



# DEFYING THE ODDS

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# DEFYING THE ODDS ODDS THE DEFYING

AS A BANK THAT WORKS WITH OUR SOCIETY'S MOST OVERLOOKED PEOPLE, WE DEFIED THIS YEAR'S CHALLENGES WITH ONE PURPOSE IN MIND. NOTWITHSTANDING ECONOMIC PRESSURES, WE CONSIDERED THE HARDSHIPS OF OUR LESS-ADVANTAGED CUSTOMERS WHILE TAKING MEASURES TO BUFFER FALLOUTS THROUGH HARD COMPROMISES AND PRUDENT FINANCIAL MANAGEMENT.

AS A RESULT OF THE YEAR'S CHALLENGES, WE FORTIFIED OUR MISSION WITH A PURPOSE TO FIND RESOLUTIONS TO FINANCIAL HURDLES AND OVERCOME CHALLENGES WITH PERSISTENT FOCUS. AS A TEAM THAT UNDERSTANDS THE NEEDS OF ITS UNIQUE CUSTOMER BASE, WE CONTINUED TO PROVIDE A VALUABLE SERVICE THROUGH VALUE-BASED STRATEGIES - ENSURING THAT WE DEFY THE ODDS NOT ALONE BUT ALONGSIDE OUR CUSTOMERS AND OUR STAKEHOLDERS.

AND HOW WE DEFIED THE ODDS WAS NOT DECIDED BY THE SCALE OF OUR FINANCIAL STRENGTH: BUT DEFINED BY OUR COURAGE AND THE INTENSITY OF OUR DETERMINATION.



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Corporate Information | **Inner Back Cover**



A modern living room interior. On the left, a large window with horizontal blinds allows bright sunlight to stream in, casting strong shadows across the floor and walls. In the foreground, a large, green, spiky plant sits in a white, geometric, cube-shaped pot. To the right, a light gray tufted sofa with two striped pillows is positioned against a vibrant orange wall. A dark, shaggy rug is partially visible in the bottom right corner. The overall atmosphere is bright and contemporary.

# VISION

To be the premier financial partner in ensuring sustainable housing and living standards



# MISSION

Committed to provide financial solutions for sustainable living and assist entrepreneurs in value addition

# VALUES

Ethical  
Agile  
Resilient  
Respect for Diversity  
Transparent

# PREAMBLE TO THE 2022 ANNUAL REPORT

We take this introduction as an opportunity to welcome you all to peruse our 13th Integrated Annual Report.

The Integrated Annual Report that you are currently reading covers the Bank's fiscal year from 1st January 2022, to 31st December 2022 and provides in detail, our work throughout the year – both from operational and financial standpoints.

Across the report compilation process, we have remained aligned with the focus of improving the report from every perspective to provide our stakeholders the most accurate and transparent presentation of the Bank's annual progress.



## PERUSING THE REPORT

### COMMENTARY OF OPERATIONS

The report provides a detailed narration of the year's work in conformance with the requirements of the Integrated Reporting Framework ([www.theiirc.org](http://www.theiirc.org)). It covers the Bank's strategies and actions in navigating the operational environment (macro context) and follows a clear structure similar to the 2021 Report while honouring the requirements of Integrated Reporting (IR).

### NAVIGATION AND EASY REFERENCE

The Report content is divided into main sections with several relevant chapters. Icons are used to bring the reader's attention to important sections and create visual convenience.

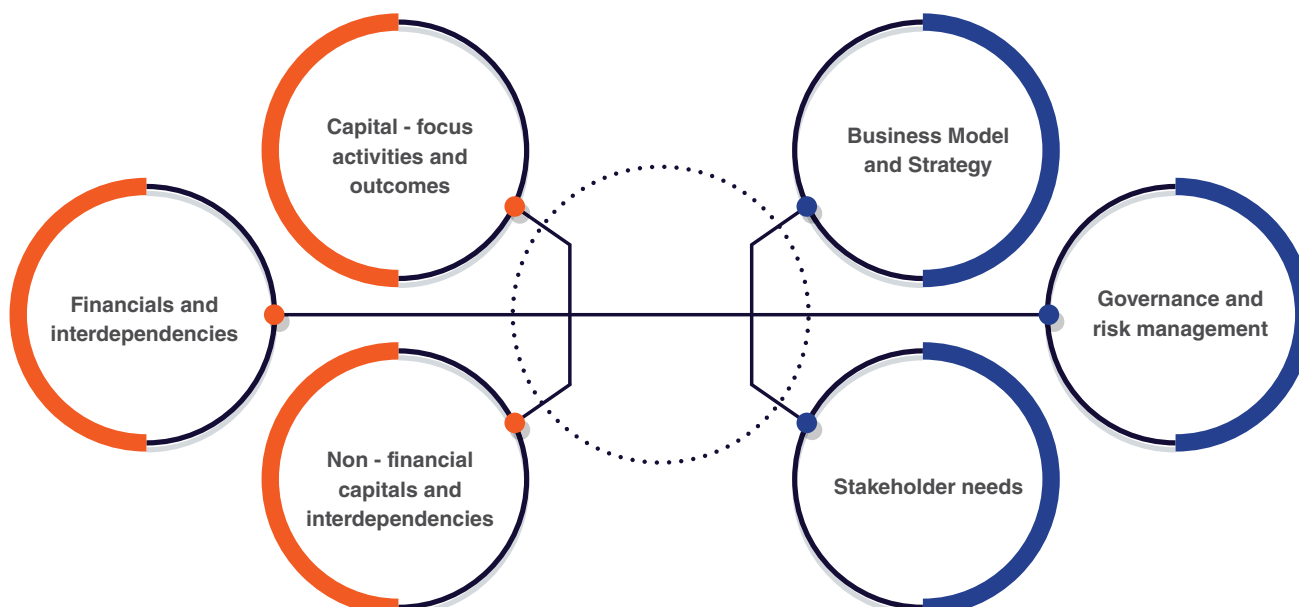




## REPORTING BOUNDARY

The Report's non-financial information includes its operational developments and outcomes regarding human resource management, financial management, business and social relationships, intellectual resources, physical resources and our environmental impacts. These developments and outcomes are also demonstrated based on their relative importance to the bank's strategic direction, stakeholder expectations, resource allocation, operating environment, opportunities, risk management and governance. The mentioned aspects are also summarily reflected through the value creation model, which aims to provide a holistic account of our operations.

The report also covers the financial statements and operational activities, relationships, performance and outlook of the Bank. The financial inputs and performance, alongside the resources and impacts of other capitals, are discussed under the Management Discussion and Analysis (pages 72 - 121).



# Preamble to the 2022 Annual Report

## AN INTEGRATED FOCUS

As a listed entity, we remain accountable to our shareholders and potential investors. Our effort is to provide information beneficial to shareholders and investors in their decision-making process. The Report purposefully includes information that provides a clear and accurate depiction of our value creation process in assisting all stakeholders to assess the Bank's operational and strategic direction and activities in achieving value for all, especially for our shareholders and prospective investors.

By deploying the framework of Integrated Reporting, we can provide a good understanding of how key capitals (financial, manufactured, human, social and relationship, intellectual and natural capitals) were managed to better serve stakeholder expectations.

## REPORTING PRINCIPLES

- Strategic focus and future orientation – The bank's strategic focus as per the strategic plan of 2021-2025 is provided on pages 39 - 41. Where applicable we have made connections to demonstrate how our strategic focus drives us to create value.
- Stakeholder relationships – Pages 22 - 28 demonstrate how we engage with stakeholders, our knowledge of their expectations and how we have met expectations.
- Materiality - Through each chapter of the Report, we have done our best to include all aspects and topics material to Bank operations. In this regard the Materiality section details the relevance of such material topics in relation to stakeholder expectations.
- Conciseness – Where applicable, we have kept qualitative information and commentaries to a possible minimum. However, for the quality of completeness, we have presented commentaries and factual information on how we approach business activities/value creation comprehensively.
- Reliability and completeness – The report includes audited financial statements and information verified by independent auditing partners. More information under external assurance on pages 201 - 208. The accuracy of information is ensured across multiple points of the report development process; firstly, by heads of departments, and then by the financial management. Thereafter, the report undergoes an evaluation by the auditing firm of the bank.

- The accuracy of information is ensured across multiple points of the report development process; firstly, by heads of departments, and then by the financial management. Thereafter, the report undergoes an evaluation by the auditing firm of the bank.
- Consistency and comparability - This report provides quantitative information for the past five years, where information is available. In relation to last year's report several improvements have been made in the 2022 report.

## REGULATORY CONFORMITY

The report conforms to applicable regulations and laws, in addition to applicable reporting standards and guidelines. Such guidance and adherence have enabled the Bank to improve its reporting over the years.

## NON-FINANCIAL REPORTING FRAMEWORKS

- International Integrated Reporting Framework

## FINANCIAL REQUIREMENTS

- Sri Lanka Accounting Standards (SLFRSs & LKASs)
- Banking Act No. 30 of 1988 and amendments
- Companies Act No. 07 of 2007
- Financial Transactions Reporting Act No. 6 of 2006
- Inland Revenue Act No. 10 of 2006
- Finance Act No. 5 of 2005
- National Audit Act, No.19 of 2018

## SUSTAINABILITY FRAMEWORKS

- United Nations Sustainable Development Goals (SDG)

## EXTERNAL ASSURANCE

The financial information of the Annual Report, presented from pages 209 - 266 onwards, has been audited by the Auditor General. These include financial statements and all financial information disclosed for shareholders, in accordance with regulatory guidelines and best practices in auditing and accounting.

Ernst & Young has independently assured that the report is in accordance with the guiding principles and elements of the <IR>Framework by IIRC. Moreover, the final report has been assessed and approved by the Bank's Chief Financial Officer, Chief executive officer and the chairperson of the Board of Directors. The bank's Board of Directors and executive leadership do not in any form engage with the appointed auditors, other than obtaining their services as bank's independent auditors.

## MEDIUMS

Providing priority to stakeholders with diverse language backdrops, we have translated the report to Sinhala and Tamil languages, which are provided to Shareholders in print formats. The English version of the Report can be easily accessed through [https://hdfc.lk/pages/abt\\_us/annual\\_reports.jsp](https://hdfc.lk/pages/abt_us/annual_reports.jsp). Due to the temporariness of a physical Report, we encourage our stakeholders and readers to access the digital version through a desktop computer or mobile device.

## CRITIQUING AND FEEDBACK

We value your positive and constructive critiquing of this Report.

We welcome all feedback to be directed to:

The Chief Financial Officer

Anura Hettiarachchi

Email: [anura.h@hdfc.lk](mailto:anura.h@hdfc.lk)

Phone: +94 11 2356802, 2446241, 2447354

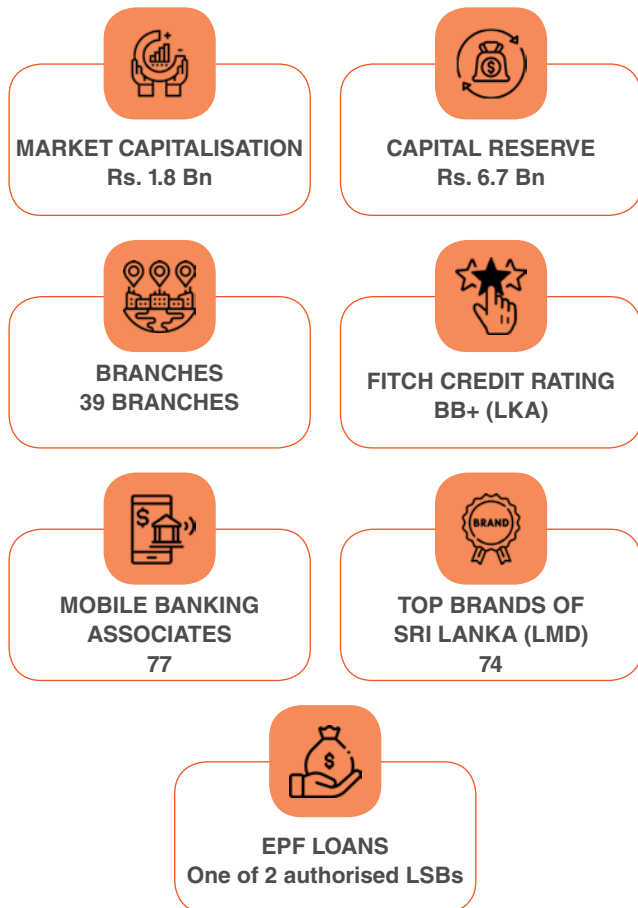
# HDFC BANK OF SRI LANKA

## AT A GLANCE

Our journey commenced in 1984 as a building society, and in 2003 the Bank became transformed to the status of a Licensed Specialised Bank (LSB). In 2005, we took the strategic decision to list the Bank on the Colombo Stock Exchange, bringing in a new fusion of funds to power our strategic goals and routine operations.

Moreover, with ownership stakes in the public and private sectors, the Bank enjoys the management styles of both worlds. While we remain tethered to the purpose of being a specialised state bank, we also remain committed to adding value for our stakeholders and remaining profitable without burdening the State and our Shareholders.

The Bank's operations fall under the direct purview of the Ministry of Finance and Planning and are guided by the Housing Development Finance Corporation Act No. 7 of 2007.



### 'Serving the underserved'

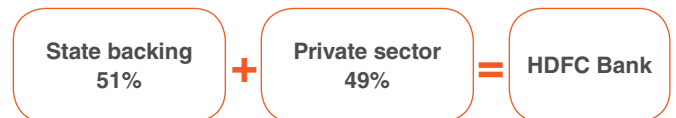
Our service to the nation is unique. From being an institution that only financed the housing goals of customers, we have evolved into a specialised financial intermediary with a unique customer base that depends on our guidance and support.

To most of our clients we are the only financial partner to have looked beyond their financial means and provide a financial solution that is bearable and sustainable for life.

The banking sector fulfils an unmistakable role in the country's economy and in building the social backdrops of citizens. As stakeholders of this purpose, we continue to provide financial sustenance to our customers and direct and indirect economic values to our stakeholders. Having been sustained only by the government for many years, we now humbly take pride in our ability to remain stable as a standalone financial entity. As a smaller bank, there is more room for growth, more value to be created and more potential to be untapped.

## BANK OWNERSHIP

Since our formation in 1984, we have been a predominantly state-owned bank, with the Government of Sri Lanka being the majority shareholder. A share of 51% of ownership rests with the Government's National Housing Development Authority (NHDA). The NHDA's sole and primary responsibility is to promote, provide and coordinate the provision of housing for citizens.



## OUR REACH

We serve our customers through 39 branches, divided amongst six regions, with each region overseen by a Regional Manager. We also have a dedicated team of 77 mobile banking officers, a team that takes doorstep banking to customers from all financial walks of life in rural and urban areas, taking our services to the under-served communities.

Aside from our physical reach, we also connect with customers and stakeholders through our Corporate Website ([www.hdfc.lk](http://www.hdfc.lk)) and e-banking portal [https://hdfc.lk/pages/online\\_banking/ebank.jsp](https://hdfc.lk/pages/online_banking/ebank.jsp)

Region 1	Region 2	Region 3
Ja el Colombo Hyde park corner Peliyagoda Kiribathgoda Chilaw	Piliyandala Avissawella Homagama Horana Nugegoda Ratnapura	Kegalle Gampaha Kuliyapitiya Kurunegala Nikaweratiya Nittambuwa
Region 4	Region 5	Region 6
Galle Ambalangoda Embilipitiya Kalutara Matara Tangalle Tissamaharama	Anuradhapura Batticaloa Dambulla Jaffna Pollonnaruwa Trincomalee Vavuniya	Kandy Ampara Badulla Gampola Mathale Monaragala Nuwara Eliya



## FINANCIAL BACKDROP

Our capital reserve is supplemented through retained profits and, in the past, through bond issues. We are committed to ensuring and maintaining a capital adequacy ratio well above the statutory minimum and achieved this objective steadily for the past few years, despite having a deficit of Rs. 457 Mn. We work to reach the capital target through an extended deadline until the end of 2023, to reach the required total of Rs. 7.5 Bn.

The Bank's common equity tier 1 capital ratio stood at 25.54% as of 31st December 2022, while tier 1 capital and tier 2 capital ratios stood at 26.56% and 27.61%, respectively. And through prudent financial management and other stringent courses of action, we maintain capital buffers above the applicable regulatory limits.

The Bank continues to enjoy a rating of BB+ (Ika), as declared by Fitch Ratings, amidst our commitment to financial stability amidst sharp increases in inflation and other economic downturns that continued to stress the nation.

## OUR UNIQUE CONTEXT

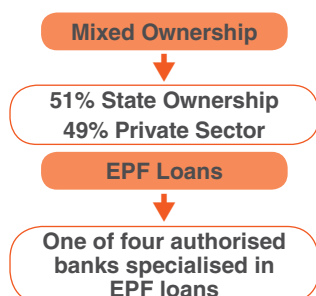
As a state bank, our mission is to provide solutions for a financially empowered life, mainly to those who are financially vulnerable and overlooked.

Our strategy is tied to this purpose, and our strategic objectives provide the right drive to pursue this aspiration. While we provide customers with affordable and inclusive lending solutions that contribute to sustainable lives, we are accountable for maintaining a sound and stable business where our business activities create outcomes that meet stakeholder expectations.

By nature, we contribute to reducing inequalities through lending structured around individual financial capacities, making viable efforts at minimising the financial burdens of customers, all while ensuring the Bank's stability and profitability. When providing solutions, we consider the economic profile of each customer, ensuring that we do not overestimate customer capabilities.

While this may at times concern our top line, we maintain a healthy bottom line through pragmatic financial management alongside prudent spending and investments. Moreover, we are mindful of our capacities and capitalise on our strengths to remain a stable state entity.

To become the leader in housing finance, we have carved several unique industry positions and propositions along the way.



## OUR UNIQUE STRENGTHS

We have several core strengths that define our potential.

- Transformation towards growth

Over the past few years, we have redefined what the bank wants to achieve and how we should reach our strategic focus (pages 39 - 41). In 2005, with the listing of the Bank on the Colombo Stock Exchange, we entered a phase of progress - a transformation that pushed us to pursue bolder plans and targets despite the relatively smaller scale of our business.

- Continued government support

We continue to have the government's backing, which is a vital source of strength. As we fall under the direct purview of the Ministry of Finance and Planning, there is an added level of trust and confidence that comes in terms of government support: this is apparent in being one of only two LSBs authorised to offer EPF-backed housing loans to borrowers.

- Partner in national housing

We are not just a financial intermediary but one that supports the government's vision of ensuring affordable housing for Sri Lankans. It provides us with a strong housing loan portfolio and a customer base that aspires towards financial independence and social progress.

- Prudent cost management

Prudent cost management is aggressively pursued, given our stature and the risks involved in our high concentration of more long-term-based housing loans. A more stringent and pragmatic approach to handling financials was necessary due to pandemic-based moratoriums and the recent economic disruptions which stem from the country's foreign currency shortage and unsustainable debt. Furthermore, a smaller physical presence and a smaller workforce enable us to optimise resources and minimise expenditures while having total control over financial management.

- Accountable and technically adept board

Our Board of Directors has a unique combination of skills and expertise in addressing material aspects that impact our business activities and banking functions. Their collective knowledge and authority, continue to guide the Executive Leadership and corporate management to fulfil stakeholder expectations and meet strategic objectives.

- Housing loan and EPF loan expertise

Our loan and credit teams that oversee the housing and EPF loan portfolios have an unmatched level of tacit knowledge in catering to the low-middle-income market. Our unique ability to authorise and approve EPF loans gives us a unique repository of tacit knowledge.

## FROM INCEPTION TO '22

1

**1984**

Initiated as a Building Society, registered under the National Housing Act.

3

**2000**

Gazetting of the Housing Development Finance Corporation of Sri Lanka Act No. 07 of 1997, paving the way for the Housing Development Finance Corporation of Sri Lanka.

5

**2005**

Listed on the Colombo Stock Exchange, the Bank began attracting investments from potential investors.

6

**1997**

To provide housing funds and accept public deposits, the parliament passed the Housing Development Finance Corporation of Sri Lanka Act No. 7 of 1997, establishing a public corporation.

2

**2003**

Amendment of the Housing Development Finance Corporation of Sri Lanka Act No. 7 of 1997 for the forming of a specialised bank. The Bank was renamed the "Housing Development Finance Corporation Bank of Sri Lanka" (hereafter referred to as the "HDFC Bank of Sri Lanka").

4

**2011**

The HDFC Act was amended to broaden the operations of the Bank, providing flexibility to conduct business as specified in Schedule IV of the Banking Act No. 30 of 1988.

## OUR GROWTH JOURNEY

For the past 10 years, we have experienced steady growth in our deposits and loans, as we have maintained profitability in a positive momentum.

**2012**

The Bank diversified its portfolio, providing other forms of financial products and services.

7

**2017**

The bank implemented its core-banking system, as the first step in digitalisation and technology-driven efficiency.

9

11

**2015**

HDFC Bank establishes a new division to undertake Corporate Finance, while ensuring financial access to SMEs and Corporates.

8

**2019**

The Bank introduced e-banking to customers.

10

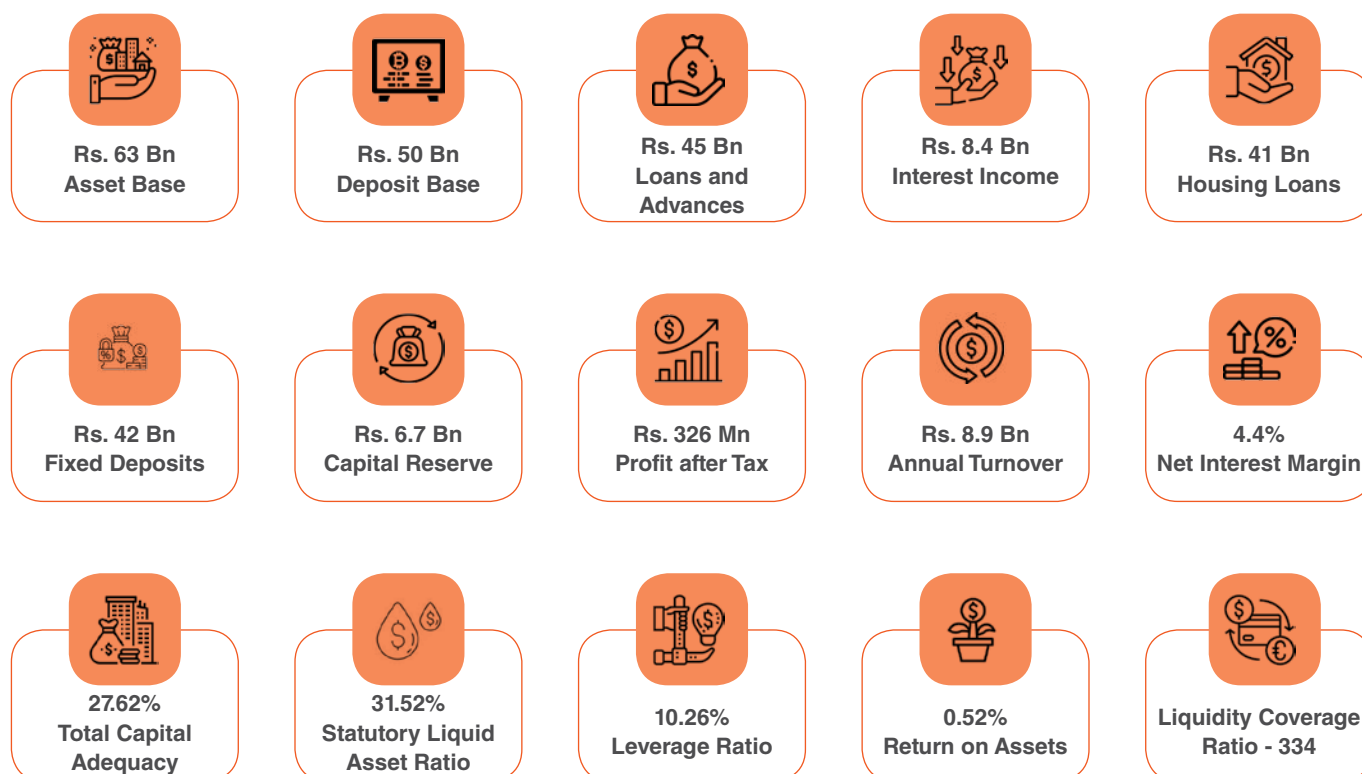
**2020**

The Bank joined the Just Pay mobile banking platform – diversifying its services and customer convenience.

# FINANCIAL PROFILE

Our financial position remained stable throughout 2022, despite facing challenges from the economic crisis. We continued to follow a centralised approach to credit approval while ensuring that we minimise our risks.

During the year, our deposit base encountered concerns from institutional withdrawals. Yet despite the challenge, we appeased the gap by securing a higher portion of retail deposits. Moreover, we continued to fulfil our obligations as a dutiful employer by honouring the CBEU collective agreement through increased remuneration while unflinching in our commitment to employee growth and development.



## HDFC MARKET SHARE

Assets and Liabilities	Bank	2022	%	2021	%	2020	%
Gross Loans and Advances	Licensed Specialised Banks (Rs Bn)	1,021		925		801	
	HDFC Bank (Rs Mn)	44,637	4.37	43,572.00	4.7	42,659.00	5.3
Deposits	Licensed Specialised Banks (Rs Bn)	1,856		1,747		1,538	
	HDFC Bank (Rs Mn)	50,245	2.70	49,813.00	2.8	47,947.00	3.1
Total Assets	Licensed Specialised Banks (Rs Bn)	2,191		2,103		1,837	
	HDFC Bank (Rs Mn)	62,889	2.87	62,964.00	2.9	61,030.00	3.2



# PORTFOLIO

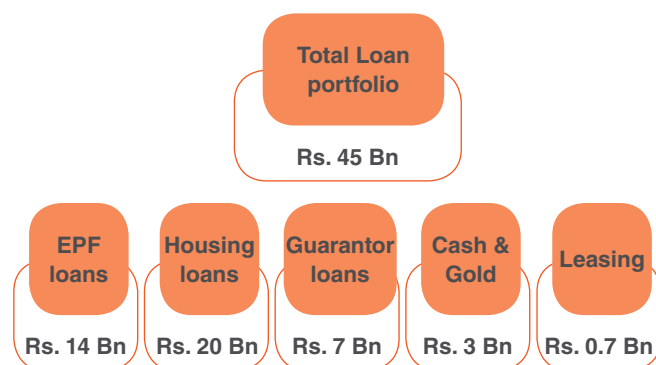
Governed by the Housing Act, the Bank has historically provided funds to serve the nation's housing needs. But at present, the Bank's portfolio is a diversified mix of deposits and loan products intended to resolve the financial needs of those with lesser financial avenues. Due to this focus, the Bank's core customer segments are individuals and SMEs from the low to middle-income brackets, served without prejudice against their financial strengths. The Bank now provides a range of products while providing repayment and restructuring facilities to match the financial capacities of every customer.

