-	-	4,756,612,375	4,756,612,375
<b>Total liabilities &amp; Equities</b>	43,668,613,971	-	5,616,677,117	49,285,291,088

AC – Financial assets/liabilities measured at amortised cost

FVPL – Financial assets/liabilities measured at fair value through profit or loss

FVOCI – Financial assets measured at fair value through other comprehensive income

**b. Bank - Previous year as at 31.12. 2017(Re stated)**

In Rupees	AC	FVPL	FVOCI	OTHER	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	282,575,053	282,575,053
Balances with central banks	-	-	-	43,830,758	43,830,758
Placements with banks	8,959,860,916	-	-	-	8,959,860,916
Derivative financial instruments	-	-	-	-	-
Loans and advances	34,967,798,661	-	-	-	34,967,798,661
Debt instruments	3,879,970,501	-	-	-	3,879,970,501
Equity instruments	-	19,500,000	-	-	19,500,000
<b>Total financial assets</b>	<b>47,807,630,078</b>	<b>19,500,000</b>	<b>-</b>	<b>326,405,811</b>	<b>48,153,535,889</b>
Other Assets	-	-	-	1,570,257,225	1,570,257,225
<b>Total financial assets</b>	<b>47,807,630,078</b>	<b>19,500,000</b>	<b>-</b>	<b>1,896,663,037</b>	<b>49,723,793,115</b>

In Rupees	AC	FVPL	OTHER	Total
<b>LIABILITIES</b>				
Due to banks	1,207,947,710	-	-	1,207,947,710
Derivative financial instruments	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-
- due to depositors	36,654,963,892	-	-	36,654,963,892
- due to debt security holders	5,108,340,561	-	-	5,108,340,561
- due to other borrowers	1,600,463,906	-	-	1,600,463,906
<b>Total financial liabilities</b>	<b>44,571,716,068</b>	<b>-</b>	<b>-</b>	<b>44,571,716,068</b>
Other Liabilities	-	-	920,478,224	920,478,224
Equity	-	-	4,231,598,823	4,231,598,823
<b>Total liabilities &amp; Equity</b>	<b>44,571,716,068</b>	<b>-</b>	<b>5,152,077,047</b>	<b>49,723,793,115</b>

## CAPITAL ADEQUACY

CAPITAL BASE As at 31st December	2018 (Rs.000')	2017 (Rs.000')
<b>Total Common Equity Tier I (CET1) Capital</b>		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	647,105	647,105
Share Premium	314,988	314,988
Statutory Reserve Fund	188,425	160,000
Published Retained Profits/(Accumulated Losses)	3,319,554	2,839,346
Accumulated other comprehensive income (OCI)		9097
General and Other Reserves	303,251	246,401
Sub Total	4,773,323	4,198,743
<b>Total Adjustments to CET1 Capital</b>		
Deferred tax assets (net)	87,528	77,057
Other intangible assets (net)	165,401	189,753
Advances granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	-	-
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	645,250	655,272
Common Equity Tier I (CETI) Capital after Adjustments	3,875,144	3,276,660
<b>Tier 2 Capital after Adjustments</b>		
<b>Additions</b>		
General Provisions	139,224	134,328
<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	139,224	134,328
<b>Tier II Capital</b>		
Capital Base	3,875,144	3,276,660
Total risk adjusted balances (credit risk, market risk, operational risk)	23,612,414	24,239,918
<b>Risk Adjusted Capital Ratios</b>		
Common Equity Tier 1 Capital Ratio *	16.41%	13.52%
Tier 1 (Total Tier 1 capital / Total risk adjusted balances) **	16.41%	13.52%
Tier 11(Capital base / Total risk adjusted balances) ***	16.41%	13.52%
* Minimum 6.37 ** Minimum 7.87% ***Minimum 11.87%		

## RISK ADJUSTED ON - BALANCE SHEET EXPOSURE -RS.000'

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2018	2017		2018	2017
<b>Exposures</b>					
Cash- Local Currency	154,695	124,169	0%	-	-
Sri Lanka Govt Treasury Bills & Bonds	4,141,534	2,497,178	0%	-	-
Central Bank of Sri Lanka	89,723	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	10,908,609	10,706,660	50%	5,454,305	5,353,330
Claims that not qualify for regulatory capital purposes	1,494,843	1,134,774	100%	1,494,843	1,134,774
Housing loans against EPF.	9,408,501	8,825,995	0%	-	-
Cash Margin Loans	1,479,783	1,224,844	0%	-	-
Gold Loans	-	267,078	0%	-	-
Loan to Value Ratio equal to or less than 70%	15,189	9,864	0%	-	-
Loan to Value Ratio over 70% and less than 100%	188,677	285,205	20%	37,735	57,041
Loan to Value Ratio equal to or over 100%	74,370	-	100%	74,370	-
Trading Investment	25,000	2,083,257	-	-	-
Retail claims that qualify for regulatory capital purposes					
SME exposures secured on Immovable Property	1,657,800	1,608,097	60%	994,680	964,858
Other SEM exposures	381,270	272,906	75%	285,953	204,680
Individual exposures	7,722,156	7,816,151	75%	5,791,617	5,862,113
Retail claims that do not qualify for regulatory capital purposes	48,979	47,671	100%	48,979	47,671
Claims Secured by Real State		7,300	100%		7,300
<b>Non Performing Assets Past Due Residential Mortgage Loans</b>					
Specific provisions are more than 20%	955,836	842,330	50%	477,918	421,165
Specific provisions are less than 20%	526,128	414,008	100%	526,128	414,008
<b>Housing loans on Guarantors &amp; others,Lease</b>					
Specific provisions are more than 20%	489,577	217,245	100%	489,577	217,245
Specific provisions are less than 20%	332,491	208,942	150%	498,737	313,412

## RISK ADJUSTED ON - BALANCE SHEET EXPOSURE -RS.000'

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2018	2017		2018	2017
Due From local Commercial Banks Less Than Three Months ( AAA to BBB- )	2,766,554	4,151,534	20%	553,311	830,307
Due From local Commercial Banks Less Than Three Months ( BB+ to B- )	529,533		50%	264,766	
Due From local Commercial Banks More than Three Months( AAA to AA- )	102,196	539,993	20%	20,439	107,999
Due From local Commercial Banks More than Three Months( A+ to BBB- )	1,171,669	1,326,902	50%	585,834	663,451
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-)	387,241		20%	77,448	
Claims on Financial Institutions/Primary Dealers /Finance Companies (A+ to BBB- and unrated )	255,727	1,254,346	50%	127,863	627,173
Claims on Financial Institutions /Primary Dealers/Finance Companies (unrated )			100%		
Claims on Corporate (BBB+ to BB-)	778,121	491,189	100%	778,121	491,189
Claims on Corporate (below BB-)	52,688		150%	79,033	
Claims on Corporate (Unrated)	426,614	230,722	100%	426,614	230,722
Fixed Assets	300,843	323,672	100%	300,843	323,672
<b>Other Assets</b>	1,053,365	979,445	100%	1,053,365	979,445
<b>Retail claims that qualify for regulatory capital purposes - Off Balance Sheet</b>					
Total Risk Weighted Assets On Balance Sheet	47,954,824	48,801,034		20,442,510	20,384,362
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet	3,940	3,905	100%	3,940	3,905
Total Risk Weighted Assets	47,958,765	48,804,940		20,446,451	20,388,267
Total risk adjusted balance for operational risk				3,088,782	3,129,238
Total risk adjusted balance for Market risk				42,105	722,412
<b>Total risk adjusted balances (credit risk, market risk, operational risk)</b>				23,612,419	24,239,918