## SPECIALISATIONS AND DIVERSIFICATIONS

Apart from our core focus on mortgage-based housing loans and EPF loans, gold loans and development loans for SMEs and corporate customers have gained steady growth. Under our current portfolio, we provide retail and institutional customers' access to a holistic and inclusive range of loans and deposit-based products.

The Bank is one of four LSBs dedicated and authorised to disburse housing loans under the Employee Provident Fund (EPF), for which there is a growing demand. EPF-backed loans are a prudent credit instrument as the provident fund becomes the loan collateral, which lowers the risk for both the customer and the Bank, in the event of defaulted payments. Each year, the EPF reimburses the Bank on arrears on EPF-backed loans; this enables the Bank to maintain financial flexibility and ensure that non-performing loans are at a minimum on EPF-backed loans.

Loans: We consider the financial capacity, livelihoods and lifestyles of all our customers when planning and restructuring loans. Our loan and lending products now cover home loans, lifestyle loans and small and medium enterprise loans, gold loans and educational loans, in addition to loans for special purposes.



## LOAN SCHEMES

- Kedella
- Situ Sevana
- Shrama Udana
- HDFC Lifestyle Loan
- Sirisara
- HDFC Gold Loan
- HDFC Educational Loans
- VIP Loans
- Loans against fixed deposits
- LECO
- Special loans for employees of public enterprises
- Special loans for doctors
- Loans for academic professionals
- Loans for armed forces

## DEVELOPMENT LOANS

- Athwela
- Small and Medium Enterprise Loans
- Dirimaga
- Tharuna Diriya
- Business Loans
- SEPI loan scheme

## LEASING

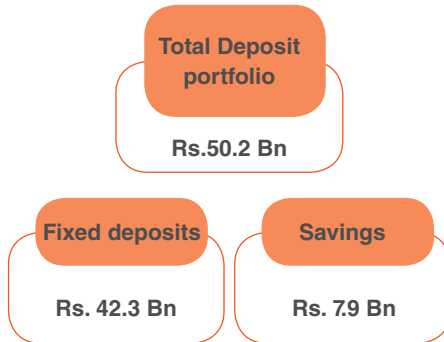
- HDFC Leasing

## LOAN PRODUCT



# Portfolio

Deposits and Savings: The Bank's deposit portfolio is diverse with term deposits, savings products.



## DEPOSITS

- HDFC Max
- Fixed deposits

## SAVINGS PRODUCTS

- Prathilaba
- Thilina
- HDFC Smart Goals



## INVESTMENT PLANS

- HDFC Set for Life
- HDFC Vishrama Rakawarana
- Thilina Rakawarana

## DIGITAL AND OTHER SERVICES

- Mobile Banking (palmtop team)
- E-Banking – HDFC Click
- JustPay connectivity
- SMS Alert Service

# ECONOMIC VALUE GENERATION AND DISTRIBUTION

The following provides a clear account of how we infuse value amongst our stakeholders.

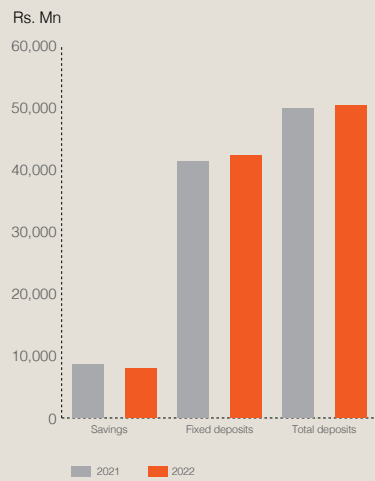
	2022	2021	Change
	Rs. Mn.	Rs. Mn.	%
<b>Value Generated on Accrual Basis</b>			
Total revenue from banking services	6,840	5,831	17
Revenue from financial investments	2,038	1,173	74
<b>Value distributed:</b>			
Total operating cost	6,213	3,954	57
<b>Customers</b>			
Interest to depositors	5,134	3,125	64
Interest to lenders	546	431	27
<b>Employees</b>			
Employee salary and remuneration	980	944	4
Total training and development investment	1	5	-80
Total benefits and incentives	283	223	27
Total Retirement benefits	280	219	28
<b>Capital providers</b>			
Payment to capital providers	-	16	-100
<b>Government</b>			
Payment to Government (taxes paid)	289	657	-56
<b>Government assistance</b>			
Financial assistance	-	-	-
Tax relief	-	-	-
Financial incentives	-	-	-
Other benefits	-	-	-
<b>Value retained</b>			
Retained profit	326	547	-40
Depreciation and amortisation	185	161	15
Loan Loss Provision	320	296	8

# FINANCIAL PERFORMANCE HIGHLIGHTS

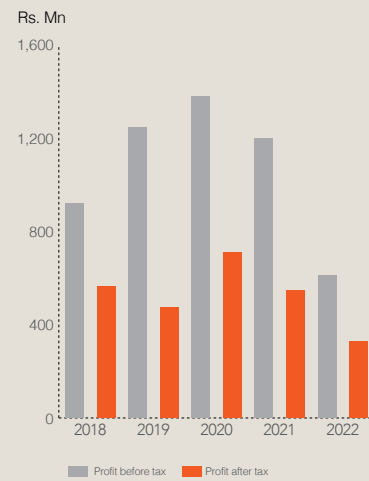
	2022	2021	Change
	LKR.Mn	LKR.Mn	%
<b>Results for the year</b>			
Income	8,878	7,004	27
Profit before Taxation	612	1,199	(49)
Provision for Taxation	286	651	(56)
Profit after Taxation	326	547	(40)
Revenue to the Governments	289	657	(56)
<b>Gross Dividends</b>			
<b>At the year end</b>			
Shareholders, Fund	6,716	6,354	6
Deposits from Customers	50,245	49,813	1
Gross Loans & Advance to Customers	44,637	43,572	2
Total Assets	62,882	62,964	(0)
<b>Information per Ordinary share</b>			
Earnings ( Basic ) ( Rs. )	5.04	8.46	(40)
<b>Financial Ratios</b>			
Return on Average shareholders' Fund ( % )	4.99	9.02	(4.03)
Return on Average Assets ( % )	0.52	0.88	(0.36)
Share Holders Equity to Total Assets ( % )	10.68	10.09	0.59
<b>Statutory Ratios</b>			
Liquid Assets(SLAR) ( % )*	31.52	26.60	4.92
Liquidity Coverage Ratio(LCR)	334.00	156.00	178.00
Net Stable Funding Ratio(NSFR)	199.00	122.00	77.00
Leverage Ratio	10.26	9.27	0.99
Common Equity Tier 1 -Minimum Required 7.00%	25.54%	21.51%	4.02%
Total Tier I ( % ) - Minimum Required -8.50 %	26.56%	22.38%	4.18%
Total Capital ( % ) - Minimum Required -12.50 %	27.61%	23.02%	4.59%
<b>Other Information</b>			
Branches	39	39	-
Employees ( No of Staff )	588	614	(4)
Credit Rating - Fitch/Lanka Rating	BB+(lka) Negative	BB+(lka) Stable	



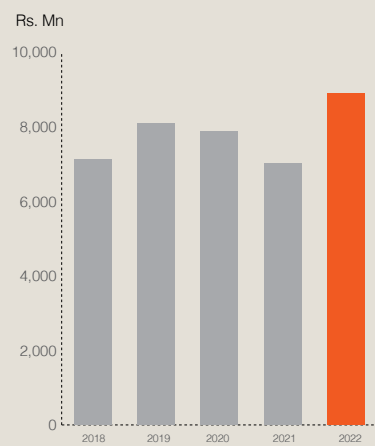
### Deposit Portfolio



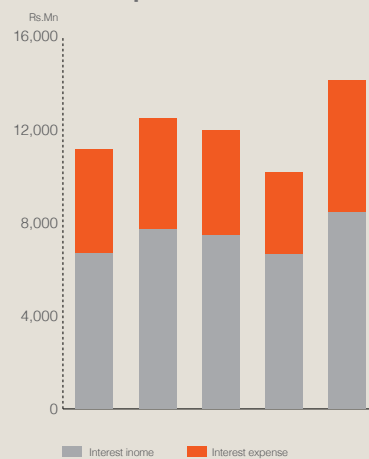
### Profitability



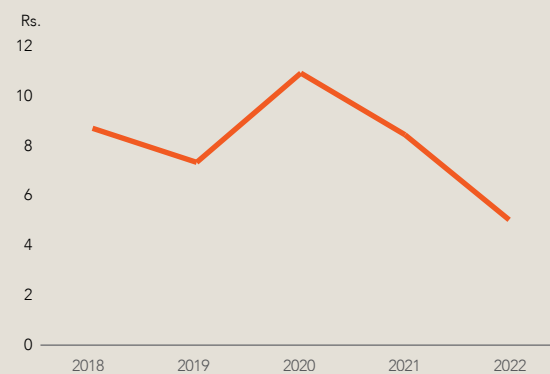
### Income



### Interest Income vs Interest Expenses



### EPS







# Integrated Value Creation - **STRATEGIC FRAMEWORK**

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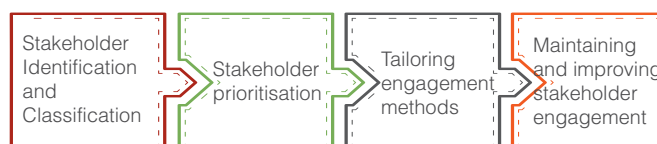
# STAKEHOLDER CONNECTIONS AND ENGAGEMENT

In approaching the business of banking with a holistic and integrated perspective, we place our stakeholders at the centre of it all. We do not believe in being isolated but in maintaining consistent communication with all stakeholders. This is imperative, as we are accountable to all our stakeholders, irrespective of their level of importance to the Bank.

More so than in previous years, 2022 became a critical period, where we continuously reaffirmed our commitment to fulfilling stakeholder expectations. Met with an economic crisis, the Bank had a tremendous task to overcome serious disturbances, with communication becoming crucial to maintaining stable stakeholder relations.

## THE ENGAGEMENT PROCESS

The process of engaging with our stakeholders has evolved over the years. In engaging with stakeholders, we are mindful of using meaningful and structured approaches, whether it is in delivering economic, social or environmental value or communicating our decisions and actions.



Although we adopt a holistic approach by placing all stakeholders as participants of our value creation model, we keep in mind the needs of each stakeholder group, when meeting their expectations.

### 1. Stakeholder Identification and Classification

At HDFC Bank, our stakeholders fall into six broad categories and have remained the same over time. However, specific stakeholders within these classifications may evolve and change as the Bank and its activities evolve.

Stakeholders					
Shareholders and Investors	Customers	Employees	Partners	Regulators	Community
Institutional and public individual shareholders	Retail and institutional clientele, including MSMEs, private and state sector clients	Branch and Head office staff, Palmtop officers and CBEU	<ul style="list-style-type: none"> <li>Suppliers</li> <li>Industry memberships</li> <li>Financial service providers</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of finance and economy and policy development</li> <li>CBSL</li> <li>CA Sri Lanka</li> <li>SEC</li> <li>CSE</li> </ul>	Society and environment

## 2. Stakeholder prioritisation

While we consider the importance of each stakeholder group, the varying levels with which they impact our business drives us to approach them in a suitable manner. In this regard, we prioritise engagement levels with each stakeholder group-based on the level of value creation in relation to our strategic objectives.

Stakeholders	Shareholders and Investors	Customers	Employees	Partners	Regulators	Community
Level of value creation in relation to strategic objectives	High	High	High	High	High	Low
Reason for Importance (Value of stakeholders to the Bank)	<p>Their ability to infuse financial capital to sustain operations.</p>	<p>Sustaining customers' housing needs remains the purpose of HDFC Bank.</p> <p>Enables business growth and key reason for our expansions.</p> <p>Loans restructured and new schemes introduced around customer needs.</p> <p>Their contributions sustain the Bank and its growth.</p>	<p>Central to continued and integrated operations. Their contributions sustain the Banks growth.</p>	<p>To obtain services that facilitates Bank functions.</p>	<p>Compliance ensures license to operate.</p>	<p>Social license to operate (acceptance)</p>
Engagement priority	High	High	High	High	High	Low

*\*categorisation changed from last year's High, Medium, Low to High, Average, Low for better adjustment.*

## 3. Tailoring engagement methods

We have tailored engagement modes and frequencies to match the need for periodic information and communication on the Bank's decisions, processes and value-creating activities. These methods enable us to effectively connect and interact with stakeholders.

Engagement methods, especially those with shareholders/investors, regulators, customers and employees, have enabled us to gather material matters to formulate the strategic plan used for the past two years since 2021. However, at present, the strategic plan is being deliberated based on the change in executive leadership, with the appointment of a new GM/CEO.

## 4. Maintaining and improving engagement

With stakeholders identified, classified, prioritised and engagement methods established, the next step is in maintaining the flow of engagement consistently, while keeping room for changes based on stakeholder needs and at times regulatory requirements that continue to evolve.

In improving engagement mechanisms, we put our best efforts to integrate communications and engagements when the message or information would be relevant to all stakeholders. In this regard, our website, social media and interim reports that are published digitally, enable us to maintain an integrated point of communication with shareholders and investors, employees, customers, regulators, partners and the community.

# Stakeholder Connections and Engagement

## MANAGING EXPECTATIONS AND STAKEHOLDER ENGAGEMENT

The following presents how we engage with each of our stakeholder groups. It also outlines stakeholder expectations and our response.

While the extended effects of the pandemic dissipated, and as work operations returned to normalcy, our engagements with stakeholders continued in an undisturbed manner; however, the economic crisis, political instability and social unrests had some impact on how we engaged with them and their expectations from us as a financial intermediary.

Shareholders/Investors		
Engaging with Shareholders/Investors		
Engagement methods	Frequency of engagement	Engagements in 2022
• Annual General Meeting	Annual	AGM held in June
• Annual Report		Annual report published in May
• Yearly and interim financial reports and statements	Periodic	Published periodically and published on the website
• In-person discussions and meetings	As and when required	None
• Bank website	Frequently	Updated periodically
• Announcement to CSE	As and when required	Announcement of Change in Directorships and Change in GM/CEO
• Company Secretary	As and when required	Prior to the AGM and upon requests
• E mails	Frequently	On a need basis

Managing expectations		
Stakeholder expectations and interests	Our response	Responses in 2022
• Financial performance and return on investments	• Maximising profitability	Profitability maintained
• Financial stability	• Increasing revenue and maximising revenue streams	Total revenue increased
• Progress on strategic objectives and operational goals	• Taking a restrained approach to credit approval due to the economic crisis	Decelerated loan disbursement
• Transparency on financial and operational conduct	• Prudent cost, investment and financial management in response to the economic crisis	Expenses maintained at healthy levels
• Risk management practices	• Increasing capital adequacy	Increased capital buffer by Rs. 326 Mn
• Corporate Governance matters	• Far-sighted financial and operational policies	
• Assess Bank's focus on innovation and competitiveness	• Regular reporting and externally assured financial statements	Financial statements comply with accounting standards and regulations and audited financial statements CSE publications
	• Enhanced integrated reporting	External assurance obtained
	• Well-rounded corporate governance and risk management frameworks	Complied with all requirements
	• Pragmatic investments on necessary and improvements	Spending on improving core infrastructure and security

SDGs related









Customers		
Engaging with Customers		
Engagement methods	Frequency of engagement	Engagements in 2022
• Branch and head office visits	As and when required	Occurred without disruptions
• Palmtop (doorstep) banking	Daily	Limited due to fuel shortages
• Email, website, YouTube and FaceBook to communicate information	Frequently	Regular posting of information
• E-banking and JustPay for digital transactions	Frequently	Increased engagements
• Outdoor and in-branch promotional campaigns	As decided	Several campaigns organised by head office and branches
• Mass media advertising	As decided	Crawlers on TV programs
• In-person meetings	As and when required	For deposits and loan requirements
• Call centre	Frequently	Handling inquiries, accepted feedback and complaints

Managing expectations		
Stakeholder expectations and interests	Our response	Responses in 2022
<ul style="list-style-type: none"> <li>• Attractive deposit rates</li> <li>• Responsive and reliable service</li> <li>• Protection for hard-earned deposits and better returns</li> <li>• Awareness on products</li> <li>• Financial stability for depositors</li> <li>• Safety in digital/online transactions</li> </ul>	• Capping floating rates at 20%	<ul style="list-style-type: none"> <li>• Increased home loans disbursements</li> <li>• EPF loans encouraged due to low risk for customers</li> </ul>
	• Providing higher returns on deposits compared to 2021	• Capped at 20%
	• Continued social media engagements and information postings	• Complied with raised interest rates by the regulator
	• Maintaining capital buffers to ensure stability	• Regular communication of activities and promotions
	• Upgrading systems to ensure safety	• Enhanced website and security enhanced
		<ul style="list-style-type: none"> <li>• Active schemes and finances</li> <li>• Institutional partnerships to finance individuals</li> </ul>

Related SDGs









# Stakeholder Connections and Engagement

Employees		
Engaging with Employees		
Engagement methods	Frequency of engagement	Engagements in 2022
• Intranet	Accessed frequently by employees	Policy information, vacancies and bank developments
• Emails	Frequently	Formal work communications and for special occasions such as birthdays and retirements
• Skip level and town hall meetings	As scheduled	Regular interactions between management and employees, at head office and branches
• Inductions and training programs	As scheduled	Over 65 programs (virtual and Presance)
• HDFC newsletter	Quarterly	Published for two quarters
• Awards program	Annually	Cancelled in 2022
• Satisfaction survey	Annually	One survey conducted
Managing expectations		
Stakeholder expectations and interests	Our response	Responses in 2022
• Equitable pay and industry-benchmarked remuneration	• Increasing remuneration and benefits including medical related benefits	• 4% increase in salaries and bonus payments
• Salary increments	• Attractive and competitive financial incentives and benefits	• 15 various types of benefits provided to permanent employees
• Training and skill enhancement		• 9 benefits for probationary staff
• Job security		• 5 benefits for contract staff
• Career growth		• 5 benefits for business promotion trainees (BPT)
• Recognition of hard work	• Higher number of training programs	• 65 programs in 2022 (2021: 155)
• Mutual respect and good employer-employee relations		• 5,351 training hours in 2022 (2021: 20,399)
• Collective bargaining	• Good relations with employee union	• Collective agreement signed and salary increments fulfilled
• Equal opportunities and non-discriminatory behaviour	• Impartial grievance handling	• Employee concerns considered during the year and ideas integrated into activities
• Workplace health and safety		
• Open and clear communications	• Adhering to labour laws and human rights	• All statutory laws adhered with






Related SDGs

Partners and Suppliers		
Engaging with Partners		
Engagement methods	Frequency of engagement	Engagements in 2022
• Tender notices and process	As and when required	
• E mail	As and when required	
• In-person meetings	As and when required	
• Site visits	As and when required	
Managing expectations		
Stakeholder expectations and interests	Our response	Responses in 2022
• Timely payments	• Making payments on agreed intervals	Payments made on time
• Good communications	• Timely notifications	Communications occurred as and when required
• Honouring contractual obligations	• Continued sourcing of goods and services	Commitments honoured
• New business opportunities	• Training programs	None made during the year
		
Related SDGs		

Regulators		
Engaging with Regulators		
Engagement methods	Frequency of engagement	Engagements in 2022
Interim reports and annual report submissions	Periodically	Submissions as hardcopies and softcopies, also accessible via the website
In-person meetings	As and when required	The GM/CEO attends monthly CEOs meeting at CBSL
Industry forums	Occasional	None for the year
Regulatory inspections	As and when required	The CBSL onsite supervision took place in August
Participation in policy planning	Occasional	Not applicable
Managing expectations		
Stakeholder expectations and interests	Our response	Responses in 2022
• Our adherence to regulatory and statutory requirements	• Complying with banking, investment, accounting, financial crime and other related laws and regulations	Complied with, however, 11% of the capital requirement to be complied with
• Tax payments and related submissions	• Timely tax submissions and disclosures	Submitted on-time
• External assurance	• Timely submission of interim and annual financial reports and audited statements.	Submitted on-time
• Safeguarding customer deposits	• Convening with regulators at times when regulations cannot be met	Not required during the year
• Providing interests on deposits as per policies		
• Providing sustainable and reasonable solutions to borrowers with policy-based rates		
• Participation in industry forums		
 		
Related SDGs		

## Stakeholder Connections and Engagement

Community and Environment		
Engaging with Employees		
Engagement methods (Community)	Frequency of engagement	Engagements in 2022
• Website	Continually	Information disclosed through the website for interested parties
• Advertisements	Pre-planned	Product information publicised through advertisements
• Social Media	Continually	Promotions, products and other services informed
Managing expectations		
Stakeholder expectations and interests	Our response	Responses in 2022
• Inclusive and affordable solutions	• Reducing impact on the environment	• Urban agriculture project • Plastic recycling cages installation
• Development finance and SME loans	• Community development through MSME and smallholder financing	• Increase in SME and corporate finance loans • 15 active loan schemes for MSMEs
Related SDGs	  	

# MATTERS OF MATERIALITY

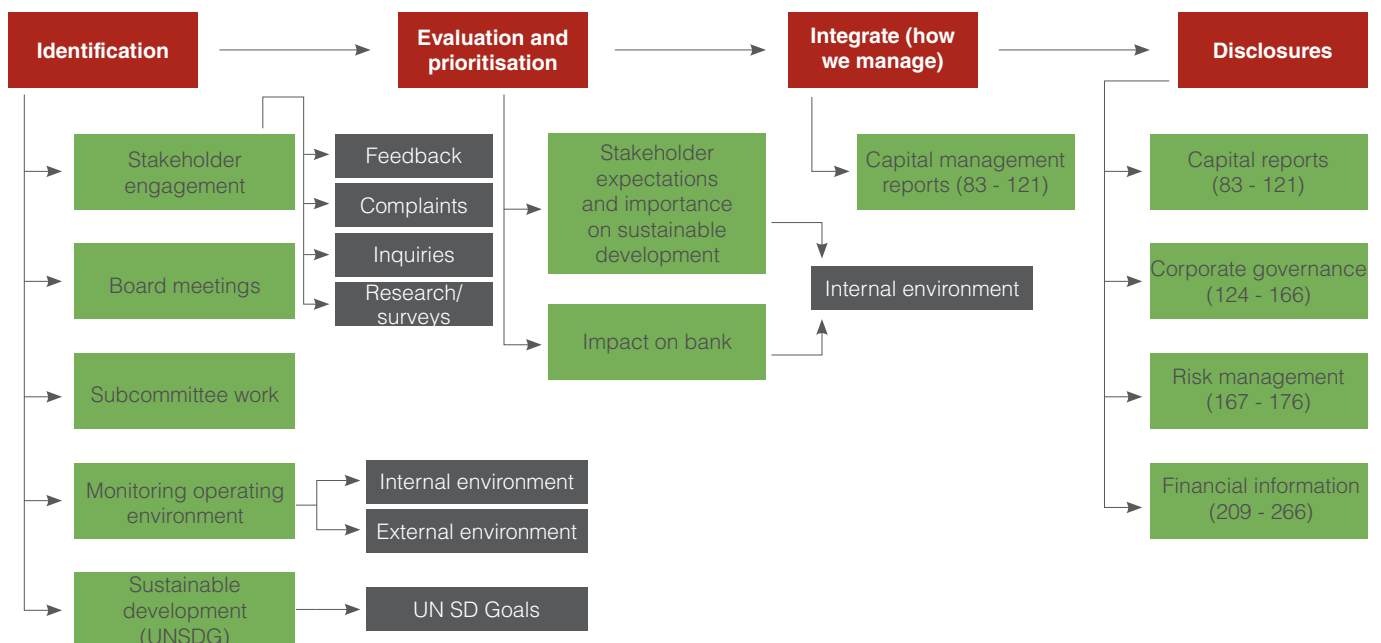
Material matters are the culmination of stakeholder expectations and aspects that matters to the Bank's activities, value-creation process and strategic focus. Moreover, material matters are based on stakeholder requirements and tied to economic, social and environmental values. Over the years, these expectations have translated into the Bank's strategic objectives and goals, which enable us to pursue and achieve results that satisfy stakeholder expectations, creating value over time.

## THE MATERIALITY DETERMINATION PROCESS

The materiality determination process has enabled us to provide a detailed, comprehensive and accurate presentation of all aspects that are material to value creation for the Bank and its stakeholders.

Based on the principles of integrated thinking and the principle of materiality, we have determined material aspects that are relevant and important to providers of financial capital and those relevant to the people and environment, which impact our customers, employees, partners, regulators and society.

## THE PROCESS



# Matters of Materiality

## 1. Identification

Several inputs are considered when identifying material matters, of which the primary inputs come through stakeholder engagements. Other notable inputs include Board and subcommittee meeting proceedings and decisions and assessment of the operating environment (micro and macro) within which we operate.

## 2. Evaluate and Prioritise

We evaluate matters that impact our ability to create value, mainly those with a direct impact on our strategy, stakeholders, performance and opportunities, and our ability to lead responsibly. We then take such matters and prioritise them based on their potential impact on value creation. In evaluating the importance of matters, we consider their:

- Importance to the bank
- The level of importance to stakeholders.

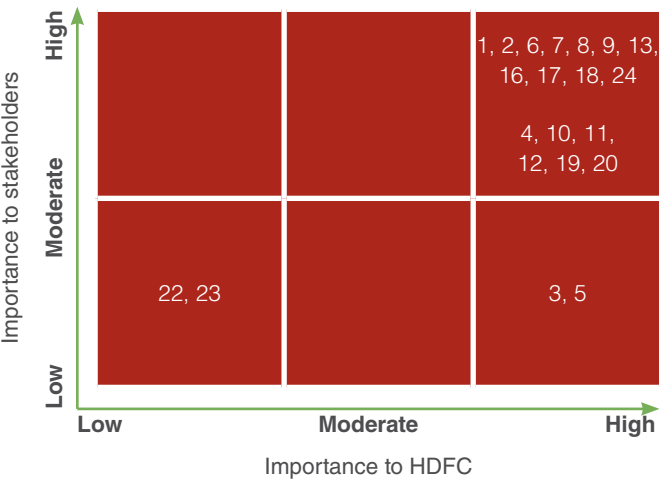
Based on the level of importance, these aspects are then prioritised, enabling a clear focus on material matters with relatively higher effects. The following materiality matrix depicts the impact each material aspect has on stakeholders and on the Bank.

## 3. Integrate (management approach)

We integrate matters into banking activities and value creation, beginning with management decisions that strive to incorporate these aspects into business activities and value creation processes.