## SHARE INFORMATION

As at 31-12-2018

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

Shareholders	December 31, 2018								
	Resident			Non Resident			Total		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No. of Shares	%
1 - 1,000	1,599	916,291	1.42	5	1,313	0.00	1,604	917,604	1.42
1,001 - 10,000	523	1,898,389	2.93	3	11,000	0.02	526	1,909,389	2.95
10,001 - 100,000	121	3,154,825	4.88	1	50,000	0.08	122	3,204,825	4.96
100,001 - 1,000,000	13	2,482,404	3.84	2	260,180	0.40	15	2,742,584	4.24
Over 1,000,000	3	46,781,118	72.29	1	9,155,000	14.15	4	55,936,118	86.44
Total	2,259	55,233,027	85.35	12	9,477,493	14.65	2,271	64,710,520	100.00

Shareholders	December 31, 2017								
	Resident			Non Resident			Total		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No. of Shares	%
1 - 1,000	1,575	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

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

	December 31, 2018				December 31, 2017			
	No of Share holders	%	No of Shares	%	No of Share holders	%	No of Shares	%
Individuals	2,144	94.41	6,076,267	9.39	2,089	94.01	5,846,184	9.03
Institution	127	5.59	58,634,253	90.61	133	5.99	58,864,336	90.97
Total	2,271	100.00	64,710,520	100.00	2,222	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 2018	Percentage (%) 2018	No. of Shares 2017	Percentage (%) 2017
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	4,893,378	7.56	4,682,404	7.24
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	Finco Holding (Pvt.) Ltd.	185,000	0.29	185,000	0.29
10	The Associated Newspapers of Ceylon Ltd.	180,000	0.28	180,000	0.28
11	Mr. D. A. De Soysa	170,000	0.26	170,000	0.26
12	Mrs. S.C. Perera	164,030	0.25	164,030	0.25
13	Richard Peiris Financial Services (Pvt) Ltd/M.A.A. Karim	141,485	0.22	131,816	0.20
14	Dr. Y. Sena	133,180	0.21	133,180	0.21
15	Mr. A. Sithampalam	128,709	0.20	-	-
16	Sezeka Limited	127,000	0.20	127,000	0.20
17	State Engineering Corporation	120,000	0.19	120,000	0.19
18	Road Development Authority	120,000	0.19	120,000	0.19
19	National Water Supply & Drainage Board	120,000	0.19	120,000	0.19
20	Miss. D. Sithampalam	88,500	0.14	-	-
	Total	58,767,202	90.82	58,329,350	90.16

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

	2018 Rs.	2017 Rs.
Highest	36.50	50.00
Lowest	23.00	31.70
Year end	26.00	32.70

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

	2018	2017
Dividend per share (Rs.)	-	-
Dividend payout ratio (%)	-	-
Net Assets value per share (Rs.)	73.51	65.39
Earnings per Share (Rs.)	8.72	6.40

**Directors and General Manager /CEO Shareholding (as at 31st of December 2018)**

Name	2018	2017
Mr. D.P. Wimalasena	Nil	Nil
Mrs. R.A. Chulananda	Nil	Nil
Mr. L. Jayasinghe	1,000	1,000
Mr. N. Wijeyanathan	3,979	3,979
Mr. J. R. U. De Silva	2,241	-
Mr. U. H. C. Priyantha	Nil	-
Mr. Palitha Gamage (GM/CEO)	Nil	Nil

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

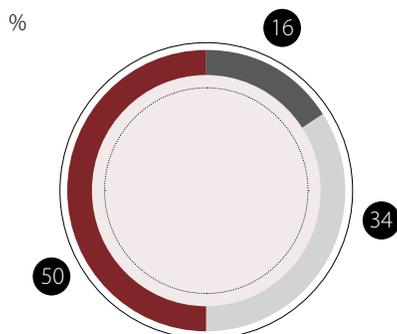
	2018	2017
Number of Public Shareholders	2,258	2,208
Public shareholding	23,121,273	23,076,615
percentage of public holding	35.73%	35.66%