## 4. Disclosures

Based on important material aspects, we apply deliberations and good judgement in information disclosure. At every aspect, we take measures to be as comprehensive as possible, using qualitative and quantitative measures to provide information on how we have performed in relation to material matters.





## MATERIAL TOPICS

Material matters relevant to the Bank are presented below and are those which impact the bank and our stakeholders, overtime (short-long term).

Material Topic	Reason for materiality	Relevance to the Bank's strategic focus	Relevance to stakeholders with Direct impact and sustainable development	Stakeholders	How we integrate into banking activities (management approach)	Relevant disclosure
1. Financial stability	Safeguards investments of shareholders/investors and deposits of customers.  It enhances goodwill towards the Bank and promotes its reputation as a financially sound and reliable bank	High	High	Shareholders  Customers  Employees	Ensuring profitability through the balancing of increased revenue and controlled outflows. Retained profits support capital buffers.  Increased focus on retail deposits and middle and high-income groups.	Financial Capital Report  Business Segment Review  Financial Statements
2. Economic performance	A focus on economic performance drives direct economic value generation and distribution to stakeholders	High	High	Shareholders  Customers  Partners and suppliers  Employees	Increase in revenue through various streams	Financial Capital Report  Business Segment Review  Financial Statements
3. Prudent credit management and healthy NPL	Following due process and protocols in lending enables us to keep our asset quality raised and to bring down future NPLs	High	Low	Shareholders  Regulators	Centralised credit approval process with thresholds.	Business segment review  Risk management
4. Infrastructure investments	Physical and ICT infrastructure investments support business expansion and value creation.	High	Moderate	Employees  Customers  Partners and suppliers	Investments are currently limited to technological and digital infrastructure. Branch expansions remain constrained.	Manufactured capital  Intellectual capital
5. Anti-money laundering (AML)	To prevent the bank from facing the risk of fraudulent activities and corruption	High	Low	Employees  Customers  Regulators	Customer due diligence and KYC processes are in place along with sound risk management	Social and relationship capital

## Matters of Materiality

Material Topic	Reason for materiality	Relevance to the Bank's strategic focus	Relevance to Stakeholders with Direct and sustainable development impact		How we integrate into banking activities (management approach)	Relevant disclosure
6. Financial inclusion and a product mix for all	<p>As an LSB, we are responsible for providing financial sustainability to as much of the population who are financially vulnerable without causing detriment to the Bank's stability.</p> <p>It's important to have diversified solutions to cater to various financial needs of customers while enabling them to obtain credit under payment schemes structured to their financial capacities.</p>	High	High	Customers	<p>Bank's portfolio predominantly serves LIG and MIG customers and has an increasing focus on high-income earners to minimise non-performing loans and raise asset-quality.</p> <p>Moreover, we focus on retail and institutional depositors and borrowers to minimise dependency on institutional deposits.</p>	<p>Business segment review - SME and Development Finance</p> <p>Social and relationship capital</p>
7. Diversified touchpoints for enhanced accessibility	A diversified channel mix coupled with friendly and attentive customer service is essential to attract and retaining customers. Improving customer service and customer relations makes a positive impact on the bank and enables us to provide inclusive solutions	High	High	Customers  Partners	The revamped website, palmtop team and branch network for accessibility.	<p>Social and relationship capital</p> <p>Manufactured capital</p>
8. Customer privacy and data security	With increasing digital solutions and ICT systems in place, the need for customer privacy and data protection has increased in tandem.	High	High	Customers	IT department ensures all security protocols are in place and continues to improve standards based on Baseline Security Standards	<p>Intellectual capital</p> <p>Risk management</p>
9. Stakeholder communication and rights	<p>Maintain accountability and transparency.</p> <p>Our focus on sustainable business development entails economic value creation for all stakeholders.</p>	High	High	All stakeholders	<p>Sustained stakeholder engagement.</p> <p>Creating economic value for all stakeholders.</p>	<p>Capital management reports</p> <p>Stakeholder connections and engagement</p>

Material Topic	Reason for materiality	Relevance to the Bank's strategic focus	Relevance to stakeholders and sustainable development	Stakeholders with Direct impact	How we integrate into banking activities (management approach)	Relevant disclosure
10. ICT and digital transformations	<p>This enables us to provide enhanced process efficiency, reduce waiting times and enhance customer satisfaction.</p> <p>With banking services shifting to fintech, technology will reduce operational expenditures while increasing convenience and accessibility for customers.</p>	High	Moderate	<p>Employees</p> <p>Customers</p> <p>Partners and suppliers</p>	Investments in ICT and digital infrastructure	<p>Intellectual capital</p> <p>Manufactured capital</p>
11. Governance and compliance	We are answerable to our shareholders, regulators, the state and our customers, therefore a proper governance framework with a strong leadership (governance) structure ensures ethical conduct of transactions and protect their investments and adheres to the HDFC Act and other statutory laws and regulations, including CBSL directives.	High	Moderate	<p>Employees</p> <p>Regulators</p>	<p>Guided by several strong governance frameworks and regulations.</p> <p>Strong leadership with private and public sector backdrops</p> <p>Regular compliance checks</p>	<p>Corporate governance</p> <p>Board of Directors and Board sub committee reports</p>
12. Risk management	Financial services are innately linked with adversities from the micro and macro environment. Proactive risk management is necessary to mitigate risks and safeguard the interests of the bank and stakeholders.	High	Moderate	<p>Shareholders</p> <p>Customers</p> <p>Employees</p> <p>Partners and suppliers</p> <p>Regulators</p>	The risk department ensures risk assessment and compliance with statutory thresholds	Risk management
13. Financial consumer rights and access to information	We are accountable for depositors' money and for being transparent on credit conditions.	High	High	<p>Customers</p> <p>Regulators</p> <p>Community</p>	The marketing department and IT department disseminate information through physical and digital channels.	Social and relationship capital
14. Talent management (employment/recruitment, training, recognition, succession etc.)	Employees sustain the bank and enable business expansion through their experience, skills and capacity to learn and grow.	High	High	Employees	HR department undertakes talent management activities according to policies.	Human capital

## Matters of Materiality

Material Topic	Reason for materiality	Relevance to the Bank's strategic focus	Relevance to stakeholders and sustainable development	Stakeholders with Direct impact	How we integrate into banking activities (management approach)	Relevant disclosure
15. Occupational health and safety	Ensures employees' peace of mind and productivity	High	High	Employees	No practices that harm the health and safety of employees.	Human capital
16. Employee rights and collective bargaining	Their financial concerns and work conditions need to be safeguarded for the bank to sustain itself and grow.	High	High	Employees	Agreement with CBEU	Human capital
17. Diversity, inclusivity and equal opportunities	<p>We need to be recognised as an equitable employer as part of our focus on sustainable development. We endorse the rights of our employees to have equal opportunities irrespective of gender, religion, age and disabilities.</p> <p>We sustain a diverse workforce that represents multicultural backgrounds, various ages and genders.</p>	High	High	Employees	Through unbiased recruitment.	Human capital
18. Business continuity	When the pandemic occurred, it highlighted the need for business contingencies. Such plans are necessary to be prepared for future disruptions.	High	High	All stakeholders	<p>BIRMC assesses business continuity plans regularly.</p> <p>We undertake disaster recovery drills.</p> <p>Partners are required to provide BCP plans</p>	
19. Marketing and labelling	Important for brand awareness and to disseminate of product and service information	High	Moderate	<p>Customers</p> <p>Community</p> <p>Partner and suppliers</p>	The marketing team conducts numerous promotions and branding efforts	<p>Social and relationship capital</p> <p>Intellectual capital</p>

Material Topic	Reason for materiality	Relevance to the Bank's strategic focus	Relevance to stakeholders and sustainable development	Stakeholders with Direct impact	How we integrate into banking activities (management approach)	Relevant disclosure
20. Development finance and community development	As a specialised bank working closely with low to middle-income customers,	High	High	Customers Community	A separate department that focuses on SME development schemes and corporate finance	
21. Green-energy funding	With climate change and a requirement for renewable energy, we have a responsibility towards funding green energy, with opportunities to contribute to sustainable finance and a green economy.	High	High	Customers Community	Funding for green-energy-based projects and sustainability projects.	
22. Energy and water consumption management	We face the threat of depleting resources and climate change.	Moderate	Low	Employees Community	Solar power generation in selected branches and the practice of mindful consumption.	Natural capital
23. Waste management	To ensure that operations are not environmentally adverse	Moderate	Low	Employees Community	Collection of waste by local municipality garbage collection. Plastic waste collection through recycling company.	Natural capital
24. Macro environment	The country's economic conditions and monetary and fiscal policies tremendously impact the banking system and customer ability to conduct transactions. Political moves, industry changes and regulations, and social trends all have an impact on the bank's strategic focus and our ability to create stakeholder value.	High	High	All stakeholder	Daily monitoring of external events and monetary policy changes	External environment

# Matters of Materiality

## INTERNAL OPERATING ENVIRONMENT

By assessing the internal working environment of the Bank, we are able to capitalise on strengths and opportunities to create value while narrowing or eliminating weaknesses and threats which could pose potential risks.

SWOT	Material topics with an impact	Material matter	
Strengths	1,6	<ul style="list-style-type: none"> <li>Being a housing bank mandated by an Act of parliament</li> </ul>	
	1,2	<ul style="list-style-type: none"> <li>51% government holdings leverages the Bank in many ways</li> </ul>	
	19	<ul style="list-style-type: none"> <li>Comparatively high brand value built up over 36 years</li> </ul>	
	1,20	<ul style="list-style-type: none"> <li>49% shareholding of NHDA and the relationship with the Ministry of Housing</li> </ul>	
	11	<ul style="list-style-type: none"> <li>Being a listed entity, entails higher level of good governance and compliance requirements than other state banks</li> </ul>	
	1,2	<ul style="list-style-type: none"> <li>CSE listing provides an independent valuation to the organisation rather than other goes</li> </ul>	
	6	<ul style="list-style-type: none"> <li>Being one of the four institutions privileged to give EPF backed housing loans</li> </ul>	
	1,2,3	<ul style="list-style-type: none"> <li>Low capital adequacy requirement on Mortgage and EPF Backed loans leverages HDFC largely compared to other banks</li> </ul>	
	2,3	<ul style="list-style-type: none"> <li>Having on average longest financial assets based in the country majority backed by residential properties</li> </ul>	
	14	<ul style="list-style-type: none"> <li>Comparatively better educated and younger staff than the competitors</li> </ul>	
	14	<ul style="list-style-type: none"> <li>High-level of staff commitment and low staff turnover</li> </ul>	
	7	<ul style="list-style-type: none"> <li>Palm top operation with a presence in over 140 township</li> </ul>	
	Material topics with an impact	Material matter	Our approach
Weaknesses	6	<ul style="list-style-type: none"> <li>High concentration in the LIG and MIG markets</li> </ul>	There is potential to target high-income earners through diversifications
	6,20,21	<ul style="list-style-type: none"> <li>High cost of funds entailed by high level of institutional deposits, low savings and capital</li> </ul>	Increased efforts in retail deposit mobilisation by revamping existing products and promoting savings and deposit-based products
	6,20,21	<ul style="list-style-type: none"> <li>High dependency on limited number of FD customers</li> </ul>	Growing focus to attract deposit customers through rewards and offers
	19	<ul style="list-style-type: none"> <li>Limited brand awareness</li> </ul>	Increasing promotions and marketing efforts
	14	<ul style="list-style-type: none"> <li>Absence of performance based rewards and incentive culture</li> </ul>	Attractive benefits that have impacted a high retention rate
	2	<ul style="list-style-type: none"> <li>High operational cost and low productivity compared to the industry</li> </ul>	Use of tech infrastructure to improve productivity and reduce operational expenditures
	7	<ul style="list-style-type: none"> <li>Limited branch network and poor customer reach</li> </ul>	Encouraging customers to use e-banking while mobilising the palmtop team to reach remote areas



	Material topics with an impact	Material matter	Our approach
Opportunities	6,24	<ul style="list-style-type: none"> <li>Immense growth potential in the country's housing finance market</li> </ul>	Deploying hundreds of targeted promotions and using LED/ digital panels across locations island-wide.
	24	<ul style="list-style-type: none"> <li>Only two fully pledged housing finance players in the industry</li> </ul>	Continuing to provide credit schemes focused on housing while targeting various cross segments of the market
	6,20,24	<ul style="list-style-type: none"> <li>Huge untapped EPF backed housing loans market particularly among the higher salary earning members of the provident fund</li> </ul>	EPF-based products within the portfolio are promoted through focused communication and marketing activities.
	6,20,24	<ul style="list-style-type: none"> <li>Government focuses on housing sector as a key driver of economic growth</li> </ul>	We provide customers with subsidised lending schemes for targeted segments
	6,24	<ul style="list-style-type: none"> <li>Increasing demand for investment housing</li> </ul>	Product information that communicates the benefits of obtaining home loans
	6,20,21,24	<ul style="list-style-type: none"> <li>High rate of urbanization creates more opportunities in the urban sector</li> </ul>	Targeted promotions to attract potential customers
	6,20,21,24	<ul style="list-style-type: none"> <li>Increasing condominium market envisages increasing need of housing finance among the above middle-income families</li> </ul>	Targeted promotions to attract potential customers
	6,,21,24	<ul style="list-style-type: none"> <li>Growing middle-income group enhances the affordability and accessibility for formal housing finance to wider segment of the population</li> </ul>	Targeted promotions to attract potential customers
	6,24	<ul style="list-style-type: none"> <li>Increasing trend in country's employment rate enhance savings and borrowing prospects</li> </ul>	Targeted promotions to attract potential customers
	3,20,21,24	<ul style="list-style-type: none"> <li>Structural shifting of the economy from agriculture to services and industries creates more opportunities for secured lending</li> </ul>	Targeted promotions to attract potential customers in the private and public service sectors.
	6,20,21	<ul style="list-style-type: none"> <li>More prospects for product diversification and cross selling</li> </ul>	Continued diversifications into other savings, deposit and credit schemes with cross-selling of financial products and digital services to existing customers. E.g. HDFC debit card, Just Pay etc...
	13,19	<ul style="list-style-type: none"> <li>Great potential for brand promotion</li> </ul>	Hundreds of targeted promotions were conducted in the year under review. We have placed LED/ digital panels in numerous locations – island-wide as part of a growing marketing and branding strategy.
	7	<ul style="list-style-type: none"> <li>More openings for branch network expansion</li> </ul>	<p>Focused on expanding retail touchpoints continues but remains secondary to capital fulfilment.</p> <p>We pursue the alternative of establishing all necessary digital touchpoints.</p>

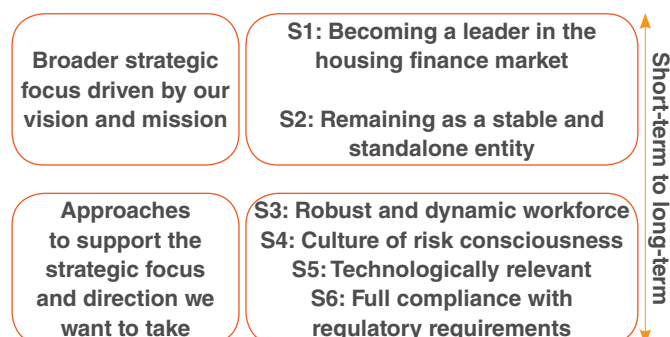
## Matters of Materiality

	Material topics with an impact	Material matter	Our approach
Threats (potential risks)	21,24	<ul style="list-style-type: none"> <li>Many banks play in the housing finance market with innovative and dynamic loan products at competitive interest rates</li> </ul>	<p>Taking actions to improve customer service and efficiency with technological advancements and training.</p> <p>Targeting segments with financial limitations through targeted promotional activities and marketing efforts.</p>
	11,18	<ul style="list-style-type: none"> <li>Uncertainty about corporate future stems from state's policy on proposed merger and amalgamations</li> </ul>	Continuing to maintain profitability, prudent resource management and business continuity processes in readiness for such transformations.
	1,2,6,20,24	<ul style="list-style-type: none"> <li>Big banks' striving to penetrate middle-income housing finance market threaten HDFC's margin in the medium term unless cost effective funding sources are arranged</li> </ul>	Targeting segments with financial limitations through targeted promotional activities and marketing efforts.
	2,4,10	<ul style="list-style-type: none"> <li>Majority government holdings creates strategic challenges and operational bottle necks which hinder HDFC from enjoying market competitive advantages</li> </ul>	Diffusing deposit base to hold a healthy balance of State and Private sector deposits
	1,2,12	<ul style="list-style-type: none"> <li>Lack of long term, low cost funding sources</li> </ul>	<p>Pursuing revenue growth and prudent financial management to increase post-tax profit.</p> <p>Possibility of bond issues to source funds</p>
	12,24	<ul style="list-style-type: none"> <li>Highly volatile finance market exposes the Bank to frequent interest rates mismatches</li> </ul>	Financial risk management focuses on proactively managing market risk
	1,2	<ul style="list-style-type: none"> <li>Increasing capital adequacy requirement with the implementation of Basal III which may be hard to be full filled within the existing statutory framework</li> </ul>	Pursuing revenue growth and prudent financial management to increase post-tax profit, this can be infused into the capital requirement.

# STRATEGY AND RESOURCE ALLOCATION

Across the fiscal year of 2022, our strategic plan continued to guide operational activities and goals. The strategic plan reflects our willingness to be competitive and innovative within the industry while creating a robust corporate culture that is built on prudent risk management and strong corporate governance. As a financial intermediary, we have a growing focus on adopting a risk conscious culture and strong governance, as a way of sustainable growth and stability within the banking industry. Customer confidence can only be gained through goodwill and good reputation, enhanced by improving service levels and inclusive products. With all this in mind, we have crafted a strategic focus, pursued through strategic objectives that are driven by a set of metric-based operational goals.

Our strategy is driven by the following objectives.



## BROADER STRATEGIC FOCUS AND OPERATIONAL GOALS

As a relatively smaller bank providing sustainable solutions for those with financial vulnerabilities, we have a responsibility to maintain our operational goals and statutory obligations. Maintaining operational goals provides the yardsticks with which to measure our fulfilment of the strategic focus while ensuring that we continue to maximise stakeholder value creation.

The recent economic disruptions and the previous impacts from the pandemic, have made it challenging to reach the desired goals. Yet, we have remained profitable through prudent management of all capitals, mainly financial capital and other key capitals.

### Operational goals

1. Increased retail deposit composition
2. Increased assets
3. Increased equity
4. Increased return on investments
5. Increased capital reserve
6. Improving credit rating
7. Reducing NPL levels
8. Increased market share

## ACHIEVING THE STRATEGIC FOCUS

### S1: Becoming a leader in the housing finance market

With 70% of our loan portfolio in housing related lending, we already possess a strong core in housing finance. Our focus is on expanding our presence as an LSB through market penetration, market and product development and diversifications.

#### Resource allocation

- Investments in expanding our physical footprint with additional island-wide branches
- Employees trained to provide housing loans to customers from various income levels and preferences
- Investments in targeted marketing, more digital/online promotions,
- Investments in upgrading ICT systems and implementing solutions to increase speed of service will become key variables that support customer decision-making.
- Diversified products targeted at housing and home improvement finance.

### S2: Remaining as a stable and standalone entity

Higher revenue and higher profitability is the sustainable way to ensure this objective. However, the constraints of 2022 added pressure on maintaining a healthy NPL level and managing risk exposures. Nevertheless, we experienced higher interest income during FY 2022, which contributed towards profitability of Rs. 326 Mn (PAT).

#### Resource allocation

- Increased marketing efforts for increased revenue
- Leadership and staff commitment towards deposit mobilisation
- Staff commitment towards higher interest income through prudent recovery and collection strategies

### S3: Robust and dynamic workforce

To maintain a highly competent and dynamic workforce, we must provide our staff with the right information and knowledge, while providing them with the opportunity for autonomous and innovative thinking. Moreover, retaining employees will enable us to build a reliable workforce that understands HDFC values and inner workings.

#### Resource allocation

- Allocating investments for employee benefits and training
- Annual training schedule for general and need-based training
- Investments in tech infrastructure for optimum efficiencies

# Strategy and Resource Allocation

## S4: Culture of risk consciousness

A bank wide culture of risk consciousness is crucial to curb risk exposures at the credit approval level. At present, our prudent credit approval strategy which has several approval levels has resulted in better credit quality. What we now require is strengthening our training in inculcating a risk-aware culture across our branches and head office departments; and, strengthening risk assessment and management methods.

### Resource allocation

- Credit department and risk management unit will work in unison in assessing credit limits and centralise high-valued loan approvals.
- Oversight by the Board Credit Committee
- Specialised credit staff to assess risk's based on customer behaviour and credit quality on past dues. for corporate clients
- Risk department to focus on low risk weighted assets (e.g. EPF and mortgage backed loans)
- Risk management based targeted training programs

## S5: Technologically relevant

We are taking gradual efforts at being technologically relevant in all areas of operations – investing in core banking infrastructure, including digital and cyber security solutions.

### Resource allocation

- Financial allocations to fund new technologies
- IT steering committee to oversee projects and completions and IT governance
- Competent IT department to oversee IT related operations and governance related matters

## S6: Full compliance with regulatory requirements

We are yet to comply with the minimum capital requirement of Rs 7.5 Bn as stipulated by the Central Bank of Sri Lanka. In achieving the gap, we pursue the strategy of maintaining higher profitability, which became constrained during the year due to the economic crisis, higher interest rates and higher non-performing loans.

### Resource allocation

- Asset and Liability committee workings
- Board and corporate management strategies to maintain high profit retention
- Higher revenue through enhanced and coordinated efforts at collection, recoveries
- Deploying technologies with potential to generate non-interest revenue

## GOALS BASED ACTION PLANS

Goal	Strategy	General action plan		
		S	M	L
Improving market share	Market penetration and development	<ul style="list-style-type: none"> <li>• Cross-selling and up selling to a market cross segments other than low-middle-income groups</li> <li>• Reduced turnaround times to improve business transactions</li> <li>• Expanding branches</li> </ul>		
	Product development and diversifications	<ul style="list-style-type: none"> <li>• Gold loan schemes</li> <li>• Brand building</li> <li>• Risk-based pricing</li> <li>• Expand development and corporate credit portfolio</li> <li>• Floating loan rates</li> </ul>		
Reduce NPL level	Increasing new loan quality	<ul style="list-style-type: none"> <li>• Enhanced credit evaluation</li> <li>• Focused credit evaluation training</li> </ul>		
	Prudent loan collections	<ul style="list-style-type: none"> <li>• Good rapport with borrowers</li> <li>• Flexible payment options</li> <li>• Soft recovery approaches</li> </ul>		

Goal	Strategy	General action plan		
		S	M	L
Improved ROA	Non-interest income growth	<ul style="list-style-type: none"> <li>Increased utility payments through palmtop operators</li> <li>Increased e-banking and mobile app transactions</li> </ul>		
	Savings growth	<ul style="list-style-type: none"> <li>Promotion of savings, including children's savings</li> <li>Palmtop operation to gain more deposits</li> </ul>		
	Improving operational productivity	<ul style="list-style-type: none"> <li>Workflow improvements</li> <li>Paperless processes</li> </ul>		
	Improve staff productivity and motivation	<ul style="list-style-type: none"> <li>General training and targeted need-based programs</li> <li>Training for accountability</li> <li>Career prospects</li> <li>Skills audit</li> <li>Management trainee program</li> </ul>		
Increased retail deposit	Market and product development	<ul style="list-style-type: none"> <li>Increased mass media advertising</li> <li>Palmtop direct sales</li> <li>Branch improvements and better brand visibility</li> <li>Revamped website</li> <li>Social media engagements/marketing</li> <li>Savings rewards</li> <li>New savings products</li> </ul>		

S- short-term M- medium-term L- long-term

## WAY FORWARD

With the change in executive leadership in 2023, we anticipate changes that would complement the previously followed objectives and targets without any substantial deviations. Our focus will continue to be competitive with a stable and strong financial position in the industry.