## VALUE ADDED STATEMENT

For the period ended 31st December

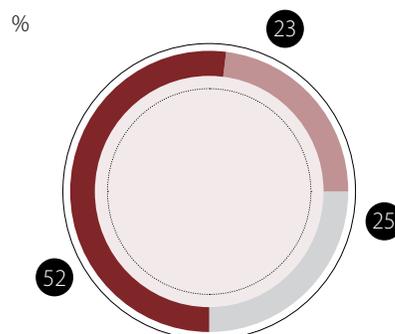
LKR "000"	%	Bank 2018	%	2017
Interest Income		6,679,052		6,613,531
Other Income		441,933		364,806
Gross Income		7,120,985		6,978,337
Cost of Service		4,905,068		5,171,110
<b>Total Value Additions</b>		<b>2,215,917</b>		<b>1,807,227</b>
<b>Value Distributed</b>				
To Employees (Remuneration & Benefits)	50.2	1,113,361	52.1	941,325
<b>To Government</b>	16.2	358,995	22.8	412,238
Income Tax	2.9	64,390	9.7	175,013
Value Added Tax , NBT & DRL Fs	13.1	289,882	12.8	232,101
Nation Building Tax	-	-	-	-
Crop insurance Levey	0.3	5,804	0.3	4,942
Stamp Duty	(0.0)	(1,081)	0.0	182
Total	16.2	-	22.8	-
<b>To Share Holders (Dividend)</b>	-	-	-	-
<b>Retained in the Business</b>		743,561	25.1	453,664
Retained Income	25.5	564,391	22.9	414,271
Depreciation	3.9	85,714	5.3	96,133
Loan Loss Provision	4.2	93,456	(3.1)	(56,740)
<b>Total Value Distributions</b>	100.0	<b>2,215,917</b>	100.0	<b>1,807,227</b>

2018



- To Employees
- To Government
- To Share Holders
- Retained Profit

2017



- To Employees
- To Government
- To Share Holders
- Retained Profit

## TEN YEAR STATISTICAL SUMMARY

Year ended 31st December (LKR. Mn)      2009      2010      2011      2012      2013      2014      2015      2016      2017      **2018**

### OPERATING RESULTS

Income	2,269	2,250	2,386	2,744	3,803	4,566	4,925	5,928	6,978	7,120
Interest Income	2,216	2,165	2,261	2,635	3,528	4,378	4,660	5,473	6,614	6,679
Interest Expense	1,582	1,339	1,354	1,805	2,469	2,535	2,539	3,509	4,742	4,441
Other Income	52	85	82	110	275	188	265	455	365	442
Operating Expenses	439	513	620	762	938	1,123	1,288	1,409	1,472	1,668
Provision for Loss	79	107	10	1	87	131	89	160	-57	93
Profit Before Tax	168	291	402	176	309	777	1,009	848	821	919
Income Tax & Finance VAT	112	156	186	120	151	402	500	365	407	354
Profit After Taxation	56	135	216	56	158	375	509	483	414	564

### LIABILITIES AND SHAREHOLDERS' FUNDS

Customer Deposits	6,929	8,526	12,336	14,695	18,902	24,479	28,593	32,123	36,655	37,016
Borrowings	4,336	3,629	3,556	3,214	5,257	6,213	9,037	8,863	7,917	6,653
Other Liabilities	1,315	1,383	1,699	500	834	840	920	872	920	860
Shareholders' Funds	1,721	1,849	2,337	2,391	2,575	2,886	3,364	3,821	4,232	4,757
Total	14,301	15,387	19,927	20,801	27,567	34,418	41,913	45,679	49,274	49,285

### ASSETS

Loans and Advances	11,913	12,519	14,888	15,966	19,701	23,357	26,685	30,260	34,968	37,934
Cash, short term funds and statutory	1410	1,920	3,960	3,679	6,601	8,997	11,852	11,807	11,027	7,592
HTC & Sell, FVTPL Investments						850	2,043	2,053	2,115	2,014
Property, plant and equipment	721	756	250	288	290	296	435	478	513	466
Other assets	257	192	830	868	975	918	898	1,080	1,101	1,279
Total	14,301	15,387	19,927	20,801	27,567	34,418	41,913	45,679	49,724	49,285