# BUSINESS MODEL

## EXTERNAL AND

### INPUTS



#### FINANCIAL CAPITAL

- Shareholders Fund
- Deposit Base
- Total Assets
- Borrowings and Debentures
- Investments
- Interest and non-interest income



#### HUMAN CAPITAL

- Policy Framework
- Performance Evaluation
- Recruitment and Retention
- Competitive Benefits and Remuneration
- Training and Development

#### INTELLECTUAL CAPITAL

- Organisational Knowledge
- Housing Finance knowledge and processes
- Doorstep Banking
- Unique Products
- Tailored Information Systems



#### SOCIAL AND RELATIONSHIP CAPITAL

- Multi channel digital touch-points
- Geographically diverse network
- Retail and Palmtop banking
- Diverse Loan and Deposit products
- Partners
- Diverse Suppliers
- Partnership with institutions
- Focus on developing smallholders and SMEs
- Regulator Relations
- Supporting communities/SMEs
- Development Projects
- CSR



#### MANUFACTURED CAPITAL

- Branches
- Property, Plant and Equipment
- Tech infrastructure
- ATM network

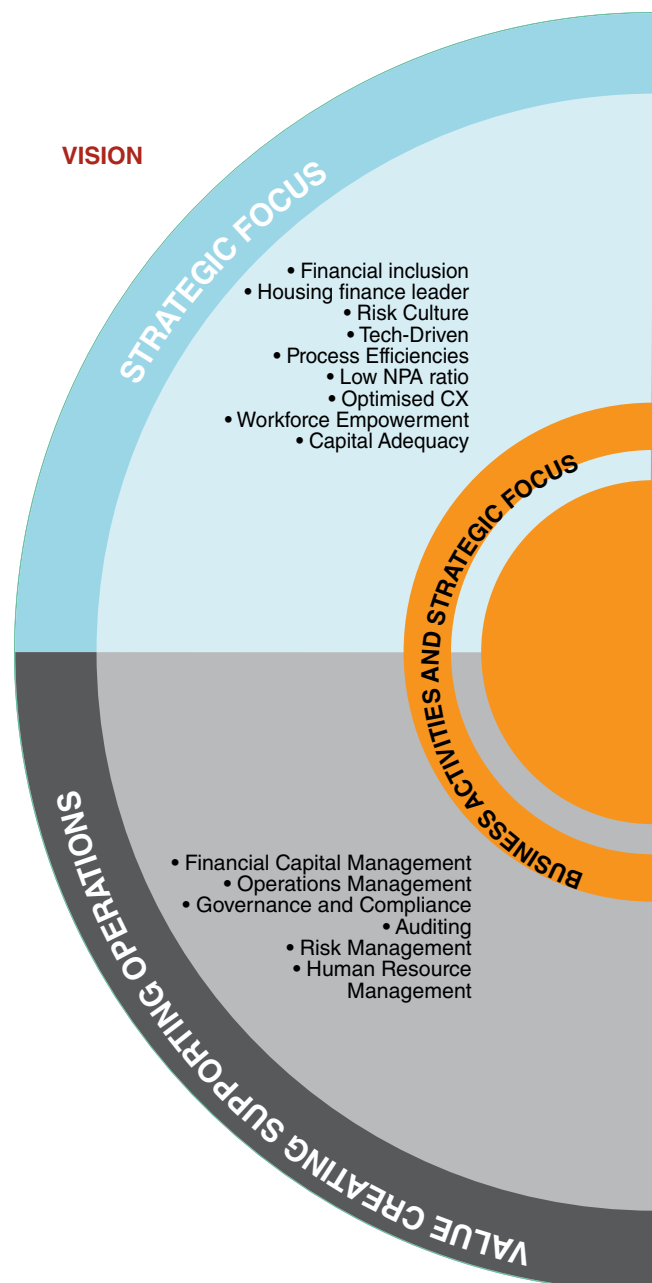


#### NATURAL CAPITAL

- Plastic waste recycling
- Renewable energy
- Utilities consumption
- Nurturing nature

### ACTIVITIES THAT CREATE VALUE

#### VISION



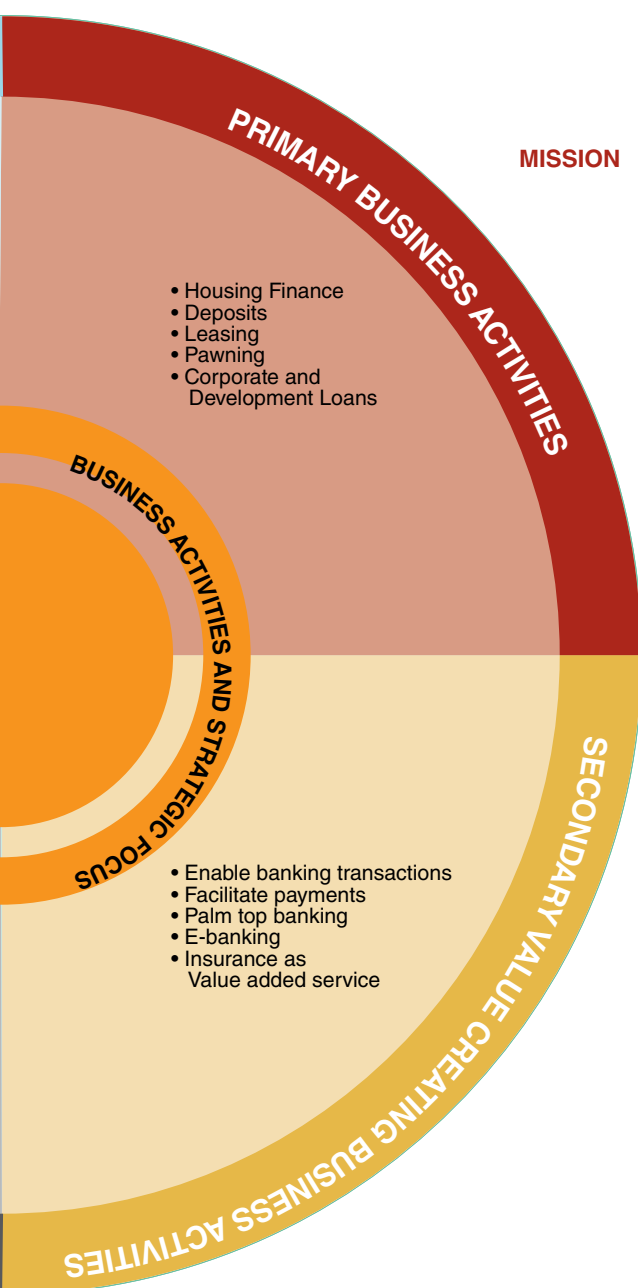
#### OUTPUTS

- Housing Loans - Mortgaged
- Housing Loans – EPF Backed
- Housing Loans - Guarantor
- Gold Loans
- SME Business Loans



## REGULATORY ENVIRONMENT

### ACTIVITIES THAT CREATE VALUE



- Corporate Business Loans
- Leasing
- Fixed Deposits
- Savings

### DESIRED OUTCOMES



#### FINANCIAL CAPITAL

- Continuous Profitability
- Tax revenue to GOSL
- Adequate capital base
- Good asset quality
- Credit quality



#### HUMAN CAPITAL

- Training for all employees
- Professional growth
- Advancements and Successions
- Multi-skilling
- Increased productivity
- High retention rate
- Self-driven initiatives
- Creative thinking
- Increased knowledge in banking and technology
- Compliance to regulations
- Work with HDFC values
- Focus on Strategic objectives
- Achieve goals



#### INTELLECTUAL CAPITAL

- New technological solutions
- Diversified products
- Palmtop banking
- Core banking system
- Loan and collection Management solutions
- Brand value



#### SOCIAL AND RELATIONSHIP CAPITAL

- Financial inclusivity through palmtop banking
- Value added provisions
- New financial instruments
- Digital banking and mobile services



#### MANUFACTURED CAPITAL

- Increasing Assets and PPE
- Growing branches and ATMs
- Increasing tech infrastructure



#### NATURAL CAPITAL

- Paper recycling and reuse
- Solar energy generation
- Efficient power consumption
- Trees planted

# OUR CONTRIBUTION TO SDGS

Although smaller in size and scale within the broader Banking and finance sector, we believe that we are making a growing impact on SDGs. The UN's Sustainable Development Goals have become a guidepost and a comprehensive framework with which to approach sustainable development in an integrated manner. This year, we have gone into additional detail to present the relevant targets under each common goal to which we contribute.



## GOAL 1: NO POVERTY

### 1.1

- Employee salaries are on par with industry averages, even at the contract or probationary levels. Employees receive a range of benefits, including those hired on part-time or contractual basis.

### 1.4

- Employees, who join the bank on temporary, part-time or contractual basis, received equal pay and benefits applicable to their categories, irrespective of gender and other social norms.
- At HDFC, our work is to financially empower people with housing requirements. Our loan schemes benefit those with economic hardships and provide financial relief to various niches with housing-based needs and savings for various purposes and MSME requirements.



## GOAL 3: GOOD HEALTH AND WELL-BEING

We ensure employee health and safety through clean, smoke free work environments and access to medical benefits.



## GOAL 4: QUALITY EDUCATION

We provide equal opportunities for employees for training and knowledge enhancements with the ability to elevate their skills for career growth. Each permanent employee, including recruits, receives proper training alongside equal pay for work of equal calibre, without discrimination. In 2022, employees logged in a total of 5351 training hours.



## GOAL 5: GENDER EQUALITY

### 5.1

Employees of all genders receive equal economic benefits and access to facilities that enable a positive work environment. Female employees are entitled to maternity leave, while male employees receive paternal leave on request.

### 5.5

We uphold unbiased selection of employees to any position within the bank's hierarchy. Female professionals represent the several corporate management positions within the Bank – providing leadership to strategic decision-making and bank operations.



## GOAL 6: CLEAN WATER AND SANITATION

### 6.1, 6.2

All our employees across all branches have access to clean drinking water and sanitisation facilities. We use proper cleaning equipment to maintain hygiene while providing employees access to clean and filtered water for consumption.



## GOAL 8: DECENT WORK AND ECONOMIC GROWTH

### 8.6/8.7

Most employees within our workforce are between 30-50 years of age, demonstrating a similar share of youth that receive education and training for career and knowledge growth. Moreover, the human resource team headed by the Senior Manager of HR ensures that all recruits are above 18.

### 8.8

The management ensures the occupational health and safety of all staff. Measures such as CCTV cameras for security and cleaning mechanisms for health and hygiene are in place. As a financial institution we deploy security officers at all branches.

We uphold employees' rights to proper remuneration, in force through collective bargaining and agreements with the Ceylon Bank Employees' Union. In 2022, we honoured the conditions of the 2021-2023 collective agreement by providing increments and financial incentives.

### 8.10

Our financial services are accessible to all. Our portfolio of borrowers includes those from low-to middle-income brackets and clients with higher repayment capacities. Our focus on providing housing finance has now diversified towards other forms of lending for individual and business needs. We also strive to enhance financial literacy among our customers, by educating them on the importance of timely repayments and in adjusting their repayment capacities to reflect their livelihoods.



## GOAL 9: INDUSTRY, INNOVATION AND INFRASTRUCTURE

### 9.3

We provide MSME business with access to development finance through various credit plans. During the year of 2022, we have disbursed Rs. 430 Mn under including agro, domestic cottage industry, rubber, apparel, arts and recreation sectors, professional services etc.



## GOAL 10: REDUCE INEQUALITIES

### 10.3

The Bank provides equal opportunities to employees, without barriers. Each employee is entitled to receive proper remuneration according to their experience and job role. There are differences between what part-time and full-time employees receive as basic salary and remuneration, which is universal. However, part-time employees receive benefits including medical reimbursements.



## GOAL 11: SUSTAINABLE CITIES AND COMMUNITIES

### 11.1

Target 11.1 aligns with our bank's agenda of providing financial solutions for sustainable housing and living standards. We work with people from all financial backdrops and livelihoods, to provide solutions that match their economic tolerance levels. In 2022, we disbursed Rs. 5.6 Bn in housing loans, and restructured loans for customers who face repayment challenges due to the economic crisis and inflation.

## Our Contribution to SDGs



### GOAL 12: RESPONSIBLE CONSUMPTION AND PRODUCTION

#### 12.5

In 2022, we partnered with Eco Spindles, Sri Lanka's largest plastics recycling company. Due to the partnership, plastic waste collection bins are now placed at selected bank branches, for customers and employees to dispose recyclable plastic waste including pet water and soft drink bottles, hand sanitizers, empty plastic containers etc. The plastic will be separated for the recycling process, resulting in plastic-based raw material production such as bristles and yarn.

#### 12.8

As a financial intermediary, we provide our employees with relevant information and awareness on our financial solutions, deposits and credit schemes. We use several channels to disseminate information, using clear and precise writing to convey information.



### GOAL 13: TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE

#### 13.1

The bank's operations do not pose any risk of environmental disasters.



### GOAL 14: LIFE BELOW WATER

#### 14.2

HDFC head office sits in close proximity to the Beira Lake, connected to the Indian Ocean. Waste from the head office and the building is gathered into waste storage bins, for collection by the municipal waste collectors. Sewage goes into separate tanks, ensuring that the lake water is not contaminated by our activities.



### GOAL 16: PEACE, JUSTICE AND STRONG INSTITUTIONS

#### 16.1

Across all branches, we have zero tolerance for gender-based violence and harassment. In resolving such incidents, employees receive a formal and transparent grievance handling process, where we ensure fair judgement with support.

#### 16.5

The bank does not tolerate bribery and corruption and uses direct legal action against any perpetrators. Our corporate management, managers and legal officers monitor financial crime and misappropriation, and receive regular training on anti money laundering. We also provide external or internal training on monetary law acts and on the legal aspects of lending and transfers. Based on job roles, we use risk management training, imparting knowledge to handle financial risks. During the year, there were no incidents of bribery and corruption.

#### 16.10

We maintain compliance with all applicable banking, accounting and other laws/regulations, and have not faced any fines or sanctions in 2022. We have also complied with all customer communication related codes and regulations. We also refrain from any competitive behaviours or monopoly practices that compromises stakeholder trust.

In previous years, we have not faced any complaints regarding breaches of customer privacy and data. Directors and the management have pledged to maintain all transactions of customers confidentially, unless required to disclose in a court of law, to the board and complying with provisions of the HDFC act.

#### 16.6

Bank conforms to best governance practices and regulatory guidelines, affirming accountability and transparency. Furthermore, the related party transactions committee ensures that there are no conflicting interests and the related party disclosure policy provides details actions to be taken at such instances.

Disclosures are also made on additional positions held by the Chairman and board members in other organisations and all board members do not have executive leadership responsibilities. For Board, subcommittee and governance related disclosures refer pages 124 - 166.



## GOAL 17 PARTNERSHIP FOR THE GOALS

### 17.1

Supporting the government to rebound economically, the bank makes timely tax payments based on taxable income.

### MOVING FORWARD

We understand that there are significant gaps that need to be fulfilled, especially in measuring our contribution to SDGs quantitatively, wherever applicable. However, in the short-run, fully integrating SDGs into the business will be an overarching challenge as we continue to deal with the immediate focus of navigating out of the effects of debt moratoriums and macroeconomic challenges.

### LONG-TERM APPROACHES (ADDRESSING GAPS)

- Establish a sustainability governance committee
- Conduct an impact assessment of our operations - work with an independent partner (academic) in assessing positive and negative impact through our operations.
- Gather stakeholder feedback on sustainable development
- Contribute to a wider range of targets under common goals
- Change information management systems to support data gathering and sustainable reporting
- Integrate sustainable development to business strategy.







# LEADERSHIP

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## CHAIRMAN'S MESSAGE



**Dear Stakeholders,**

On behalf of the Board of Directors, I warmly welcome you to the 38th Annual General Meeting of HDFC Bank. It gives me great pleasure to present to you, on behalf of your Board of Directors, the Annual Report of the Bank for the financial year ended 31st December 2022. It has been with the shareholders for the prescribed period of time, and I shall, with your permission, take it as read.

My appointment to your Board in April 2023 followed the resignation of my predecessor Ms Wasanthi Manchanayake in February 2023. I shall endeavour to be as lucid as possible when commenting on the past year's performance of the Bank.

Your bank operated mainly in a niche market during the year under review and remained resilient and relevant against continued macroeconomic, social and political challenges and amidst continuing headwinds from the impacts of the global and domestic environment. Sri Lankans experienced disruption and ambiguity on a scale never seen before due to the post-pandemic economic woes and subsequent social unrest due to higher inflation, scarcity of essentials at affordable prices and political upheaval.

This message comes amidst a period where past economic challenges are still echoing through the sector. However, we are seeing some positive signs with the gradual restoration of economic stability after experiencing years of fiscal disruption, restrictive trade, and unsustainable debt levels and multiple sovereign down grades. In 2022, the Sri Lankan economy recorded the highest economic contraction since independence, principally driven by the ripple effect of the twin crisis – economic and political.

Banking sector stability remained intact across the year while braving critical challenges such as waning credit quality, severe pressure on liquidity, receding profits due to higher impairment and receding capital reserves. Nevertheless, the banking sector grew in assets and deposits while remaining compliant with regulatory requirements, to a good extent.

Your bank also performed well and declared an annual profit after tax of Rs. 326 M. with a stable balance sheet. Our customers and stakeholders maintained their trust in your bank throughout this tumultuous year.

Flexibility and prudent financial management ensured sound and safe business continuity, with due attention to customers' difficulties in a stressed environment. The bank managed to maintain a semblance of a growth momentum and adequate liquidity. Nevertheless, the focus of the fiscal year was to facilitate and retain clientele, in a less than favourable environment, whilst building sustainability.

The bank possesses a highly concentrated but secure credit portfolio backed by the EPF guaranteed scheme and housing property mortgages. Our focus was also on prudent impairment provisioning and maintaining adequate liquidity whilst achieving profitability through operational efficiency and sound risk management.

The management is committed to supporting the national agenda for economic stability and growth by facilitating the financing needs of MSME's and supporting their invaluable contribution to national growth. The Bank will pursue this strategy of growth in development banking and work towards sourcing suitable funding lines and required processors to meet the above requirement.

In the short term we anticipate macro-economic challenges to exert pressure on the performance of the Bank due to increasing impairments from the deterioration of the portfolio quality and investment in government securities.

While it is difficult to predict how the situation will evolve given the uncertainties surrounding the economy, we remain cautiously optimistic about economic recovery.

On behalf of the Board, I take this opportunity to thank the former Chairperson, Mrs Manchanayaka, who resigned during the year, for her valuable commitment, guidance and contribution to the Bank over the years and Mr. Susantha Silva who also resigned during the year, for his invaluable contribution.

I welcome to the Board Mr. Rajeeva Sooriyaarachchi and Dr. P A Krishantha who joined us in June 2022 and Mr. Prabath Chandrakeerthi who joined us in April 2023, further enhancing the skills and experience of the Board.

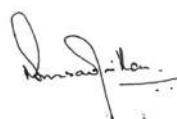
I join the Board in appreciating the dedication and commitment of the former CEO Mr Palitha Gamage and former COO Mr A. J. Athukorala.

As we close another challenging year and step into another, I take this opportunity to thank and appreciate all the hard work and unstinted commitment demonstrated by the senior management and the entire HDFC Bank team in adding value to all our stakeholders and in taking the Bank through extraordinary challenges in the year under review.

I extend my heartfelt appreciation to my colleagues on the Board whose collective expertise and professional experiences became indispensable in the year under review and on which I would depend greatly in the year ahead. Moreover, I appreciate the contribution made by all the Board sub-committees in their roles in driving the board's agenda for the Bank.

I join the Board in extending a warm and sincere welcome, to our GM/CEO Mr Nishaman Karunapala who joined our team in January 2023 following a long and illustrious career in financial services in Sri Lanka.

Together with the Board of Directors, I take this opportunity to convey our appreciations to the officials of the Central Bank of Sri Lanka and the Ministry of Finance, our valuable customers, business partners and all other stakeholders who have been an integral part of the Bank's stability during this challenging year.



**D Soosaipillai**  
Chairman



### *To our stakeholders,*

It is my privilege and honour to address you as your newly appointed General Manager/ Chief Executive Officer and to present to you the annual report for the year ended on 31st December 2022, along with a review of the financial and operational performance of the year.

The Bank adopted a cautious approach in 2022 while being cognizant of multiple challenges encountered across the year. Nevertheless, we ended the year with top-line growth, more robust core capital, and a stable liquidity position. However, profitability and returns to shareholders eroded while balance sheet growth tapered due to various challenges.

Despite compounding adversities, we remained a partner to the nation's development by shouldering the concerns of stakeholders. We addressed the pains of borrowers through moratoriums, a minimum upward revision of interest rates and rescheduled loans, which resulted in the Bank bearing increased funding costs to meet affordability. Nevertheless, I am pleased to state that the support we receive from the State, being one of four banks carrying out EPF-backed lending and having a secured housing loan portfolio, acted as strong anchors of confidence across the year.

## **ECONOMIC BACKDROP**

2022 was perhaps the most challenging year in recent history. The economic climate became acutely disturbed due to several factors. A substantially depreciating Sri Lankan rupee and the acute foreign currency crisis resulted in the country's inability to procure essentials including coal and petroleum products, resulting in nation-wide power outages and fuel shortages. Spiralling inflation made matters more volatile, as the nation plunged into social unrest and political upheaval in the midst of civilian uprisings.

The country's economy faced many uncertainties, including support from international funding agencies. While the country's newly appointed leaders succeeded in securing an IMF extended fund facility, the road to securing a bailout package lead to much needed yet socially unpopular actions. Moreover, debt restructuring, and the political climate remained unstable and uncertain for most of the year extending towards most of 2023.

Real GDP contracted by 7.8%, with much of the contraction in the industrial sector (16.2%), while agriculture and service sectors contracted by 4.6% and 2%, respectively and attributed mainly to fuel shortage, power outages and social unrest. The Government of Sri Lanka committed strongly to engaging with the IMF to stabilise the economy and enter into a path of recovery. The proposed program to seal the IMF bailout brought about significant change and reform in the form of higher taxes, elevated interest rates, tightening liquidity, cost-reflective pricing, privatisation etc.

The impact of these was felt severely by all segments of the population, particularly low and fixed-income earners, leading to a significant uptick in migration and foreign employment. Nonetheless, marked improvements were witnessed in economic fundamentals particularly the current account position, with the trade deficit considerably narrowing.

The construction sector, which is directly related to our lending business, reported a negative growth of 20.9%. Moreover, the progress in Government-backed housing development projects remained stagnant in 2022, reflecting the impact of tight fiscal space and supply shortages in raw materials as well as the surge in the cost of inputs in the construction sector during the year.

## **BANK'S SUPPORT TO THE ECONOMY**

The support we extend to our customers exemplifies our support for uplifting the economy. Despite adopting a constrained approach in all aspects of the business, we allowed our borrowers maximum access to liquidity amidst trying times.

We extended moratoriums to the tourism sector, which witnessed stagnating tourism arrivals during the early part of the year. Moreover, we extended moratorium facilities to the housing loans sector as a way of helping our customers buffer the significant allocations they are required to make for repayments amidst the surging cost of living.

We continued to reschedule selected loans across the year, with reprising approaches to balancing the interests of customers and the Bank. We focused on supporting MSMEs by optimising finances to withstand unsustainable interest rates.

### FINANCIAL PERFORMANCE

Our revenue increased during the year due to elevated interest rates. However, this was limited by delayed repricing of the loan book. Fee and other income sources did not reach their full potential during the year, while interest expenses outpaced top-line growth as the Bank maintained access to funding. Gross income increased by 27% to Rs. 8.9 Bn from Rs. 7 Bn reported the previous year. Despite this increase, pre-tax profit plummeted to Rs. 612 Mn from Rs. 1.2Bn reported in 2021. Nevertheless, we remained a profitable bottom-line, reported as Rs. 326 Mn for the financial year 2022.

Operating expenditure was largely impacted by inflationary impacts as well as staff remuneration which increased to counter the impact of inflation on our employees. It is pertinent to mention that the bank possesses a more secured credit portfolio compared to the industry even though the NPA ratio is high. The higher tax regime, 18% value-added tax addition, and the introduction of a 2.5% of Social Security Contribution Levy (SSCL) and 30% corporate income tax impacted the bottom line, decelerating it further.

While the Bank maintained a capital adequacy ratio well within the statutory threshold, the capital base requirement of Rs. 7.5 Bn remains to be met. The Bank also maintained high liquidity across the year, despite the uncertain backdrop, which in turn had an impact on return on assets (ROA).

### OUR PEOPLE

Our employees are the most valuable asset, with many employees having dedicated decades of loyal service. It must be emphasised that the stability of 2022 became a reality through their hard work and decisions based on the best interest of the Bank and stakeholders. In 2022, strategies to ensure employee growth remained at a positive momentum as we did not compromise on our commitment to the growth and stability of our employees. In 2022, we made a higher investment in our employees with timely remuneration and bonus payments to help buffer the surge in the cost of living. We also provide financial benefits and increased remuneration. Training programs became a core focus, with employee skills and knowledge amplified through a well-planned training schedule.

### OUTLOOK

In the last few years, we witnessed the full spectrum of risks dawn upon us. From the Easter terror attacks, the pandemic, social and political unrest and the economic crisis, we have witnessed it all in the just the last three years. A resilient business model has never been more crucial.

In addition, it's essential to ensure deepening market and service channels and product offerings to reach more customer cross-segments. In maintaining financial stability, it's essential to seek cost efficiencies. As a Bank, it's equally important to navigate economic distresses by improving the quality of the loan book.

Recovery of tourism will be an economic driver in the short term; however, attracting FDI and export promotion are the only viable long-term solutions in turning the economy around. HDFC will be a committed partner in helping the country rebound by introducing market-driven new liability and credit instruments to facilitate the SMMEs (small, micro and medium size enterprises). More importantly, the bank will be directed to engage in investment and development banking activities by prioritising national needs.

## ACKNOWLEDGEMENTS

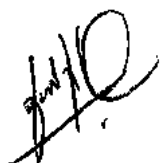
I take this opportunity to thank our valued customers who have partnered and remained with the HDFC family in their journey of growth. I am also thankful for all our service providers who continued their long journey as they gain mutual benefits.

On behalf of the management, I wish to thank the relevant officials of CBSL, CSE, SEC, Finance Ministry and CRIB for the support and guidance provided to continue our operations.

I take this opportunity to thank the Board of Directors for placing their trust in my capabilities to help navigate the Bank and for their guidance during the very vulnerable period of the economy. I am also thankful to our outgoing Chairperson, Mrs W. Manchanayaka, and congratulate Mr E.D.P. Soosaipillai on his appointment as the Chairman. I believe that his knowledge, core competencies and experience will be instrumental for the Bank on its path to rapid growth.

I also wish to extend my sincere appreciation to the outgoing GM/CEO, Mr P. Gamage and COO, Mr A. J. Athukorala, for their valuable contributions to the Bank.

I extend my appreciation to the Corporate Management and Heads of Divisions and all staff for providing relentless support since assuming duties. With their dedication, I anticipate a financial year with stronger growth momentum for the bank and our valued customers, shareholders, and other stakeholders.



Nishaman Karunapala  
*CEO/General Manager*



## BOARD OF DIRECTORS



Left to Right

1. Mr. E.D.P. Soosaipillai - Chairman
2. Mr. P. M. K. Hettiarachchi - Director
3. Dr. Krishantha Pathiraja- Director
4. Mr. Rajiv Sooriyaarachchi - Director
5. Mr. P. A. Lionel- Director



Left to Right

- 6. Senior Professor A. Jayamaha - Director
- 7. Mr. D. M. M. M. Wijayarathna- Director
- 8. Mr. W. M. Ananda - Director
- 9. Mr. B. K. Prabath Chandrakeerthi- Director

# BOARD OF DIRECTORS PROFILES

## Mr. E. D. P. Soosaipillai

**(Chairman / Non-Executive, Independent Director)**

Mr. E. D. P. Soosaipillai was appointed as a Director and the Chairman of the HDFC Bank with effect from 12th April 2023.

Mr. D. Soosaipillai is a fellow of the Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka. In a career spanning over 35 years in the governance of financial and reporting systems both at the operational and strategic levels, Mr. Soosaipillai brings to the table a core discipline in finance, a core competency in Risk Identification, Assessment and Management at operational levels and Forward Risk Assessment at a strategic level and three decades of experience in senior management in the financial services industry.

His decade and a half of board level executive experience spans that of several leading specialised leasing companies in the capacity of Finance Director, Chief Executive Officer and Managing Director, whilst his experience as a Non-Executive Director includes the boards of LFCs, a Systemically Important LCB and Regional Plantation Companies.

He was briefly engaged by the World Bank as a Short Term Consultant on a Payables Assessment assignment in the Maldives as part of a wider Public Finance Management project in 2012.

## Senior Professor A. Jayamaha

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

Senior Prof. Jayamaha was appointed as a Board Member of the HDFC Bank with effect from 10th August 2020.

Senior Prof. Jayamaha completed his B.Com Special degree in 1982 and M.Com degree in 1991 from University of Kelaniya. In 2005, he moved to the University of Southern Queensland, Australia, to pursue his Doctoral studies, and in 2010 he was awarded the Degree of Doctor of Philosophy in Accounting and Finance. His PhD research at the University of Southern Queensland, Australia, was on "Accounting and Financial Practices and Efficiency of Small Financial Institutions in Sri Lanka". His work focused on the efficiency of small and medium-sized enterprises in Sri Lanka; his finding was presented at national and international conferences, published in many peer-reviewed local and international journals and appeared in many researches around the World.

Senior Prof. Jayamaha counts for over 40 years of service at the University of Kelaniya, serving as Head of the Department of Human Resource Management, Head of the Department of Accountancy, Coordinator of the Master of Business Administration programme in the Faculty of Commerce and Management Studies and Dean of the Faculty of Graduate Studies of the University of Kelaniya.

Senior Prof. Jayamaha is also a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and practitioner and precedent partner of Jayamaha, Pushpakumara and Company. As a qualified Chartered Accountant, he rendered his duties as a consultant for numerous extension programs and thereby contributing to policy-making endeavours for the National Education system of Sri Lanka. Further, Senior Prof. Jayamaha has also been a Director, Board Member of the Sri Lanka Accounting and Auditing Monitoring Board since 2021.

## Mr. W. M. Ananda

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

Mr. W. M. Ananda was appointed as a Board Member of the HDFC Bank, with effect from 24th February 2021.

Mr. Ananda (Special Grade SLAS Officer) is presently working as the Additional Secretary (Housing & Development) in the Ministry of Urban Development and Housing. He commenced his career as an Assistant Director of Establishments in the Ministry of Public Administration in 1998.

He held many posts as an Assistant Divisional Secretary of Pasbagekorale and Doluwa in the Kandy District. He was then attached to the Central Provincial Council and held many posts such as Assistant Secretary and Cooperative Commissioner of the Central Province. Thereafter, he held Division Secretary posts in Wilgamuwa and Pallepola in Mathale District and Nuwara-Eliya in Nuwara-Eliya District. Then he served as the Secretary to the Uva Provincial Council.

He holds a Bachelor of Science Degree from the University of Peradeniya, a Post Graduate Diploma in Management Studies from the University of Peradeniya and a Master of Arts (Sociology) from the University of Kelaniya.

## Mr. P. A. Lionel

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

Mr. P. A. Lionel was appointed as a Board Member of the HDFC Bank, with effect from 17th September 2021.

Mr. Lionel was the former Senior Deputy General Manager at the Bank of Ceylon. He joined the Bank of Ceylon in 1983 as a management trainee upon graduating from the University of Colombo. He is a career banker with nearly 41 years of experience in banking and financial services. He held the positions of Senior Deputy General Manager (treasury, investment and international operation), Deputy General Manager (human resources) and Deputy General Manager (investment banking) of the Bank of Ceylon. He was the chairman of the investment committee of the Bank of Ceylon from 2011 to 2014.

He received broad experience and extensive training in treasury management and Forex dealing in London from 1988 to 1989. Further, he headed the treasury of the Bank of Ceylon Karachi from 1998 to 2001. He was a member of the Credit Committee and Asset and Liability Management Committee for ten years and specialised in cross-border funding and cross-selling of financial instruments. He has 20 years of experience in the primary and secondary market of government securities. Moreover, he held the position of CEO of the Primary Dealer Unit of BOC.

Under his leadership, the BOC treasury achieved several milestones, including two issuances of USD 500 million bonds in 2012 and 2013, which were the first-ever largest international bond issuance by a Sri Lankan bank. The first-ever USD debenture in Sri Lanka and the largest debenture issue for a government institution (UDA) were also structured by him. During that period, he structured several large foreign currency syndicate Loans with several foreign banks to mobilise foreign funds to Sri Lanka.

Mr. Lionel joined the Corporate Management of National Savings Bank in 2015 after retirement from BOC and worked as the Head of the Treasury and the Asset Management Division for three years. Under his guidance, the Treasury and Forex activities of the National Savings Bank were set up, showing their presence in the forex market.

Mr. Lionel was the President of the Sri Lanka Forex Association, the apex body of forex dealers of local and foreign banks in Sri Lanka in 2013. He was instrumental in supporting the enhancement of the forex market in Sri Lanka. He also held different positions in the association for about ten years and assisted in expanding training and educational opportunities for forex dealers of banks and money brokering companies.

He was a Non-Executive Director on the Boards of Lanka Hospital (Private) Limited and Lanka Diagnostic Limited for six years. He was also a director of Cey Bank Unit Trust, Lanka Securities Limited, Property Development Limited and Kolondeniya Hydro Power project. He was a governing member of the Institute of Bankers, Sri Lanka, from 2010 to 2015. He was also a member of a cabinet-appointed Procurement Committee of Ceylon Petroleum Corporation from 2013 to 2015. Presently he is a member of the Panel of Management appointed by the Monetary Board of the Central Bank of Sri Lanka for a distressed finance company. Mr. Lionel obtained his Bachelor of Education Degree from the University of Colombo in 1980.

## Mr. D. M. M. M. Wijayarathna

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

Mr. D. M. M. M. Wijayarathna was appointed as a Board Member of the HDFC Bank, with effect from 07th December 2021.

Mr. Maduranga Wijayarathna (LL.B Hons – University of Colombo) presently works as an Attorney-at-Law in the Supreme Court of Sri Lanka and Notary Public, Company Secretary, Commissioner for Oaths. He is a council member of the BAR Association of Sri Lanka and a former Secretary of the Moratuwa Lawyers Association.

As the President of the Sri Lanka Young Lawyers Association, he engages in major civil and political activities taking part as a professional and a social activist and currently holds the post of Vice President of the Lawyers for Justice Association.

## Mr. P. M. K. Hettiarachchi

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

Mr. Manjula Hettiarachchi was appointed as a Board Member of the HDFC Bank, with effect from 28th April 2022.

Mr. Manjula Hettiarachchi, Additional Director General, Department of Development Finance, Ministry of Finance, Sri Lanka, has served in the public sector for twenty years, beginning in 2002 as an Assistant Director of the Sri Lanka Planning Service.

Additionally, he performs duties as the National Insurance Trust Fund Board's Chief Executive Officer and the Project Director for the ADB-funded Small and Medium-sized Enterprises Line of Credit (SMELoC) Project.

Mr. Hettiarachchi holds a Master's Degree in International Development Economics from the International University of Japan and a Bachelor's Degree (B.Sc.) in Management from Sri Jayawardenapura University in Sri Lanka. Additionally, he has obtained two Post Graduate Diplomas in Development Economics from the University of Colombo in Sri Lanka and the Institute of Development Economics in Chiba, Japan. Further, he holds a Certificate of Intermediate Banking Studies from the Institute of Banking Studies.



# Board of Directors Profiles

## Dr. Krishantha Pathiraja

### (Non-Executive, Independent Director)

Dr. Krishantha Pathiraja was appointed as a Board Member of the HDFC Bank, with effect from 30th June 2022.

Dr. Krishantha Pathiraja, Chairman of Palmyrah Development Board, Ministry of Plantation, Sri Lanka, has served in the private and public sectors for nineteen years, beginning in 2004. He served as Consultant, Advisor in reputed private sector organisations and currently works as Chairman of the Palmyrah Development Board, Brand Ambassador of LAKSALA. Moreover, he was appointed to the Jaffna Development Committee (DCC) and as a Scientific Advisory Board Member to the DK International Research Foundation in Tamilnadu, India, on 10th January 2022.

Furthermore, he was appointed as the Executive Director of the International American Council for Research and Development (IACRD), USA, on 17th December 2022.

Dr. Krishantha specialises in Business Administration, Strategic Management and Information Technology. He holds a PhD in Business Administration from the Public University of California, and he is a fellow member of the California Public University, USA and a PhD (Hons) in Information Technology from Global Peace University India and PhD (Reading) in Strategic Management from ICC University of Technology in Cambodia. Additionally, he is a Professional Member of the British Computer Society in the UK, The Chartered Institute of Information Communication Technology and a member of the National Computer Center UK.

## Mr. Rajiv Sooriyaarachchi

### (Non-Executive, Non-Independent Director)

Mr. Rajiv Sooriyaarachchi was appointed as a Board Member of the HDFC Bank, with effect from 30th June 2022.

Mr. Rajiv Sooriyaarachchi is the Chairman of the National Housing Development Authority. In addition, he is a member of the Board Director Urban Development Authority and Urban Settlement Development Authority.

He was appointed as the Vice-Chairman of Airport and Aviation Services (Sri Lanka) (Private) Limited on December 2019. He brings a wealth of experience of over 30 years and extensive knowledge in the industries of Insurance and Consumer Electronics and International Business Administration. He was appointed to the present position in December 2019, and ever since he has played a pivotal role in overseeing administrative and operational functions of all airports under AASL and works closely with both local and international industry key stakeholders while acting as a key spokesman for AASL in dealing with media organisations as he plays the role of only full-time Executive Director of AASL other than Chairman. He also serves as the Chairman of the HR and Remuneration Board sub-committee at AASL.

Before being appointed Vice-Chairman of AASL, Mr. Rajiv served as the Chairman of Puttalam Salt Limited during 2010-2015. He also has served as the Chairman of the Cooperative Rural Bank Union Ltd - Gampaha during 2011-2015. He also served as Vice Chairman of Cooplife Insurance Company Ltd since 2022 and holds directorship positions in Cooperative Insurance Company Ltd since 2016 and Road Development Authority from 2007 – 2010.

## Mr. B. K. Prabath Chandrakeerthi

### (Non-Executive, Independent Director)

Mr. B.K. Prabath Chandrakeerthi was appointed as a Board Member of the HDFC Bank, with effect from 12th April 2023.

Mr. Chandrakeerthi is a Special Grade Officer of the Sri Lankan Administrative Service, with 23 years of service in the Public Sector. Currently, he is the Commissioner General of the Department of Labour. He also holds the Vice Chairmanships of the National Institute of Occupational Safety and Health and the National Institute of Labour Studies. He is also an ex-officio member of the Vocational Training Authority and National Child Protection Authority.

Mr. Chandrakeerthi obtained his Bachelor's Degree in Arts (1998) from the University of Sri Jayewardenepura, Sri Lanka and joined the Government Service in 2000. He then completed a Masters' Degree in Economics (2008), a Bachelor of Law from the Open University of Sri Lanka (2014) and an Attorney-at-Law from Sri Lanka Law College (2017). Also, he achieved a Doctor of Philosophy (Coastal Resources Management) from the International University of Fundamental Studies in Russia (2016).

In addition to the above positions, Mr. Chandrakeerthi has held the post of Director General in the Department of Coast Conservation and Coastal Resource Management. He was the Senior Assistant Secretary to the Leader of the House of Parliament from 2010 to 2015, and he was the Assistant Secretary to The Leader of the House of Parliament from 2006 to 2010. Also, he was the Assistant Divisional Secretary of the Biyagama Divisional Secretariat from 2003 to 2006. From 2000 To 2003, Mr. Chandrakeerthi worked as an Assistant Secretary Ministry of Education and Tourism - Uva Provincial Council.

Mr. Chandrakeerthi is a highly educated and experienced professional in tourism management, public management, and public administration with more than two decades of professional experience. He has developed a strong understanding of parliamentary procedures as well as coast conservation management.

Throughout his career, Mr. Chandrakeerthi has had the opportunity to travel extensively to various countries, including Russia, Japan, the UK, Germany, Malaysia, Indonesia, the UAE, South Korea, the USA and China, where he gained valuable insights into different cultures and best practices.

Mr. Chandrakeerthi's exceptional work has been honoured by the University of Sri Jayewardenepura with the "Pradeep Pranama" award and the "Integrity Public Servant" award by Transparency International Sri Lanka.

# CORPORATE MANAGEMENT



## MR. NISHAMAN KARUNAPALA

CEO/GENERAL MANAGER

Mr. D.M.N.P. Karunapala CEO/General Manager Nishaman Karunapala possesses over 25 years of experience in the financial services industry, particularly in corporate strategy, systems & process development, risk management, business development, trade & project finance, leasing and factoring.

He was the founding Director and Chief Executive Officer of Melsta Regal Finance Ltd, a former subsidiary of Melstacorp PLC. His tenure at Melsta Regal spanned five years before its acquisition by a consortium of foreign and private equity investors. Nishaman led the strategising and positioning of the entity as a revolutionary player in the industry with novel product offerings. Subsequently, he served as CEO of the Merchant Bank of Sri Lanka & Finance PLC and Director of MBSL Insurance Co. Ltd.

He was a Vice Chairman of the Financial Houses Association and has twice served as the Chairman of the Leasing Association of Sri Lanka. He was also a committee member of the Ceylon Chamber of Commerce, a former Director of the Credit Information Bureau of Sri Lanka and a Council Member of the Sri Lanka Institute of Credit Management.

Nishaman's 35-year career commenced at reputed multinationals such as A. Baur & Co. Ltd. and Ansell Lanka. In the financial services industry, he led the establishment of Orient Finance PLC in 2003 and served 9 years until his departure as Deputy General Manager. He has also held key roles at Seylan Merchant Bank and Mercantile Leasing Limited. His training and exposure span the UK, Ireland, Singapore, India, Japan and the Philippines concerning systems and operational procedures of reputed corporates and financial institutions.

Presently, he holds Directorships in the Lassana Flora Group and also serves as a Management Consultant. He has advised entities in e-commerce, agriculture, manufacturing and hospitality sectors in areas of securing local and foreign-funded grants and debt financing. He has also provided strategic guidance to strengthen governance, operational performance and facilitate external equity financing.

He received his MBA in Banking and Finance from the Post Graduate Institute of Management (PIM) and a BSc in Business Administration, a (Special) Degree from the University of Sri Jayewardenepura. He also holds a Postgraduate level Diploma in Modern Commercial Banking from PIM and is a Member of the Certified Management Accountants (Australia).



## MR. C.R.P. BALASURIYA

DEPUTY GENERAL MANAGER – TREASURY & MARKETING

Master in Financial and Economics, B Com (Special), MAAT  
Date of Appointment - 22nd March 2004

Mr Balasooriya has over 35 years of experience in the banking industry. Mr Balasooriya commenced his banking career at Peoples Merchant Bank in 1988. At Peoples Merchant Bank, he served in several senior managerial positions in Credit, Accounting and Treasury Management, and Corporate Finance. Subsequently, he joined HDFC Bank in 2004. Since then, he has worked in the positions of Accountant- Finance, Accountant - Treasury, Senior Manager – Treasury, Chief Manager Treasury, AGM – Treasury and was appointed as DGM – Treasury in 2020.

During his career, Mr Balasooriya has attended several local and foreign training programs and workshops covering various aspects of banking. He holds a B.com( Special) degree from the University of Sri Jayawardenapura and has read his Master's in Finance and Economics from the University of Colombo. He is also an Associate Member of the AAT Institute of Sri Lanka.





### MS. W.W.D.S.C. PERERA

DEPUTY GENERAL MANAGER – LEGAL & RECOVERIES

Attorney-at-Law and Notary Public

Date of Appointment - 16th November 1992

Mrs Perera began her career at HDFC Bank as a Legal Officer. Since then, she made steady progress and was elevated to the position of Deputy General Manager of Legal & Recoveries in 2020. She holds over 33 years of professional experience in the field of law - specialising in housing finance, banking and litigation.



### MS. K.T.D.D. DE SILVA

ASSISTANT GENERAL MANAGER – HRM

Attorney-at-Law and Notary Public

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

Date of Appointment - 01st September 1999

Mrs De Silva holds 29 years of experience as an Attorney at-Law and started her HDFC career as a lawyer attached to the legal department in 1999. Thereafter, she was appointed as the Company Secretary in 2006 and was thereafter promoted to the AGM –HRM.



### MR. H.A. ANURA

CHIEF FINANCIAL OFFICER

MBA, PGDM (RJT), B.Sc. Accy (Sp) (USJ), FIPA (Au), FFA(UK), MAAT, Inter. of CA Sri Lanka  
Date of Appointment - 01st October 2004

Mr Anura has two and a half decades of work experience in banking, credit, recovery, fund mobilisation, branch operation, accounting, financial management, taxation, auditing, treasury management, compliance, corporate financial reporting and annual reports, budgeting and financial planning. He has attended several local and foreign training programmes in corporate-level management.

He began his career in accounting at BMC and Ceylon Fisheries Corporation in 1996, joined Regional Development Bank in 1998 and worked in the capacities of Audit/ Executive Officer and Assistant Manager. He subsequently joined HDFC Bank in 2004 as the Manager of the Gampaha branch. From 2007, he also served in the capacities of Accountant Treasury, Accountant Finance and Senior Manager Finance and Chief Manager Finance.



### MS. W.N.D. BOTEJUE

ASSISTANT GENERAL MANAGER – ADMINISTRATION

Bsc. Business Administration (Special),  
CBA (CA Sri Lanka), CBF  
Date of Appointment - 01st July 1995

Mrs Boteju holds over 31 years of experience in the private and banking sectors, in the fields of management, finance, and HR, in addition to other disciplines. Before joining HDFC Bank, she worked as an Accountant in the export sector. She joined HDFC Bank in 1995 as a Credit Officer. Since then, she has worked in the positions of Accountant Treasury, Manager Accounts Control, Senior Manager (Human Resources) and Chief Manager (Human Resources & Administration) and was appointed as AGM (Administration) in 2020.



### MR. I. NISHANTHA

CHIEF MANAGER - RISK MANAGEMENT & COMPLIANCE OFFICER (ACTING)

MBS, Bsc. Business (sp.), AIB, LICA  
Date of Appointment – 26th June 2000

Mr Nishantha is an Associate Member of the Banking Institute of Sri Lanka and has obtained his Master of Business Studies (MBS) degree from the University of Colombo. He embarked on his banking career in 2000 by joining HDFC Bank, and over the last twenty-one years has held several positions in recoveries, finance, credit administration and branch operations before being appointed as the Head of Risk Management in December 2011. He played a key role in the new core banking implementation process, which was concluded in 2017.



### MR. A.M. NEELACHANDRA

CHIEF MANAGER - IT

B.Sc, NIBM, CCPSP  
Date of Appointment – 01st December 1997

Mr Neelachandra has over 26 years of experience as an IT Professional in the Banking and Public Sectors. He has extensive experience in a wide range of UNIX-based systems and has also worked in the Computer and Technology Council for two years.

**MS. G.P. PRIYADARSHANI**

CHIEF INTERNAL AUDITOR

FCA, ACMA, MAAT, Member of IBSL, Master in Economics,  
BBA (Accountancy) Sp Degree

Date of Appointment – 25 October 2021.

Mrs. Priyadarshani has over 12 years of experience in the Auditing field. Prior to joining HDFC Bank, she served as Superintendent of Audit in the National Audit Office. In her auditing career, she has experience in Banking Sector, State Owned Enterprises, Government Corporations, and Boards

**MS. N.K.D.M.W. NARANGODA**

COMPANY SECRETARY

LLB (Hons.) - University of London, Attorney-at-Law,  
Chartered Secretary Institute of Chartered & Corporate  
Secretarial and Notary Public

Date of Appointment: 07 July 2022

Mrs Manori Narangoda counts over 13 years of experience in the field of Banking. She is an Attorney-at-law and is an Associate member of the Institute of Chartered Corporate Secretaries (ICCS) of Sri Lanka. Before joining HDFC Bank, she held the position of Assistant Company Secretary at Amana Bank PLC.

# HEADS OF DIVISIONS



**MS. M.R.S. FERNANDO**  
CHIEF MANAGER - LEGAL



**MR. W.D. K. SENEVIRATHNE**  
CHIEF MANAGER - RECOVERIES



**MR. T.H.K.P. DE SILVA**  
CHIEF MANAGER - IS



**MR. D.N. DHARMARATNA**  
CHIEF MANAGER - CREDIT



**MS. C.P.K. HEWAGE**  
SENIOR MANAGER - HR



**MS. L.D.S.H. LIYANAGE**  
SENIOR MANAGER - PAYMENT



**MS. M.U.S. DE COSTA**  
SENIOR MANAGER - OPERATIONS



**MR. D.M.A. DISSANAYAKE**  
SENIOR MANAGER - CORPORATE AND  
DEVELOPMENT FINANCE



**MR. G.D.K.H. PERERA**  
MANAGER (DEPOSITS AND BUSINESS DEVELOPMENT)



**MR. B.M.P. PERERA**  
MANAGER CREDIT ADMINISTRATION



**MS. K.H.D. PRIYANKA**  
MANAGER - MARKETING



**MS. N.L. WIJESIRI**  
MANAGER (TECHNICAL & PREMISES MAINTENANCE)



**MS. J.A.L.K. JAYALATH**  
UNIT MANAGER - GOLD LOAN



# REGIONAL AND BRANCH MANAGEMENT

## REGIONAL MANAGERS



**MR. R.A.J.N. RANASINGHE**  
REGION 1



**MR. B.W.M.C. KUMARASIRI**  
REGION 2



**MR. I.K. DAWATANGA**  
REGION 3



**MR. H.M.U. SAMARAWEERA**  
REGION 4

## BRANCH MANAGERS



Mr. B.G.H.P. Dilshan -  
Ambalangoda



Mr. P. Rajarajan - Ampara



Ms. R.A. Pilapitiya -  
Anuradhapura



Mr. D.R.G.D.B. Jayathilaka -  
Avissawella



Ms. M.G.D.P. Seneviratne -  
Badulla



Mr. L. Jayashankar - Batticaloa



Mr. D.K.P. De Silva - Colombo



Mr. D.S.R. Dissanayake -  
Dambulla

## Regional and Branch Management



Mr. H.D.S. Senarathna -  
Embilipitiya



Mr. T.V.D. Nayanajith - Galle



Ms. W.B.M.A. Fernando -  
Gampaha



Ms. N.A.A.N.S. Nissanka -  
Gampola



Ms. D.T.A. Jayasinghe -  
Homagama



Mr. P.A. Viraj Sampath -  
Horana



Mr. A.I. Kiriella - Hyde Park



Mr. K.A.A.P.S. Kumara - Ja-  
Ela



Ms. S. Suyaniya - Jaffna



Ms. R.S.I. Silva - Kalutara



Mr. L.S.B. Rathnayake - Kandy



Mr. R.A.C.S. Pushpakumara -  
Kegalle



Mr. H.A.S.L. Hapangama -  
Kiribathgoda



Mr. A.M.U.S.B. Attanayake -  
Kuliyapitiya



Mr. D.A.N.P.K. Piyadasa -  
Kurunegala



Mr. T.G.R.M.R.M. Ratnayake  
- Matale





Mr. P. Ekanayake - Matara



Mr. A.M. Prabash -  
Monaragala



Mr. G.G.N.T. Nilgala -  
Nikawaratiya



Ms. S.K.P. Samanthi -  
Nittambuwa



Ms. A.U.T. Fernando -  
Nugegoda



Ms. H.R.S.P. Senanayake -  
Nuwara-Eliya



Mr. T.H.M.A. Hewage - Peliyagoda



Mr. H.N.J. Perera - Piliyandala



Mr. H.R.M. Tharaka -  
Polonnaruwa



Mr. M.A.S. Desapriya -  
Tangalle



Mr. M.L.N. Anuradha -  
Tissamaharama



Mr. A.G. Stephan -  
Trincomalee



Mr. T. Velshkuma - Vavuniya

**Not Available in Picture**

Mr. S.H.K. Gamage - Chilaw  
Mr. S.M.S.K. Bandara - Rathnapura



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# THE EXTERNAL OPERATING CONTEXT

## GLOBAL ECONOMY

2022 was an extremely volatile year for the global economy, as it rode the wave of rising global inflation and geopolitical hostilities such as the war in Ukraine. These became the core highlights of the year, flanked by a slowdown of the Chinese economy. The World Economic Outlook update of January 2023, indicates the 2022 global growth (world output) to be at 3.4 per cent, advanced economies at 2.7 per cent, and emerging market and developing economies at 3.9.

In 2022, food and fuel drove inflation to stubborn levels as the war in Ukraine raged to new heights. The aftershocks of the pandemic also continued to affect economies as pandemic-driven fiscal support began to decline. Concerns with the world's largest economy's zero COVID policy also affected the 2022 global economy but has now faced an end. However, the strategy added pressure on supply chains while gas supply disruptions to Europe due to the war also strained global market prices for energy. Furthermore, the high-interest rate regime and cost of borrowing seen in Sri Lanka was not only a localised matter; This was seen in economies such as the US alongside tightened monetary policy stances.

## LOCAL ECONOMY

The Sri Lankan GDP contracted in 2022. Fears of the pandemic continued to wane as commercial and civil life returned to normalcy in 2022. However, the developments and downturns of 2022 were not only economic but political and social for most of the year. At a glance, the lack of disposable foreign currency remained the biggest headwind of 2022 with direct and indirect impacts. The dwindled foreign reserve aggravated shortages of medicine, gas and fuel, while the disruption to social life was irrevocable. To make matters worse, Sri Lanka's tourism industry did not perform well until the second half of the year, while remittances plummeted due to several reasons. Although export revenue rose and the trade deficit contracted in 2022, the inflow of Forex was inadequate to supplement the dwindling reserve position.

## LOCAL BANKING SECTOR <sup>1</sup>

The banking sector remained stable across 2022, leading the financial sector, but faced several impediments such as deteriorating credit quality, liquidity concerns, low profit and high impairments and reducing capital buffers. Credit growth decelerated amidst tight monetary policy and macroeconomic headwinds. The following general developments took place in 2022.

- Prolonged concessions and moratoriums to support affected individuals and businesses
- The sector complied with capital requirements to a large extent.
- High impairments caused decelerating profitability
- Total assets of the sector increased
- Impairment charges increased sector-wide, bringing down profitability within this period.

## GLOBAL BANKING SECTOR

<sup>2</sup> The rebound in revenue after the pandemic for banks was met with the pandemic's long tail effects and the geopolitical tensions of 2022. Net margins increased globally, with rising interest rates and a return on equity that exceeded cost of equity for over half of the world's banks.

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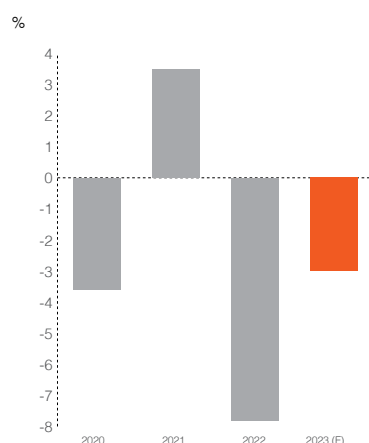
<sup>1</sup> See Financial Sector Performance and System Stability, Annual Report 2022, CBSL.

<sup>2</sup> See McKinsey's Global Banking Annual Review 2022

The following is a PESTEL analysis exploring the external environment that impacted the business and social environments, in general.