### RATIOS

Return on Average Shareholders Funds (%)	3.3	7.6	10.3	2.35	6.36	13.72	16.30	13.46	10.29	12.56
Income Growth (%)	14.9	(0.8)	6.0	15.0	38.6	20.1	7.9	20.3	17.7	2.0
Return on Average Assets(%)	0.4	0.9	1.2	0.27	0.65	1.21	1.33	1.10	0.87	1.14
Advance to Deposits and Borrowings (%)	94.6	97.1	106.7	112.2	122.6	131.4	141.0	135.4	127.5	115.1
PPE on Shareholders Funds (%)	41.9	40.9	10.7	12.0	11.2	10.3	12.9	12.5	12.1	9.8
Total Assets to shareholders funds (times)	8.31	8.32	8.53	8.70	10.70	11.93	12.46	11.95	11.75	10.36

### SHARE INFORMATION

	Market Value per Share (Rs)				For Rs 10/= Shares					
High (Rs)	191.8	600.0	1,900.0	119.0	52.5	52.5	76.5	70.0	44.5	30.0
Lower (Rs)	49.5	135.0	546.0	44.0	48.2	48.2	58.5	46.5	31.7	23.0
Close (Rs)	147.8	550.0	1,400.3	50.6	49.6	49.6	67.1	47.2	32.7	26.0
Earnings per Share (Rs)	1.69	2.63	3.34	0.86	2.44	5.79	7.87	7.47	6.40	8.72
Price Earnings Ratio	87.22	209.13	419.47	58.84	20.31	8.57	8.53	6.32	5.11	2.98
Net Assets per Share(Rs) **	26.60	28.56	36.11	36.95	39.80	44.60	51.98	59.05	65.39	73.51

### PROFILE

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	364	425	505	488	488	477	561	570	567	561
No of branches	26	28	31	32	33	36	38	38	39	39
No of ATM (Access)*	10	225	255	360	652	775	854	3000	4350	4850

## CORPORATE INFORMATION

### Name and Address:

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

### Registered Head Office:

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

### Legal Form:

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

### Stock Market Listing:

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

### Board of Directors:

Dr. R. H. Meewakkala (Chairman)  
Mrs. R. A. Chulananda (Director)  
Mr. L. Jayasinghe (Director)  
Mr. N. Wijeyanathan (Director)  
Mr. J.R.U. De Silva (Director)  
Mr. U.H.C. Priyantha (Director)  
Mr. L. S. Palansuriya (Director)  
Dr. K.D. Gunawardhana (Director)  
Mrs. Noor Rizna Anees (Director)

### Company Secretary:

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

### Registrars:

SSP Corporate Services (Pvt.) Limited  
Address: 101, Inner Flower Road, Colombo 03.  
Telephone : 2573894  
Fax : 2573609  
E-Mail : sspsec@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 BB + (lka) by Fitch Rating Lanka (Pvt) Ltd

### Bankers:

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

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

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

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

Nations Trust Bank, No 242, Union Place  
branch, Colombo 02.

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

### Corporate Management

Mr.Palitha Gamage - CEO/GM  
Mr.M.K. Nambiyarooran - Chief Operating Officer  
Mr. D. V. Pathirana - Chief Financial 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  
Mr. A.M. Neelachandra - Acting Head of IT

### Investor Information

Mr. D. Vidana Pathirana  
Chief Financial Officer  
T.P. 2356800, 244624, 2446239  
D/L 4717864 Fax : 2356829  
E-mail - cfo@hdfc.lk

## NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty Fourth (34th) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka is convened on Friday the Twenty Eight (28th) day of June 2019 at Sri Lanka Foundation (Hall No. 08) No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 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 2018 together with the Report of the Auditor thereon.
3. To appoint one Shareholding Director.
4. To re-appoint the Auditor General of Sri Lanka, as Auditor of the HDFC Bank and authorise 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  
02nd May 2019



## FORM OF PROXY

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

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

As my/our proxy to vote for me /us on my/our behalf at the Annual General Meeting of the Bank to be held on 28th June 2019 at 10.00 am and at any adjournment thereof, and at every poll which any be taken in consequence thereof.

Signed this ..... day of ..... 2019.

.....  
Signature

Note :

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

### **Instructions for Completion**

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

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