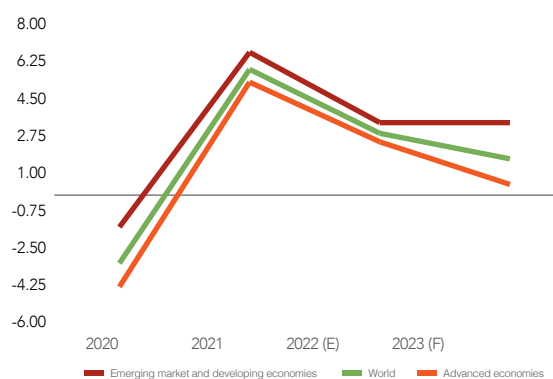
PESTEL	Local	World
Political	A political crisis ensued due to social dissatisfaction over the country's economic crises, resulting in a regime change.	<ul style="list-style-type: none"> <li>Geopolitical tensions were high due to the Ukraine-Russia war triggering energy and food price increases.</li> <li>Geopolitical tensions exposed businesses to and regulatory risks.</li> </ul>
Economic	<ul style="list-style-type: none"> <li>Twin crisis in balance of payments and sovereign debt. A debt payment standstill announced in April.</li> <li>Exports surged while imports declined and trade balance contracted.</li> <li>IMF-SL reaches staff level agreement for an Extended Fund Facility (EFF) for Rs. 2.9 billion.</li> <li>GDP contracted by 7.8% when compared to the 3.5% growth in 2021.</li> </ul>	<ul style="list-style-type: none"> <li>Tightened financial conditions in South Asia while foreign reserves dwindled in some countries, prompting import restrictions in Nepal, Sri Lanka and Pakistan.<sup>6</sup></li> <li>Policy rate hikes in countries such as Sri Lanka, India and Pakistan.</li> </ul>

**GDP Growth Rate**



Source: ADB

**World Real GDP**



Source: Global economic prospects (Jan, 2023). World Bank

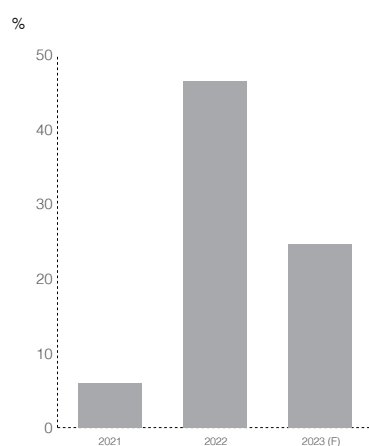
# The External Operating Context

PESTEL	Local	World
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- Inflation reached record-highs due to import inflation caused by global good and energy prices

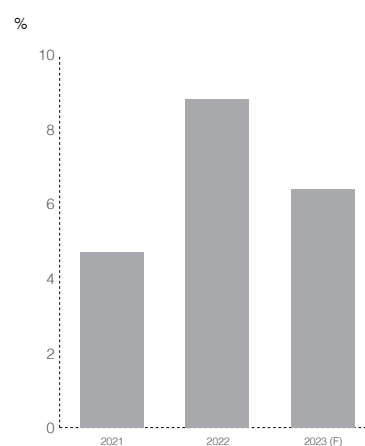
- Global inflation reached 8.8% amidst food and energy price surges.

**Inflation (Sri Lanka)**



Source: ADB

**Global Inflation**



Source: IMF

- <sup>3</sup>The rupee depreciated by 44.8% against the USD by the end of 2022.
- <sup>4</sup>Fiscal consolidation through increased VAT rates and telecommunication levy<sup>5</sup> surcharge tax and social security levies imposed.
- <sup>5</sup>Government securities enjoyed increased market yield rates due to higher domestic financing and negative equity market sentiments.

<sup>3</sup> See Financial Sector Performance and System Stability, Annual Report 2022, CBSL.

<sup>4</sup> See Economic Performance and Outlook, Recent Economic Developments, p.3, CBSL.

<sup>5</sup> See Financial Sector Performance and System Stability, Recent Economic Developments, CBSL.



PESTEL	Local	World														
Social	<ul style="list-style-type: none"><li>• High cost of living drove many towards poverty</li><li>• Power crisis disrupted lives, while fuel shortages disrupted transport</li><li>• Education disrupted due to transportation issues</li><li>• Link between hunger and educational disruptions</li><li>• Gradual dissipation of COVID-19 rules</li></ul>	<ul style="list-style-type: none"><li>• Food insecurity remains high</li></ul> <div><p>Millions of People</p><table><tr><th>Year</th><th>Millions of People</th></tr><tr><td>2016</td><td>110</td></tr><tr><td>2017</td><td>125</td></tr><tr><td>2018</td><td>115</td></tr><tr><td>2019</td><td>135</td></tr><tr><td>2020</td><td>155</td></tr><tr><td>2021</td><td>190</td></tr></table></div> <p>Sources: FSIN and GNAFC (2022); World Bank.</p>	Year	Millions of People	2016	110	2017	125	2018	115	2019	135	2020	155	2021	190
Year	Millions of People															
2016	110															
2017	125															
2018	115															
2019	135															
2020	155															
2021	190															
Technological (financial industry)	<ul style="list-style-type: none"><li>• Payment and settlement systems Act No. 28 of 2005, general direction issued to efficiently implement, administer and enforce act's provisions.</li></ul>	<ul style="list-style-type: none"><li>• Threat of new variants and outbreaks i.e. Omicron and South Africa's fifth wave</li></ul> <p><sup>6</sup>Accelerated digitalisation of services. Use of artificial intelligence and advanced analytics.</p>														

<sup>6</sup> See EY Global regulatory outlook 2022.

## The External Operating Context

PESTEL	Local	World
Environmental	<ul style="list-style-type: none"> <li>The banking sector received impetus to follow Sustainable finance activities in line with effectively managing environmental, social and governance risks and provide assistance to green, eco-friendly and socially inclusive businesses.</li> </ul>	<ul style="list-style-type: none"> <li><sup>7</sup>International agreement to stop plastic pollution at the UN environment assembly, Kenya</li> <li>UN declares healthy environment as a human right</li> <li>2022 was a year of multilateral negotiations on crucial aspects of the environment.</li> </ul>
Legal (regulatory landscape)	<ul style="list-style-type: none"> <li>Major economic policies:               <ul style="list-style-type: none"> <li>SDFR and SLFR raised by 700 basis points to 13.50 and 14.50 per cent, respectively in April 2022, and raised by another 100bp in July</li> <li>Saubagya interest rate increased to 9 percent. A min. of 80 per cent of new loans for agriculture, livestock, fisheries and related activities.</li> </ul> </li> <li>Banking act directions:               <ul style="list-style-type: none"> <li>Mandatory recording of depositors' unique identification numbers</li> <li>defer dividend payments to help maintain appropriate liquidity and capital buffers</li> <li>Minimum capital requirement deadline extended to 31.12.2023</li> <li>Financial consumer protection regulations proposed by CBSL.</li> </ul> </li> <li>Concessions for individuals and businesses affected from the macroeconomic conditions, on a case-by-case scenario (July, 2022 circular)</li> <li>Requirement to drawdown the capital conservation buffer (CCB) to 2.5 per cent</li> </ul>	<ul style="list-style-type: none"> <li>Areas of concern included changing regulatory requirements to address digital technologies, crypto currencies and the need for suitable governance. Data protection, anti-money laundering and prudential risk responses.</li> </ul>

<sup>7</sup> See 2022: A year of environmental milestones. UNEP

## RISKS AND OPPORTUNITIES

	Short term impacts	Medium term impacts	Long term impacts	Our Approach
Risks	Tightening financial conditions			Taking restrained approach to large investments and optimising expenditures. Strategies to increase deposit base and reduce NPLs
	Currency shortage and depreciations			Negotiate payment terms and amounts with foreign vendors
	Impact of macroeconomic turbulences on capital buffers			Strategies to increase revenue, there by profits to support capital buffers
	Risk of worsening inflation and diminishing disposable income could adversely affect deposits			Centralised credit approvals based on thresholds to assess repayment capacities
	High cost of borrowing impacts NPLs and longer repayments due to debt restructuring			Prudent and centralised credit disbursement to ensure credit quality and creditworthiness of borrowers
	Massive income tax can lead to dwindling employee morale and emigration of skilled labour			Providing increments, bonuses and a range of other financial benefits
	Increased credit risk resulting from defaulted repayments owing to increased rates			Case by case look at borrowers and loan restructuring to facilitate repayments
	Banks with traditional systems faced with disruptive technologies, that could impact agility and require heavy investments and competitive threats from late adoptions			Fundamental systems in place. Bank will focus on further adoptions gradually
	Implausible scenarios that question operational resilience			Business continuity plan assessment
	Long-term effects of lockdowns			Business continuity plan to support continued operations
	Tax reforms can adversely impact bottom lines and constrain growth			
	Rising climate-based incidents in Sri Lanka affects financial stability. Lack of uniform framework for climate change-based standards and jurisdiction, globally.			Continued monitoring of regulatory changes
	Forex reserve deficits and rupee devaluation triggers high import prices			Will not directly impact us
Opportunities	The threat of new COVID variants and outbreaks			Safety measures will be adopted
	High interest rates			Attract deposits for high-interest rate plans through marketing strategies
				Reduce borrowing due to high borrowing costs
	SME sector financing needs and growth in SME sector			Institutional partnerships to support SMEs and
	Green financing			Commenced during the year
	Advanced technology adoptions(AI, data analytics)			Will be pursued prudently

# The External Operating Context

## OUTLOOK ON GREEN FINANCE

The market for green finance is gaining momentum in Sri Lanka, with climate change mitigation and adaptation being key objectives alongside pollution prevention and ecological conservation according to the Sri Lanka Green Finance Taxonomy of the Central Bank of Sri Lanka.<sup>10</sup>

- Opportunity to provide sustainable/green finance for home loans customers to undertake retrofit projects and solar panel installations.
- Enhance accessibility and provide affordable financial products tailored to financially underserved individuals and communities, including MSMEs.
- Development of sustainable bonds and investments in sustainable bonds.
- Business opportunities to provide sustainable financial products to various industries that need investments to realise sustainability plans.
- Opportunities that will arise in raising public knowledge of green finance
- To form partnerships with local suppliers for quality products and concessions.
- Prospective areas: renewable energy and energy efficiency, green building and infrastructure, smart agriculture, also green mortgage loans etc.
- Regulatory support to create sustainable financial products and make investments in green financial products.<sup>11</sup>
- adequate capital buffers maintained by the sector will help overcome operational challenges

With sustainable financing comes the need for capacity building, which calls for measuring financial risks that arise from climate change and sustainable finance. It required extensive training and integration of ESG into financial institutions.

Furthermore, the conventional side of banking offers growing prospects for MSME financing and banking. Purposed for sustainable projects or for basic funding needs, banks and FIs have access to the country's largest business sector that accounts for 80% of local businesses.

- Rise in policy rates has potential to attract depositors.
- More digitalisation means enhanced accessibility and business growth.
- Sri Lanka's efforts to achieve net-zero carbon emissions could lead to bigger investments in green energy, green building and eco-friendly projects, across many industries.
- high deposit rates could attract increased deposits
- profit retention can
- analytics for understanding better customer behaviours and needs

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<sup>10</sup> See Sri Lanka Green Finance Taxonomy. May 2022. CBSL

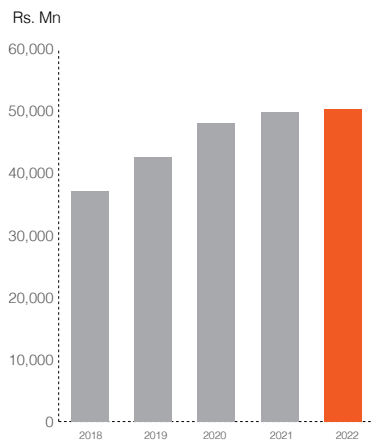
<sup>11</sup> Roadmap for sustainable finance in Sri Lanka

# BUSINESS SEGMENTS AND PERFORMANCE

## TOTAL DEPOSITS

Total Bank deposits during the year under review grew marginally. The increase took the deposit portfolio up to Rs. 50.2 Bn from Rs. 49.8 Bn from the previous year. Percentage-wise the increase amounts to 0.87%.

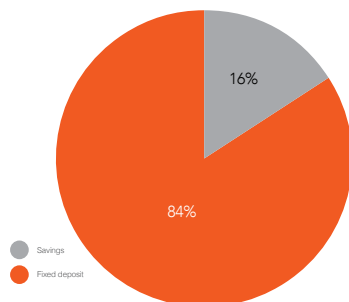
**Total Deposits**



During the year, total deposits increased by Rs. 432 Mn.

The Bank's deposit portfolio is formed by the amalgamation of Savings and Fixed Deposits. The majority of the deposit portfolio includes fixed deposits at 84% with savings forming only 16% of the total deposit portfolio.

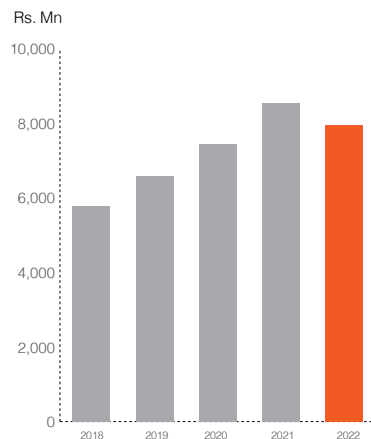
**Savings vs Fixed Deposits**



## SAVINGS

Total savings stood at Rs. 7.9 Bn compared to Rs. 8.5 Bn reported for the year under review. This is a decline of Rs. 599 Mn (7%). The reduction in savings can be attributed to inflation and rapidly surging cost of living, which naturally constrains peoples' spending. Such a scenario leads to increased withdrawals offsetting any benefits from interest rate hikes for savings.

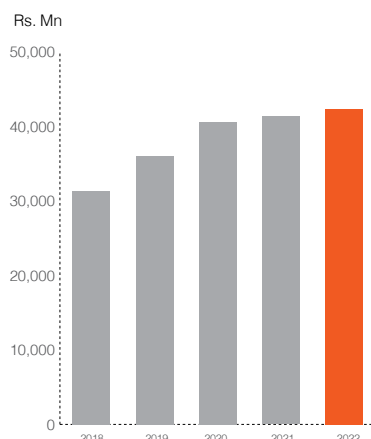
**Savings**



## FIXED DEPOSITS

During the year under review, fixed deposit portfolio of the Bank increased by 2.5% to Rs. 42.3 Bn from last year's portfolio value of Rs. 41.3 Bn. This is a satisfactory increase in comparison to the decline in savings and can be attributed to the rise in fixed deposit rates, especially in the range of HDFC Max Deposits.

**Fixed Deposits**



# Business Segments and Performance

## DEVELOPMENT AND SME FINANCE

As a majority state-owned bank, we strive to uplift local businesses and entrepreneurs, especially those with economic limitations. The Corporate & Development and SME Finance unit diversifies financial services to serve the country's SME and corporate clientele, supporting their businesses to reach the best possible growth and stability.

During the year under review, we dispersed a total sum of Rs. 430.25 Mn under various development and SME financing schemes. By the end of the financial year ending 31st December 2022, the Bank's distribution of development and SME finance-based loans stood at Rs. 3.1 Bn declining from Rs. 3.4 Bn reported in the previous financial year.

## SERVICE TO THE NATION'S BREADWINNERS

With over 75% of all Sri Lankan enterprises being SMEs, we have a duty to assist MSME entrepreneurs in growing their enterprises. The finance schemes we promote through our Development and SME Finance unit is focused on developing micro, small and medium enterprises with an increasing focus on corporate level companies.

Corporate loans targeting corporate customers form 35% of our development credit schemes, followed by 29% business loans for MSMEs and development loans for MSMEs make up 28% of the portfolio; these three products form 92% of the entire Development and SME Finance portfolio. Moreover, Saubhagya takes up only 2.52% of the total portfolio.

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<sup>1</sup> Chen C. Mitra S. Five Ways to Connect Sri Lanka's Small Businesses to Global Value Chains Asian Development Blog. Asia Development Bank (blogs.adb.org)



2022				
Name	Value (Rs. Mn)	% Share (2022)	% Share (2021)	% Share (2020)
SAUBHAGYA	82.81	2.52%	2.84%	3.24%
NADeP	4.25	0.14%	0.13%	0.12%
SEPI	1.81	0.06%	0.12%	0.18%
THARUNADIRIY	1.67	0.05%	0.06%	0.08%
SWASHAKTHI	9.24	0.30%	0.39%	0.31%
READ	1.75	0.06%	0.06%	0.11%
CSDDL	53.48	1.72%	2.29%	3.43%
JAYAISURA	0.00	0.00%	0.01%	0.04%
DEVELOPMENT LOAN	877.54	28.17%	25.70%	19.33%
BULK MICRO FINANCE	2.17	0.07%	0.20%	0.24%
CORPORATE LOANS	1,083.17	34.77%	31.51%	35.75%
DIRIMAGA	47.60	1.53%	1.51%	1.49%
BUSINESS LOANS	900.58	28.90%	32.95%	34.65%
COVID 19 Sahubagya	4.19	0.13%	0.78%	1.05%
Total	3,070.26	100%	100%	100%

## BREAKDOWN OF PRODUCTS

Financial schemes the Bank provides its customers include 15 active products. However, amongst this COVID-19 Saubhagya, Swashakthi and Moratorium loans were introduced by the Central Bank of Sri Lanka at the height of the 2020-2021 COVID pandemic. The said schemes continue to remain active, providing financial relief to businesses, which were adversely affected by the pandemic-led economic disturbances.

Financing product	Customer segment	Purpose
Saubagya	MSME	Providing credit facilities for Agriculture, Livestock, Micro, Small and Medium Scale Enterprises
NADeP	Micro level customers	Providing credit facilities for Agriculture, Livestock, Micro and Small Scale Enterprises
SEPI	NVQ qualified MSMEs	To provide financial assistance to trained youth who completed a certificate or diploma in NVQ or TVEC or NAITA or DTET or VTASL or MSDVT or NYSC
Tharunadiriya	Micro level customers	Empowerment and employment of youth throughout the country
Swashakthi	Micro level customers	Empowering youth, women, differently able people and personnel with new business ideas based on resources in the villages
READ	Flood affected MSMEs	Provide financial facilities to resume any economic activity affected by any disaster
CSDDL	Dairy related activities micro level to corporate level	Facilitate the medium to large-scale dairy developers for commercialised dairy activities
Jayaisura	MSMEs	Support SMEs engaged especially in Agriculture, Livestock, Micro, Small and Medium Scale Enterprises
Development loan	MSMEs	Providing credit facilities for Agriculture, Livestock, Micro, Small and Medium Scale Enterprises from own funds
Bulk micro finance	Micro Finance Companies	Providing financial assistance to Microfinance companies for portfolio growth
Corporate loans	Corporate level customer base	Providing financial assistance to corporate entities
Dirimaga	Micro level customers	Empowerment of women and providing financial assistance to Micro Scale Enterprises
Business loans	MSMEs	Providing credit facilities for Micro, Small and Medium Scale Enterprises from own funds
COVID 19 Sahubagya	MSMEs affected by COVID 19	Reviving the MSME adversely affected by the COVID-19 outbreak

# Business Segments and Performance

## INDUSTRIES SERVED BY ABOVE PROGRAMS

Industry	Share of loans %
Agriculture, Forestry & Fishing	7.64
Food and beverages processing	3.91
Domestic cottage industry	0.11
Rubber and rubber products	0.14
Apparel	1.86
Wood products	0.61
Mining And Quarrying	0.54
Construction	7.29
Tourism	3.18
Transportation and Storage	0.98
Wholesale and Retail Trade	11.52
Information Technology and Communication	0.09
Professional, Scientific & Technical Activities	0.92
Arts, Entertainment & Recreation	0.10
Development of distance learning facilities	1.12
Health and wellness	2.29
Other (Financial)	17.95
Other	39.76

## PARTNERSHIPS

We partner with institutions and companies to help their stakeholders make the most of their businesses and livelihoods, providing financial assistance where it is required the most.

- JAT-HDFC

We have signed an MoU with JAT Holdings PLC to strengthen the painters of the company's 'JAT Pinthaaroo-Shilpee Abhiman' programme. The brainchild of JAT Holdings, the program serves the unique purpose of offering training and apprenticeships to woodcraftsmen and professional painters. The collaboration will help sustain this purpose and provide participants access to credit facilities for work-based equipment and requirements by obtaining financial training from our officials. We expect this to improve their business acumen and skills.

- IDB-HDFC

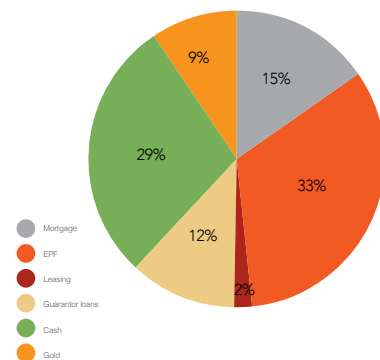
The Ministry of Industries, in collaboration with the Industrial Development Board, has organised 'Get up Start-up for a Wealthy Nation', a national programme. In support of this programme, we signed an MOU with the Industrial Development Board (IDB) to strengthen the MSME in Sri Lanka.

## LOAN PORTFOLIO

The total retail loan portfolio stood at Rs.45 Bn by the end of the financial year on 31.12. 2022. This is in comparison to the previous year's loan portfolio of Rs. 44 Bn.



### Loans (by Collateral Segment)



The disbursement of Rs. 10.8 Bn includes corporate loan disbursements and staff loans at Rs. 250 Mn and Rs. 414 Mn, respectively in 2022.

## COMPOSITION OF LOANS

For the year under review, the bank disbursed more EPF loans than any other segment at 33%, followed by cash backed loans at 29% and mortgage loans (home loans) at 15% from the total loan portfolio. Leasing disbursements stood at 2%.

EPF loan disbursements amounted to Rs. 3.6 Bn at the end of the financial year, while cash loans amounted to Rs. 3.1 Bn in the year under review. Disbursements saw an increase in the month of March with June witnessing a slump in disbursements. January and February months also.

## RETAIL LOANS

Across the year the bank adopted a pragmatic approach to loans, which saw its disbursements decline when compared to 2021. The high interest rate environment had an impact on this decline. Retail portfolio (excluding corporate and other loans) amounted to Rs. 41,571 Mn in the year under review, this increased when compared to the previous year's amount of Rs. 39,875 Mn.

# CAPITAL MANAGEMENT REPORTS:

## FINANCIAL MANAGEMENT IN THE BEST INTEREST OF STAKEHOLDERS



Financial Capital	INPUTS	VALUE ENHANCEMENT APPROACH	OUTCOMES
	<ul style="list-style-type: none"> <li>Shareholders' capital</li> <li>Capital reserve</li> <li>Depositors' funds</li> <li>Borrowings</li> </ul>	<ul style="list-style-type: none"> <li>Financial planning, including cost control to counter macroeconomic uncertainties</li> <li>A focus on rescheduling repayments</li> <li>Strategies to improve collection</li> <li>Cautious approach to lending, including stringent credit approval process</li> </ul>	<ul style="list-style-type: none"> <li>Sustained profit</li> <li>Growth in interest income</li> </ul>

At HDFC Bank, our primary responsibility is to ensure sound and accountable financial management in the best interest of our shareholders, depositors and other stakeholders.

### OUR FINANCIAL CAPITAL

Our financial capital is a combination of several streams of funds that are managed to elicit increased earnings and profit.

### WHY IS FINANCIAL CAPITAL IMPORTANT TO US?

As a financial intermediary with business interests, financial capital helps maintain growth and operational continuance. Above all, HDFC Bank is accountable to the State as we are a 51% state-owned financial intermediary. Moreover,

# Financial Capital

we are statutorily obligated to manage our financial capital transparently, accountably and prudently.

**27% increase  
GROSS  
INCOME**

**27% increase  
INTEREST  
INCOME**

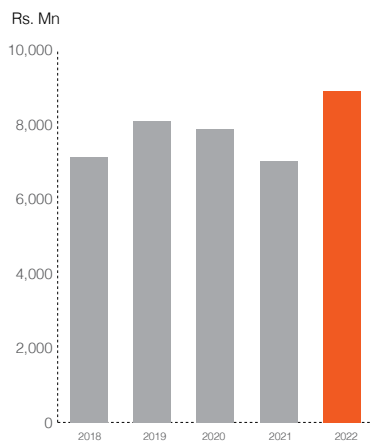
**Rs. 326 Mn  
Profit after taxes  
(2021: Rs. 547)**

## TOP LINE PERFORMANCE

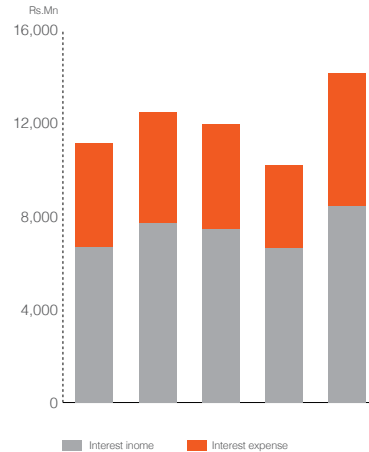
### INCOME

Total income of the Bank rose to Rs. 8.9 Bn for the FY 2022, from Rs. 7 Bn reported in 2021. The rise in income is 27%.

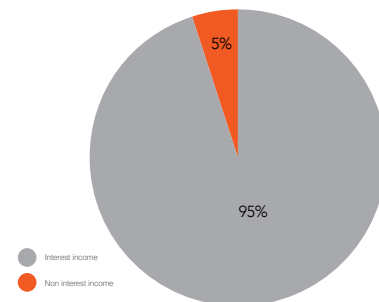
**Income**



**Interest Income vs Interest Expenses**



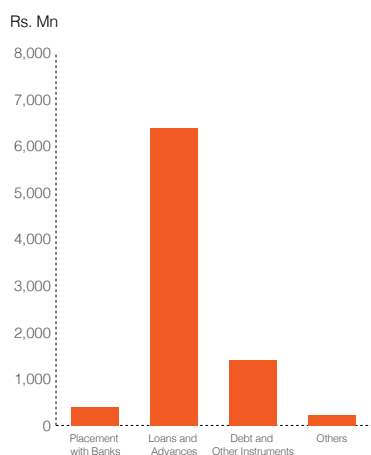
**Interest Income vs Non-Interest Income**



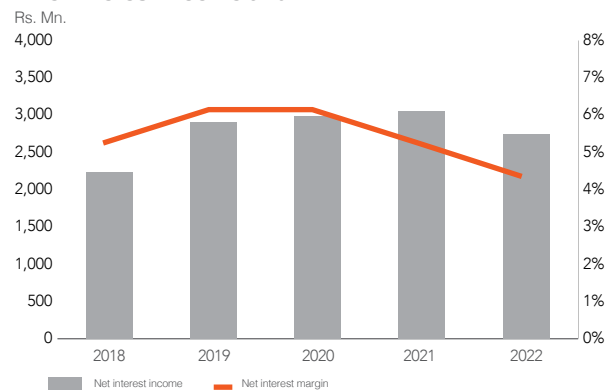
### INTEREST INCOME AND NON-INTEREST INCOME

In 2022, interest income rose to Rs. 8.4 Bn by 27% from Rs. 6.6 Bn reported in 2021. However, net interest income declined in the face of higher interest expenses and stood at Rs. 2.7 Bn - a reduction from Rs. 3 Bn reported in 2021.

**Interest Income Composition**



**Net Interest Income and NIM**



The increase in interest income is a direct result of a significant contribution from loans and advances and increased debt and other instruments (Government Securities), which rose by 282% in 2022 to Rs. 1.4 Bn from Rs. 369 Mn in 2021. Interest income from lending increased to Rs. 6.4 Bn by 17% from Rs. 5.4 Bn, due to the upward rate revision by the Regulator.

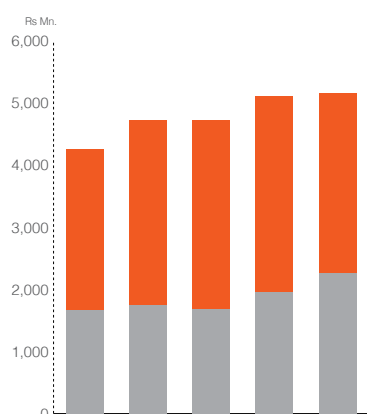
Non-interest income grew by 16% to Rs. 452 Mn during the year, contributing towards a rise in the Bank's gross income. Net fee and commission income rose slightly, by 3% in 2022, to Rs. 353 Mn. Moreover, non-interest income includes a change in fair value of investment properties and a gain on the sale of PPE – which collectively amounted to Rs. 99.6 Mn in 2022, growing from Rs. 49 Mn in 2021.

Interest expenses rose as interest due to depositors increased to Rs. 5.1 Bn by 64% owing to higher deposit rate revision. This was amidst only a marginal increase in the deposit portfolio. The Bank's interest income from loans and advances surpassed interest provided to depositors. Net interest income stood at Rs. 2.7 Bn, but declined by 10% from the previous year.

## EXPENSES

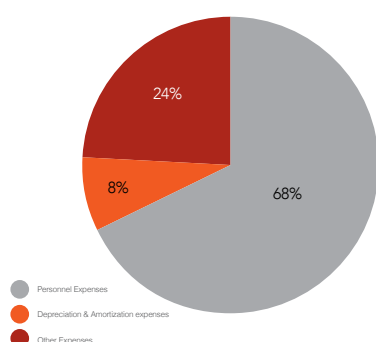
### OPERATING INCOME AND OPERATING EXPENSES

Operating Income vs Operating Expenses



Net operating income decreased by 8.7% for FY 2022 to Rs. 2.8 Bn from Rs. 3.1 Bn reported the year before – a result of lower net interest income due to high interest expenses. However, other operating income increased by 103% to Rs. 99 Mn as a result of change in fair value of investment properties and a minor gain on sale of property, plant and equipment.

Expenses



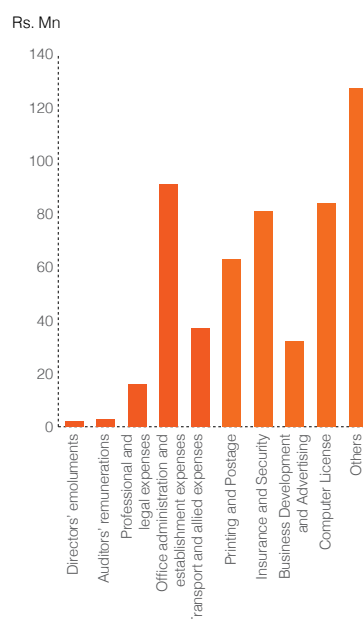
Total expenses for 2022, increased by 16% to Rs. 2.3 Bn from Rs. 1.9 Bn reported in the previous year. For 2022, personnel expenses accounted for 68% of all expenses, followed by 24% of other expenses.

The surge in operational expenditure was in most part due to an 11% increase in personnel expenses which amounted to Rs. 1.5 Bn for 2022, compared to Rs. 1.4 Bn in 2021. Salaries and bonus payments increased to Rs. 980 Mn against Rs. 944 Mn, the year before. Expenses apart from remuneration amounted to Rs. 564 Mn, which is an increase of 27% over previous year's other personnel expenses.

Depreciation and amortisation expenses forms 8% of total expenses, and amounted to Rs. 185 Mn, an increase of 15% over previous year's. Depreciation of property, plant and equipment shows a 8% increase while amortisation of right to use assets and amortisation of intangible assets show increases by 5% and 49%, respectively.

Other expenses make up 24% of total expenditure and show an increase of 33% over previous year's expenses. Other expenses amounted to Rs. 536 Mn against Rs. 404 Mn reported in the previous year.

Other Expenses



## TAX EXPENSES

Based on the decelerated PBT, income tax declined with both income tax and finance VAT totalling to Rs. 286 Mn. Tax expense decreased by 56% compared to Rs. 651 Mn in 2021.

# Financial Capital

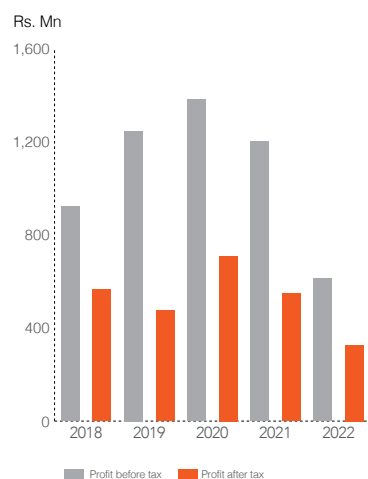
## STATEMENT OF COMPREHENSIVE INCOME

Other comprehensive income for the year after taxes amounted to Rs. 36 Mn – a decline against the previous year. Total comprehensive income for the year amounted to Rs. 363 Mn, down from Rs. 588 Mn reported in 2021; the profit deceleration caused this reduction. Moreover, re-measurement of post-employment benefit obligation was reported as Rs. 42.9 Mn compared to Rs. 62 Mn in 2021.

## THE BOTTOM LINE

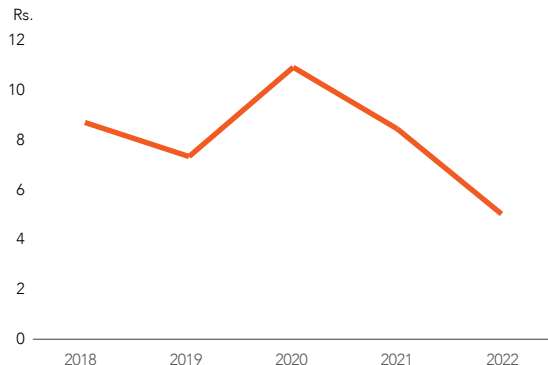
Consequent to revenue and expenses, the Bank incurred a profit before tax of Rs. 612 Mn, which decelerated from 2021's PBT of Rs. 1.2 Bn - a decrease of 49%. Profit after tax amounted to Rs. 326 Mn compared to Rs. 547 Mn reported in 2021 - a 40% decrease over the two corresponding fiscal years.

**Profitability**



EPS dropped to Rs. 5.04 during the year from Rs. 8.46 in 2021, due to a reduction in the profit attributable to ordinary equity holders. In line with the declined profitability, return on equity (ROE) deteriorated during the year to 4.99% by the end of 2022. ROA too declined to 0.52% by the end of the financial year.

**EPS**



## IMPAIRMENT

Impairment expense for the year increased by 8% to Rs. 320Mn in 2022, from Rs. 296 Mn from 2021.

provision coverage ratio – 4.5%

During the year, Stage 1 and stage 2 provisions increased, and stage 3 provisions also increased in 2022. Individual impairment provision increased during the year by 5.7% to Rs. 1,116 Mn. from Rs. 1,055 Mn. in 2021; meanwhile collective impairment increased by 31% to Rs. 891mn. from Rs. 680mn in 2021.

## BANK BALANCE SHEET

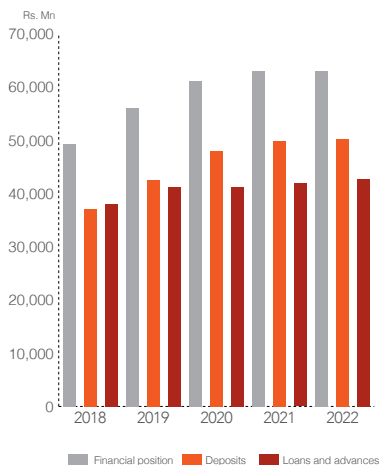
During the year, the Bank's balance sheet decreased by 0.1%, but fell short of expectations and in comparison to the previous year.

## ASSETS

Total assets stood at Rs. 62.8 Bn, compared to Rs. 62.9 Bn reported the previous year. Despite reporting increases in several assets, there was a significant decline in placements with Banks during the year, which plummeted by 99.6% to Rs. 30 Mn from Rs. 8.1 Bn reported in 2021.

Amongst notably increased assets were deferred tax assets which rose to Rs. 409 Mn from Rs. 126 Mn in 2021 (by 225%). Cash and equivalents increased during the year to Rs. 340 Mn marking a 31% increase. Property, plant and equipment increased to Rs. 243 Mn from by 8.4%. Other assets increased to Rs 405 Mn, by 74%. Investment properties grew by 9.3% in the year under review to Rs. 1.2 Bn. Financial assets (at amortised cost) increased during the year, as government security investments increased during the year, from Rs. 7 Bn to Rs. 15 Bn.

**Financial Position, Deposits and Loans and Advances**

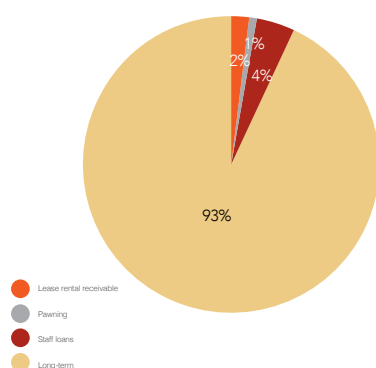




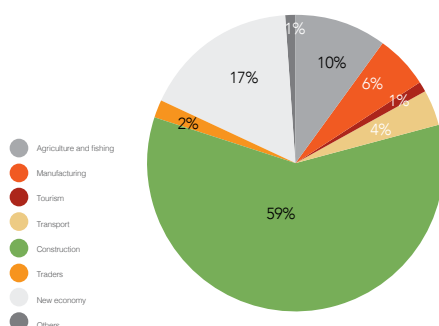
## LOANS AND ADVANCES AND OTHER FINANCIAL ASSETS

Net loans and advances escalated to Rs. 42.6 Bn from Rs. 41.8 Bn the year before, accounting for 68% of total assets. Loan portfolio comprises Rs. 42 Bn in long-term loans (at 93% from the total), followed by Rs. 1.7 Bn in staff loans with lease rental receivables and pawning forming the remaining Rs. 1.27 Bn in gross loans and advances.

**Gross Loans and Advances**



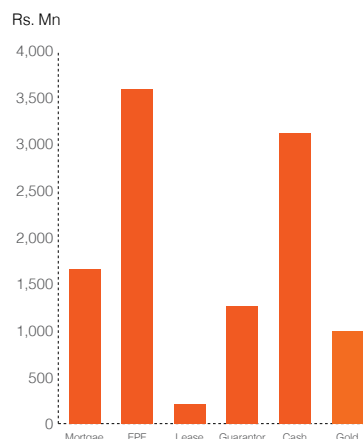
**Loans and Advances by Industry**



59% of total loans were granted for construction purposes whilst another 17% was provided for new economy loans. Another 10% of loans were provided to clients for agricultural and fishing purposes.

Collateral-wise, the Bank disbursed Rs. 3.6 Bn in EPF-backed loans, followed by Rs. 3.1 Bn in cash loans and Rs. 1.6 Bn in mortgage loans. A total amount of Rs. 10.8 Bn was disbursed in the year under review.

**Loans**



Expected credit loss (ECL) on loans and advances increased by 16% to approximately Rs.2 Bn from Rs. 1.7 Bn reported in the previous year. The expected credit loss allowance for stage 1 loans increased to Rs. 246 Mn by 56%. Stage 2 loan ECL allowance increased by 280% as at the end of the financial year, while stage 3 loan ECL allowance increased by a marginal 2.5%.

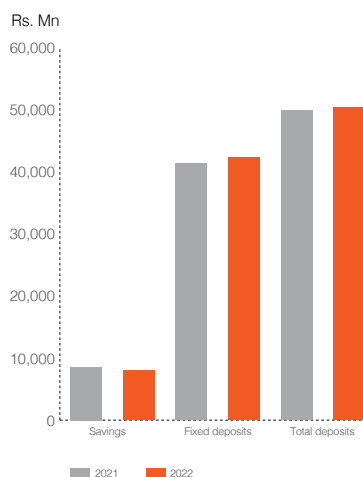
## OTHER FINANCIAL ASSETS

Bank's other financial assets include cash, placement with Banks, debt and other instruments at amortised cost. These amounted to Rs. 18 Bn in 2022, reducing marginally from Rs. 19 Bn reported in 2021.

## LIABILITIES

Liabilities for 2022, reports a marginal decline to Rs. 55.9 Bn from Rs. 56.3 reported for 2021. From all liabilities, dues to Banks show a significant decrease of 50% from Rs. 2.1 Bn in 2021, to Rs. 1 Bn in the year under review. Other liabilities have increased by a marginal 4% over the previous financial year, marking Rs. 4.6 Bn for 2022 against Rs. 4.4 Bn from 2021.

**Deposit Portfolio**



# Financial Capital

## DUES TO DEPOSITORS AND OTHER FINANCIAL LIABILITIES

Dues to depositors are the largest liability factor at Rs. 50 Bn, which increased marginally from Rs. 49.8 Bn in 2021. Savings deposits which form 7% of total dues decreased during the year while fixed deposits increased by around Rs 1 Bn in 2022 – taking up total fixed deposits to Rs. 42 Bn. By maturity, dues to depositors include Rs. 41 Bn within one year and Rs. 9 Bn due after one year.

## EQUITY

Total equity shows a 6% increase to Rs. 6.7 Bn from Rs. 6.3 Bn in 2021. Increase in retained earnings by 6% and other reserves by 18%, as well as a 6% increase of the statutory reserve fund contributed to this increase.

## LIQUIDITY POSITION

The Bank maintains a prudent mix of liquid instruments to help weather immediate liquidity requirements in disruptions to the Bank's cash flow position. Nevertheless, the loan/deposit ratio which increased to 8% by the end of 2022 reflects that liquidity was stretched. Increased deposit withdrawals caused this effect while the term wise longer loan book and shorter deposit base continued to add to liquidity concerns.

The Bank maintained its liquidity coverage ratio (LCR) at 334%, above the regulatory requirement, reflecting Bank's near term resilience.

The Bank's 30-day liquidity resilience is maintained as per Basel III requirements through adequate High Quality Liquid Assets (HQLA). The Bank's liquid assets include cash and cash equivalents, short-term Bank deposits and liquid debt securities.

The Bank maintained a liquid assets ratio above the 20% regulatory minimum. For 2022, the Bank maintained a ratio of 31%. Liquid coverage ratio was at 334%, improving from the 156% reported for 2021.

Risk weighted assets amounted to Rs. 62 Bn, which rose marginally from that of 2021. This figure includes risk adjusted exposures

## CAPITAL RESERVES

The Bank's core capital reached Rs. 6.71 Bn during the year with a Rs. 456 Mn gap to be met. The lower profit level in 2022 made it challenging for us to reach the desired level of capital during the year, when compared to the amount infused to the core capital in 2021. The Bank expects to meet its core capital requirement in the ensuing financial year 2023/24. Total tier 01 capital stood at Rs. 6.5 Bn while tier II capital raised the capital base to Rs. 6.7 Bn.

Risk Adjusted Capital Ratios	2022	2021
Common Equity Tier 1 Capital Ratio *	25.54%	21.51%
Tier 1 (Total Tier 1 capital / Total risk adjusted balances) **	26.56%	22.38%
Tier 11(Capital base / Total risk adjusted balances) ***	27.61%	23.02%

\* Minimum 7.00 \*\* Minimum 8.50% \*\*\*Minimum 12.50%

## CASH FLOWS

Net cash from operating activities reached Rs (143) Mn from Rs. 1.1 Bn reported in 2021. The decline is a result of several factors, including higher interest payments (Rs. 4.9 Bn) and employee payments (Rs. 1.4 Bn). During the year, interest receipts increased to Rs. 8.8 Bn from Rs. 6.3 Bn in 2021 while interest payments also increased to Rs. 4.8 Bn from Rs. 3.2 Bn reported in 2021. Payments to employees, VAT and SSCL on financial services, receipt from other operating activities and payments on other operating activities all increased – thereby impacting net cash from operating activities.

Net cash flows from investing activities, showed an inflow of Rs. 234 Mn when compared to net outflow of Rs. (1.5) Bn in 2021. Net cashflow from investments show a gain of Rs. 377 Mn in contrast to the loss of Rs. 1 Bn the year before, which became the biggest contributing factor to net cash from investing activities. Moreover, net cash from financing activities show an outflow of Rs. 9.1 Mn when compared to Rs. 7.7 Mn, reported the year before.

## CONTRIBUTION TO SUSTAINABLE DEVELOPMENT



- Investments in human capital development ensure that employees are taken care of financially and professionally.
- With funding to borrowers who are mostly from low to middle-income groups, we ensure that the underserved of society receive financing for decent work and economic growth.



- By injecting financial capital where it is needed the most, we contribute towards reducing inequalities – especially with economic value delivered to stakeholders.\*



- Partnerships with state and private sector institutions enable us to finance their members with clear financial challenges.

## IMPACT ON OTHER CAPITALS

Please see capital reports on pages 83 - 121 on how we have invested in transforming and enhancing the value of other capitals

	Investments in remuneration and development, elevates employee skills and knowledge, motivates staff to innovate and adopt pragmatic thinking.
	When funding is provided to underserved individuals/businesses it elevates our relationships and social perceptions.
	Investments in employee training and technological infrastructure enable product and service innovations and efficiency.
	Expenditure on property, plant and equipment supports operations and supports growth. Investments in physical assets can enhance the Bank's asset base.

### The trade-offs

As with any investment, there are trade-offs in financial capital when we make necessary investments and expenditure to develop other core capitals. The returns on those investments are not measured individually by the Bank but we expect returns in the form of increased revenue and ensured profitability.

## FUTURE OF FINANCIAL CAPITAL

In the interim, the Bank expects to reduce exposure to non-performing loans while focusing on meeting the minimum capital requirement. Surpassing macro volatilities, inflation and high interest rate environment will become crucial to pursuing growth objectives, once again.

Time Span	Future Focus
Short-term	Rs. 456 Mn capital requirement to be fulfilled
Medium-term	Investments based on optimised planning to facilitate retail expansions
Long-term	Investments in technological advancements in line with

# CAPITAL MANAGEMENT REPORTS:

## BALANCED APPROACH TO PROVIDING SERVICES



### Manufactured Capital

INPUTS	VALUE ENHANCEMENT APPROACH	OUTCOMES
<ul style="list-style-type: none"><li>• PPE base including branches</li><li>• Other physical touchpoints such as ATMs</li><li>• Technological and digital infrastructure</li></ul>	<ul style="list-style-type: none"><li>• Calculated approach to physical expansions</li><li>• Maintaining physical touchpoints and assets</li><li>• Investments in technological systems/infrastructure, including cyber security</li><li>• Development of digital touchpoints/ services</li></ul>	<ul style="list-style-type: none"><li>• 39 branches maintained in addition to Head Office</li><li>• Customers served through digital touchpoints</li><li>• Reduced capital expenditure</li><li>• 04 new ATMs increased physical touchpoints</li><li>• Prudent investments and expenditure safeguard the bank's financial position</li></ul>

As a financial service provider, what we consider as manufactured capital encompass our physical assets, including our head office and branch network and all tangible resources used in daily operational activities. They also include technological systems and solutions which are imperative to our functions and services. It must be stressed that these are created by other organisations and obtained through direct purchase or on lease/rental basis.

### WHY IS IT IMPORTANT TO US?

Physical assets and technological infrastructure provides the means to accommodate operations and expansions. Such elements enable us to channel service and ensure financial service accessibility to customers and the public. While physical assets enable us to extend our reach, grow the customer base and revenue, digital and ICT infrastructure enhances online service delivery and drives employee efficiency.

## OUR APPROACH

With a focus on growing our stock of manufactured capital, we continue to make practical investments in physical assets, branch expansions, digital solutions and ICT. We do this while focusing on financial viability and returns; we continued to take a forward-thinking approach to capital expenditures, especially in 2022 amidst the economic crisis and rising cost of financing.

**Timely expansions and investments**

**Digital and ICT infrastructure to enhance accessibility**

**Balanced approach**

## LIMITATIONS AND OPPORTUNITIES

### Limitations

- We approach investments cautiously until the fulfilment of minimum capital requirement.
- High interest rates discouraged significant investments
- Substantial inflation made branch expansions and maintenance costly

### Opportunities

- Digital service channels aims to offset slow branch expansions
- ICT infrastructure paves the way to efficiencies.

## PHYSICAL TOUCHPOINTS, INFRASTRUCTURE AND ASSETS

### Branches and Head Office

Relative to our scope of operations, HDFC Bank operates via a 39-branch network. Our network of branches and head office ensures accessibility and convenience for existing customers. With customers from non-urban backdrops and limited access to digital services, our branches fulfil a vital role by enabling customers to physically engage in our services.

Our branches also enable us to recruit employees regionally, creating job opportunities for people from within respective townships and locales. Moreover, we have ensured that our branches and head office operate with all required facilities for customer and employee convenience.

Our branches and head office form a total space of over 138,000 sq.ft., with branches occupying just over 105,000 sq.ft. in and around Colombo. Our head office located at Sir Chittampalam A. Gardiner Mawatha occupies over 29,000 sq.ft. in space. Moreover, our warehouse covers 3,500 sq.ft.

Our branches are organised into six regions, overseen by regional managers. Branches are located across all 9 provinces, with the highest concentration in the Western Province.

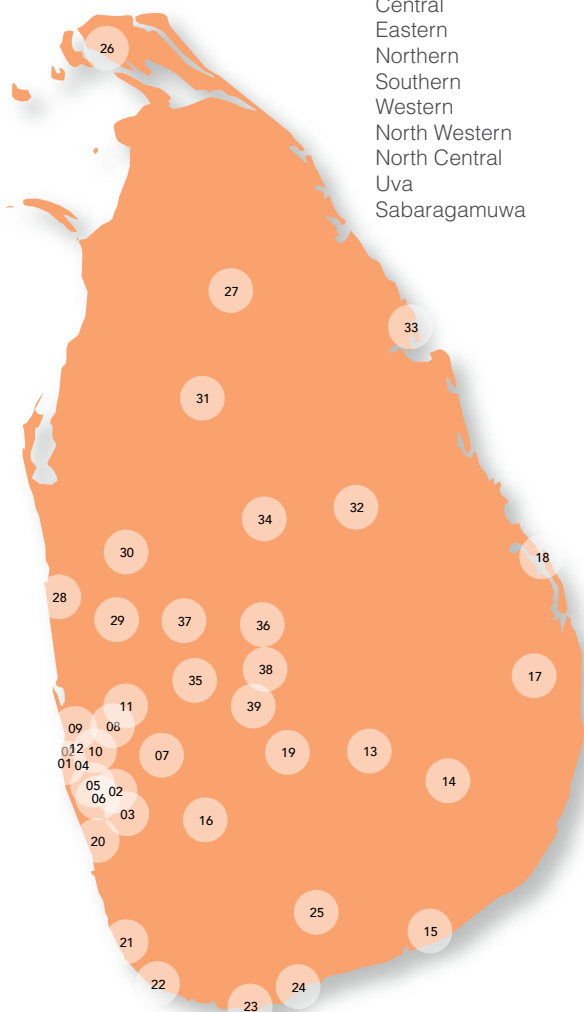
Branches operate across normal working hours from 9-5 on each weekdays. Across 2022, the head office and branches operated routinely, returning to operational normalcy subsequent to COVID restrictions in 2020 and 2021.

In ensuring that our branches are physically maintained, we conduct refurbishments of branches as required. In 2022, we reallocate Trincomalee Branch to ensure business sustainability.

Our existing branch network covers the following provinces.

01. Colombo	14. Monaragala	27. Vavuniya
02. Homagama	15. Tissamaharama	28. Chilaw
03. Horana	16. Ratnapura	29. Kuliyaipitiya
04. Hyde Park	17. Ampara	30. Nikaweratiya
05. Nugegoda	18. Batticaloa	31. Anuradhapura
06. Piliyandala	19. Nuwara Eliya	32. Polonnaruwa
07. Avissawella	20. Kalutara	33. Trincomalee
08. Gampaha	21. Ambalangoda	34. Dambulla
09. Ja-Ela	22. Galle	35. Kegalle
10. Kiribathgoda	23. Matara	36. Matale
11. Nittambuwa	24. Tangalle	37. Kurunegala
12. Peliyagoda	25. Embilipitiya	38. Kandy
13. Badulla	26. Jaffna	39. Gampola

Central	- 5
Eastern	- 3
Northern	- 2
Southern	- 5
Western	- 13
North Western	- 4
North Central	- 2
Uva	- 2
Sabaragamuwa	- 3



# Manufactured Capital

## Saturated ATM Accessibility

Connectivity to the Common ATM Switch, gives our customers accessibility to over 4,000 ATMs, dispersed across the country. This geographically dense spread of ATMs facilitates our cardholders to access funds and check account balances at all times of the day, without constraints.

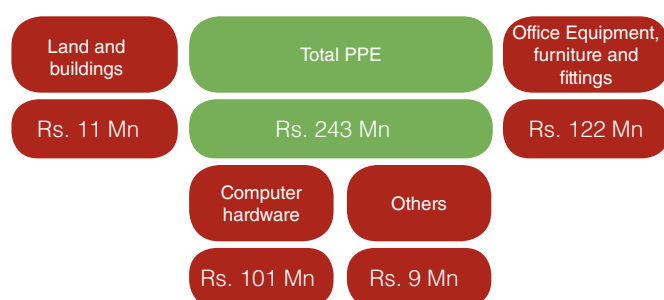
## Bank Property, Plant and Equipment

The total sum of Property, Plant and Equipment at Rs. 243 Mn. To optimise the value of manufactured capital for operational purposes the bank incurred a sum of Rs. 79 Mn as capital expenditure in the year under review, in relation to Rs. 68 Mn incurred the year before.

## Land and Building - Branches and Head Office

Our branches and head office form a total space of over 130,000 sq.ft. with branches occupying just over 100,000 sq.ft. in and around Colombo. Our head office which is located at Sir Chittampalam A. Gardiner Mawatha, houses over 29,000 sq.ft. Moreover, our warehouse covers 3,500 sq.ft.

Our branches are organised into six regions, overseen by dedicated regional managers. Branches are located across all 9 provinces, with the highest concentration in the Western Province. Across 2022, the head office and branches operated routinely, returning to operational normalcy subsequent to COVID restrictions between 2020 and 2021.



## DIGITAL TOUCHPOINTS AND TECH INFRASTRUCTURE

Our digital journey is still in its formative years; however, we have made relatively bolder strides, while focusing on the actual needs of our customers. Digital points enable us to provide banking services to customers with an appreciation of the convenience that digital services afford. In this aspect, we refer to our mostly younger demographic of customers, whose lives are tuned with the online and digital world.

## DIGITAL ACCESSIBILITY



## WEB PRESENCE

Our website remains our most central digital touch point. Informative in services and products and on bank's details, the corporate website ([www.hdfc.lk](http://www.hdfc.lk)) continues to undergo enhancements. In 2022, we improved its interface - with the aim of improving its appearance and functionalities. Website upgrades continued during the year 2022, which reached its final stages at the time of penning this report. The revamped website with a new look will be re-launched in 2023.

## E-BANKING AND SECURE TRANSACTIONS

HDFC Click is our dedicated e-banking portal for only payments and transactions. We continue to improve customer experience on the portal, while continuously ensuring safety of data and transactions. Moreover, after 2021, we facilitated CEFT through our e-banking portal. Our e-banking infrastructure has security features with OTPs generated as per protocols. All core options to facilitate key transactions, inter alia, bank to bank transactions and utility payments.

## MOBILE TRANSACTIONS

To facilitate real-time mobile payments and transactions, we partnered with Lanka Pay's JustPay in 2021 for mobile retail payments. Customers who sign-up for JustPay, can now perform transactions up to Rs. 50,000. This enables us to maintain our investments at an optimal and healthy level, while enabling customers with a well-rounded experience in digital transactions.

## INTANGIBLE ASSETS (SOFTWARE)

Software solutions process activities and functions concerning credit and deposits. Software enables us to be efficient and eliminate manually lagging processes – improving service delivery and customer experiences.

During the year under review, the bank faced a challenge in payments for computer software purchased through foreign vendors, due to the foreign currency shortage and payment restriction. As a result, we took a restrained approach to expediting purchases of significant nature.



## Digital journey (five years)

2022	<ul style="list-style-type: none"> <li>Core banking application changed due to Oracle upgrade</li> <li>Continued website enhancements</li> </ul>
2021	<ul style="list-style-type: none"> <li>Core banking hardware changed for efficient use of applications</li> <li>E-banking system revamped to provide additional facilities and high security</li> <li>4 new ATMs</li> <li>Joined with LankaPay common POS system as an issuer, allowing HDFC debit cards to be used at JCB certified POS machines.</li> </ul>
2020	<ul style="list-style-type: none"> <li>Transition to SD-WAN (Software define wide area network), which seamlessly connects branches with the head office.</li> <li>The infrastructure also automates disaster recovery system.</li> <li>3 new ATMs</li> <li>Delinquency management system (DMS) implementation commenced to monitor NPL and generate relevant letters and communication to customers, timely.</li> </ul>
2019	<ul style="list-style-type: none"> <li>Introduced e-meeting system for paperless Board and committee meetings</li> <li>Digital signage system administered centrally to communicate with customers at branches by displaying interest rates and HDFC product promotions</li> </ul>
2018	<ul style="list-style-type: none"> <li>ATM switch software upgraded to handle EMV-enabled chip cards (debit cards)</li> </ul>

## CONTRIBUTION TO SDGS

Through value enhancement activities related to manufactured capital, we contribute to several sustainable development goals.



Branch network and digital solutions for accessibility to financial services



Local employment through branches



Responsible banking activities

## INTERDEPENDENCIES AND TRADE-OFF

Activities that create value for manufactured capital helps transform other capitals while necessitating certain trade-offs.

### Capital Interdependencies

	<p>Constrained approach to branch expansions boded well on financials during the economic crisis</p> <p>Digital solutions reduce operational costs over time, i.e less use of physical resources, energy, paper etc...</p>
	<p>ICT infrastructure improvements enable employees' convenience, agility and efficiency.</p>
	<p>Island wide branch network contributes to community employment.</p> <p>Digital solutions improves accessibility for remote customers and elevates experience</p> <p>Island wide branches provides accessibility to the Bank</p>
	<p>HDFC-oriented tech infrastructure elevates knowledge base and employee skills</p>
	<p>Growth in digital footprint enables us to reduce physical impact on the environment</p> <p>Three branches with solar power impacts the environment positively</p>

### Trade-off

	<p>Financial tradeoffs from property, branch, other assets and ICT infrastructure investments</p>
	<p>Retail footprint increases resource consumptions and carbon footprint</p>

# Manufactured Capital

## PLANS FOR THE FUTURE

The future for our physical assets remains on a reserved approach. Expansion at this point in time is not considered strongly, based on the country's economic downturn and the minimum capital requirement yet to be fulfilled. However, we have a long-term plan of opening 15 new branches across the island.

Meantime, we will invest our focus on maintaining and increasing a well-managed portfolio of PPE in order to ensure that we reap the intended financial and non-financial performances through assets of manufactured capital.

We will continue to introduce new solutions and adopt new systems prudently and timely, to accommodate the growth of the Bank and to compliment our goals in expanding business.

Time Span	Future Focus
Short-term	Expanding and enhancing digital footprint with new and improved solutions
	Enhancing IT governance to strengthen system robustness
Medium-term	Broadening and maintaining digital accessibility through web and mobile services
Long-term	Expand physical and digital reach to accommodate more customers
	Investments to support ICT infrastructure developments and enhanced IT governance including cyber security
	New branches

# CAPITAL MANAGEMENT REPORTS:

## NURTURING THE GROWTH OF OUR WORKFORCE



### HUMAN CAPITAL

INPUTS	VALUE ENHANCEMENT APPROACH	OUTCOMES
<ul style="list-style-type: none"><li>• Employees and their capabilities, skills, experiences etc.</li><li>• Diverse workforce in gender, age and type of employment</li></ul>	<ul style="list-style-type: none"><li>• Recruitment strategy</li><li>• Equitable remuneration and financial benefits</li><li>• Promotions</li><li>• Equitable and conducive work environment</li><li>• Work-life balance</li><li>• Equitable working environment</li><li>• Training and development that enhances capabilities</li><li>• Policies that endorse employee growth</li><li>• Engaging with employees</li><li>• Maintaining union relations</li></ul>	<ul style="list-style-type: none"><li>• Committed workforce</li><li>• Ensured employee satisfaction</li><li>• Increased remuneration</li><li>• Good retention rate</li></ul>

Human capital is at the core of our value creation model and includes the competencies, abilities and experiences of our employees. Our team of employees brings a unique proposition of skills, knowledge, varying technical expertise, hard work and practical thinking, with motivation towards personal and professional development.

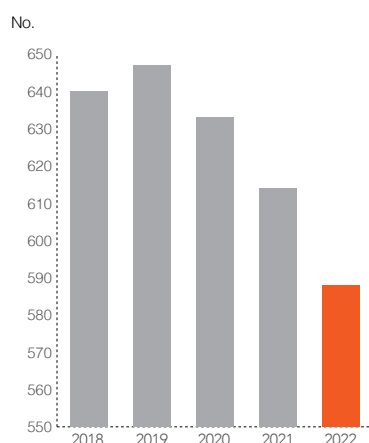
### WHY IT'S IMPORTANT TO US

Human capital is integral in improving processes, enhancing operational efficiencies and providing other stakeholders with expected values over time. At HDFC Bank, investing in employee growth and well-being will enable us to derive a two-way value stream; primarily, it will allow employees to develop their knowledge and capabilities. Secondly, employee development will enable us to effectively fulfil our duties and objectives.

# HUMAN CAPITAL

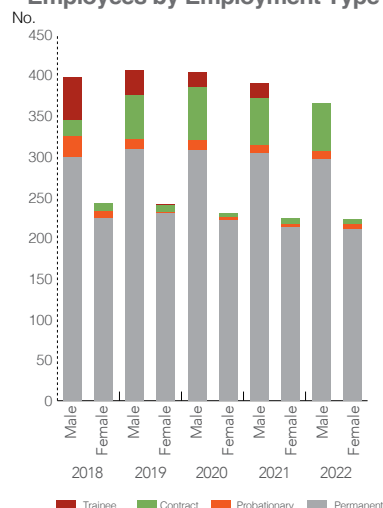
## FORMING THE RIGHT TEAM

**Total Employees**



The HDFC team is a cohesive unit of 588 personnel dedicated to their work and organisational growth; this is lesser than the 614 employees present in the workforce in 2021.

**Employees by Employment Type**



## EMPLOYEES BY EMPLOYMENT TYPE

	2022		2021		2020		2019		2018	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Permanent	297	211	304	213	308	221	309	230	299	224
Probationary	9	5	9	3	12	4	12	2	26	8
Contract	59	7	58	8	64	5	54	8	19	10
Trainee	-	-	19		19		31	1	53	1

## EMPLOYEES BY JOB FUNCTION

	2022		2021		2020		2019		2018	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Corporate management	5	5	7	3	8	3	9	4	8	4
Chief / senior managers	8	14	9	15	9	17	4	8	6	7
Regional managers	5	1	5	1	5		5	-	6	1
Executive staff	127	151	133	149	127	152	83	115	85	117
Non-Executive staff	131	51	136	55	148	57	171	110	168	110
Business promotion assistants	12	1	12	1	12	1	46	3	46	3
Junior business promotion assistants	28	-	22	-	22	-	22	-	25	-
Business Promotion Trainees	22	-	27	-	27	-	31	1	53	1
Palmtop assistants	27	-	39	-	45	-	35	-	-	-

## EMPLOYEES BY REGION

Region	Staff	
	Male	Female
Region 1	42	29
Region 2	40	24
Region 3	46	32
Region 4	57	29
Region 5	43	9
Region 6	57	24
Head office	80	76

## EMPLOYEES BY PROVINCE

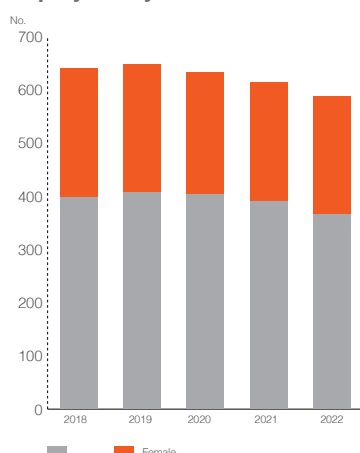
Province	Staff	
	Male	Female
Northern	11	3
North central	13	5
North western	39	16
Eastern	20	2
Central	38	20
Western	162	141
Uva	18	3
Sabaragamuwa	27	10
Southern	37	23

## TEAM DIVERSITY

### GENDER

38% of our workforce is represented by female professionals with male professionals forming nearly 62% of the workforce. 41% of permanent staff is represented by female professionals, while probationary and contract staff has an 85% male representation. Moreover, female representation within executive staff and the levels above was at 54% and 46% male representation.

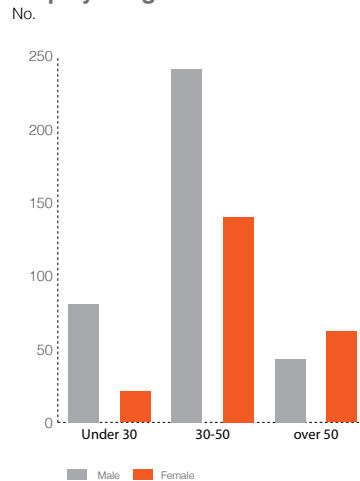
Employees by Gender 2022



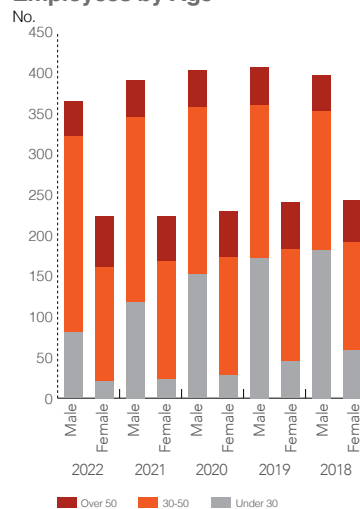
## AGE

A majority, 65% of our workforce is middle-aged at 30-50 years, followed by 18% of employees who are above 50 and 17% of staff who are under 30 years.

Employee Age Mix 2022



Employees by Age



## MANAGING HUMAN CAPITAL AND ENHANCING VALUE

### RECRUITMENT STRATEGY

In 2022, based on a restrained approach to operational expenditures, we capped our decision to make substantial recruitments with the exception of finding suitable replacements for retired and resigned personnel. Nevertheless, based on the high retention rate and concurrent low turnover rate, recruitment has taken a lagged effect but reflects the effect of having a satisfied workforce.

## HUMAN CAPITAL

In recruiting the right employees for the fitting position, we take an unbiased approach, while discouraging any influence from external parties. We ensure that the candidates we shortlist and select are given the right opportunity, irrespective of their gender, religion and casts, who are able to commit to think innovatively and work efficiently. In adherence to our recruitment policy, we commence the staffing process with a search for the right fit from within the existing workforce. We communicate vacancies internally over employee communication channels such as the intranet, providing them the opportunities to apply for the vacant positions. If we are unable to fulfil the position through internal recruitments, we then turn to the alternative

of hiring externally. This is done by placing advertisements on leading job placement sites and newspapers. Thereafter, the recruitment and selection process will commence, formally.

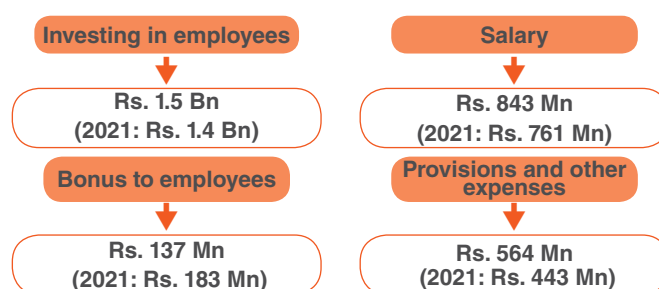
Candidates will face an interview with a panel of management leaders, who will then make the final decision based on the right experience, work exposure and knowledge that matches the job in question.

During the year, we recruited a total of 13 new employees; 77% of new recruits were non-executive roles.

New employees	2022		2021		2020		2019		2018	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Corporate management	-	1	-	1	-	-	-	-	2	-
Executive staff	2	-	-	1	-	-	1	-	1	2
Non-executive staff	3	5	7	6	2	-	6	2	2	3
Palmtop assistants	2	-	3	-	15	-	35	1	16	-

## EQUITABLE REMUNERATION AND FINANCIAL BENEFITS

Fair and inclusive financial incentives are a key aspect of how we retain employees. The Bank has an attractive and industry-matched level of remuneration, enjoyed by our permanent staff. Full-time permanent staff enjoys several benefits, based on the confirmation of their appointment letters and service contracts. Our Banking staff and employees engaged in other functional job roles, enjoy a pay-scale which is specific to the Banking sector. According to the conditions of the collective agreement.



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	√	√	-	-

BPT - Business Promotion Trainees



In 2022, the Bank incurred over Rs. 1,544 Mn in remuneration for all employees; this is an increase of by 11% from the previous year.

All our employees receive salaries above minimum wage levels. Salaries depend on the profession, whether it's banking or non-banking related, and decided upon industry averages and individual employee qualifications, skills and experiences.

## PROMOTIONS FOR CAREER GROWTH

Promotions are not only an indicator of self-driven commitment and professionalism of employees, it is also a mark of how we ensure that all employees receive equal and fair opportunities for career succession and professional growth. Each year, we consider promotions based on employee performance and professionalism, and based on their length of service with the Bank. Employees including key management personnel receive fair chance of promotions, under the recruitment and promotions policy, adopted in 2019.

We give priority to internal promotions, based on the annual line-up of vacancies. If a need exists to fill a position due to resignations and retirements or any other reason, we first publicise the vacancy internally, using the Bank intranet. Employees with an interest can apply for the position and applications will be evaluated against pre-requisites that are specific to the position in question, and based on the level of technical skills demanded by the job role.

## TRAINING AND DEVELOPMENT FOR A DYNAMIC TEAM

We have a significant task of maintaining knowledge bases and enhancing competencies of our employees. Mainly within a rapidly changing economic, policy and regulatory landscape, employees must be kept up to date on such developments. To ensure that our employees' knowledge is continuously

improved and kept in tune with the demands of their jobs and the industry, we conduct a well-planned schedule of training and development programs around the year.

We develop training programs around the Bank's needs and the requirements from employees in bridging knowledge gaps. The HR team, who puts together the training programs, takes into consideration the training needs of various departments, branches and personnel. Training programs cover various Banking related technical subject matters, operational aspects, regulatory and legal matters, in addition to professional development. With training focused on such technical areas, we are able to direct employees' attention to specific Banking related and job-specific requirements; this enables them to not only get empowered within a knowledge-intensive industry, but also fulfil their services in line with evolving requirements.

Employees participate in a number of internal and external training programs.

1. Internal programs – conducted by heads of departments and corporate management
2. External programs – employees participate in forums and training sessions, organised by regulatory bodies and technical organisations.

In 2022 employees participated in 36 internal training programs and 29 externally conducted sessions. 5,351 hours were spent on training, in total and 497 employees received training on numerous occasions on various aspects including technical topics, professional and soft skill development.

**Employees trained**

**85% of staff trained**

**2022: 497 (from 588)  
2021: 564 (from 614)**

External	Job category	Attendees	Internal	Job category	Attendees
32 Anniversary Convention 2022	Managers	3	Customer evaluation	Branch Officers	107
Bank Integrated Risk Management	Chief Manager	1	financial Analysis	Branch Officers	103
Implementation of Digital Signatures for Banking and Finance the Finance Sector	Corporate Management	6	Recovery of Loans through Palm Top Officers	Palmtop Officers	48
AML/CFT Compliance for Financial Institute	Corporate Management	1	Special Training session for Credit Division - Excel	Credit Division Staff	11
Benefits of EPF ,ETF, Gratuity act and Provision of Shop & Office act	Executives & Managers	2	Special Training session for Credit Division - Excel	Credit Division Staff	8
Seminar on SLFRS 16- leases	Managers	4	Special Training session for Credit Division - Excel	Credit Division Staff	5
Women & work place	Corporate Management	1	Introduction to Project Management	Managers & Executives	14

## HUMAN CAPITAL

External	Job category	Attendees	Internal	Job category	Attendees
Interest rate Dynamics: Impact in Bank Operations	Executive	1	LMS Training	Executives & Non - Executives	25
Legal Aspects of Bank Lending	Legal Officers	1	Compliance & Regulatory requirements for Bank Operations	Executives & Non - Executives	75
Procurement Management & Tender Procedures	BA - Administration	1	Training on Credit Circulars	Credit Officers	70
Data Privacy & Personal Data Protection	Chief Manager	1	Training on Loan Rescheduling	Branch Manager, Asst. Managers, Recovery Officers	92
Introduction of SL Green Finance taxonomy	Managers	2	On the job training on Recovery	Recovery Officers	2
Strategic HRM in Finance Industry	Managers -HR	3	Special awareness programme on Pawning	Pawning Officers	49
Workshop on Labour Law for Line Managers	HR Staff	6	Training on CBS	Development Assistant	47
Internal Controls & Auditing for Finance Institutions	Corporate Management	1	Microsoft. Office	Executives & Non - Executives	5
AML/CFT Compliance for Financial Institutions	Executives & Managers	4	Training on LMS & LOS	Branch Managers	46
Assets & Liability Management for Banking Institute	Executive & Above	2	How to promote Gold Loans	Pawning Officers	52
Bank Integrated Risk Management	Managers	2	Training on ATM Issues	Asst. Managers	71
Business Writing & Email Etiquette	Executives & Non Executives	29	Compliance & Regulatory Requirements on Bank Operations	Branch Officers	32
Monetary Policy and Monetary Operations	Managers	5	Compliance & Regulatory Requirements on Bank Operations	Development Assistant	37
Banking Act Direction on Classification, Recognition & Measurement of Credit facilities and other Financial Assets	Executives	4	Internal Controls & Audit Concerns	Branch Staff	100
Monitory law Act & Operations of the Central Bank	Executives & Managers	5	Training on Disciplinary code	Development Assistant	36
Legal Implication of Transfers & Secondments	Corporate Management	1	Personality Development for a Professional Banker	Development Assistant	40
Security Features in Genuine Currency Notes & Identification of Forged Notes	Branch Managers	1	Ms Excel	Executives & Above	18
Crises an Opportunity to Re- Build Sri Lanka , CMA Conference 2022	Corporate Management	1	Ms Office & Ms Excel	Executives	38
Seminar on Notaries Ordinance	Legal Officers	5	Practical Session on Identifying Gold	Pawning Officers	31
Dissecting the Budget 2023	Managers	2	Ms Excel	Executives / Head Office	11

External	Job category	Attendees	Internal	Job category	Attendees
HR/IR Forum	Managers -HR	3	Develop Marking Skills for to improve Customer Experience	Executives & Other in Branches	14
Technical Session on Individual Impairment	Managers	2	Streamline & Expedite Recovery Actions	Recovery Officers	26
			Special Training Programme for Branch Managers - R1 & R2	Branch Managers	12
			Ms Office & Ms Excel	Executives	5
			Streamline & Expedite Recovery Actions	Recovery Officers	37
			Special Training Programme - R1 & R 2 for Asst. Managers	Asst. Managers	10
			Induction training for Newly recruited Officers	Executives & Above	8
			Special Training Programme - R3 & R4 for Asst. Managers	Asst. Managers	15
			Special Training Programme for Branch Managers - R3,R4,R5 & R6	Branch Managers	24

## REWARDING AND RECOGNISING EMPLOYEE COMMITMENT

Commending and appreciating the hard work in maintaining the NPL ratio at the industry level during the first half of 2022, we presented letters of appreciation to the staff of the staff at our Hyde Park and Peliyagoda branches. Managers of each branch received the letters from the Chairperson and the CEO/General Manager at the Fort Head Office.

## EQUITABLE AND NON-DISCRIMINATORY WORK ENVIRONMENT

Fair treatment for all is a premise that we work with on a daily basis. At our head office and at branches we expect our employees to treat other respectfully, while refraining from any discriminatory behaviour despite differences and conflicting views on any aspect of social and professional lives. In the event of escalating disagreements or conflicts we take a firm but fair hand in resolving the issue, without allowing the situation to create a toxic work environment for the employees involved, and for those associated with them.

## WORK LIFE BALANCE

Our employees have an appreciation for a well-balanced lifestyle, with time well-spent with their families and adequate time dedicated to fulfilling their duties and responsibilities. We understand that a balanced personal-professional life, will lead to better physical and emotional health, which enables employees to manage stress levels and the demands that come from both ends of the spectrum.

In 2021, we introduced flexible work schedules to help employees to adjust the pace of their personal and work - life obligations. Flexible work times not only allow them more control over their time and busy schedules, but creates a sense of satisfaction that comes from knowing that they are no longer required to follow an inflexible work routine, especially at times when personal commitments becomes more demanding.

Flexi-time arrangements: Upholding a more balanced work-life experience, we initiated flexible work arrangements in 2021. As part of the arrangement, office hours fall within three 8-hour sets, each commencing and ending at varying periods

Job Rotation: Focusing on preventing employee burnout, job rotations are now carried out. We assign employees to positions other than their designated ones, temporarily. With job rotations, employees also receive work exposure to roles, outside their expertise and experience.

## EMPLOYEE SATISFACTION

In 2022, a satisfaction survey in digital format, the results of which was an overall level of satisfaction. We believe that this reflects the effectiveness of the overall talent management approaches we have adopted.

## ADHERENCE TO BANK HRM POLICIES

We adhere to formally established HRM policies, which capture the entire spectrum of human resource management. Our policies are continually upgraded annually, to ensure that they align and complement our strategic focus and recruitment needs, as well as human capital management strategies that we plan to deploy.

# HUMAN CAPITAL

Policies currently in effect cover the following areas:



During the year 2022, we reviewed the policies which required revision and upgraded accordingly.

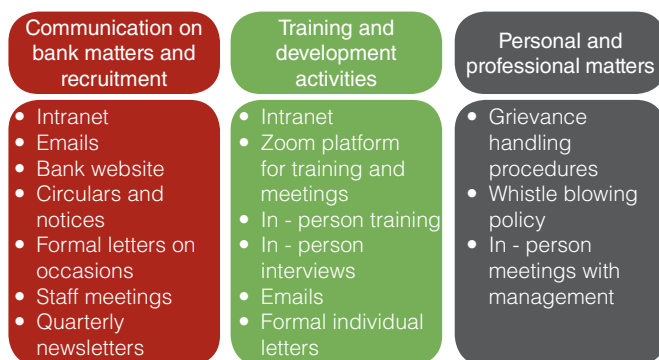
By adhering to the processes and procedures of the Bank's HRM policies, employees receive the assurance, that the Bank's management follows proper and due-process in HRM related functions. By having policies that are formally pursued, chances for deviations occur minimally and rarely. This conformance to policies sets a tone of professionalism and minimises conflicts and negative concerns that may brew between the management and employees.

## ENGAGING WITH EMPLOYEES

### EMPLOYEE COMMUNICATION

To ensure that we communicate effectively with our employees, we leverage the use of several channels, which facilitates open, two-way communication. Through the use of these channels, we strive to keep all our staff well-informed on various aspects of the Bank, while receiving their feedback, statements and ideas on decisions and actions that have a direct effect on our strategic and operational pursuits.

Employee communication occurs mostly through digital means, but we encourage employees on direct one-to-one interactions for personal matters such as grievance handling and in sharing concerns about personal and professional matters.



## GRIEVANCE HANDLING AND DISCIPLINARY ACTION

Resolving employee grievances ensures employee satisfaction and peace of mind at the workplace. Therefore, we ensure that we take the right measures in line with our grievance handling policy to resolve grievances swiftly and fairly – in a transparent manner. Moreover, in resolving disciplinary violations, we follow a disciplinary code. After a preliminary investigation, a submission is made to the disciplinary committee for a decision and necessary actions.

## WHISTLEBLOWING POLICY

In 2017, the Bank adopted a policy on whistleblowing. The policy endorses employee's right to call out any individual who has deviated from standards of proper governance, conduct and ethical behaviour in Bank's operations and transactions.

The chief internal auditor has been appointed as an officer in charge of accepting information on any improper conduct. The policy addresses issues of impropriety in financial reporting, internal controls and other issues. Officials in charge of handling the process - ensure that proper steps are set in place for a fair and independent investigation of improper conduct and financial misappropriation.

## MANAGEMENT-EMPLOYEE ENGAGEMENT

Our management maintains open communication and engagement with employees in receiving and providing feedback, guidance and constructive criticism.

Higher management with Chairman, CEO/GM	Corporate management with staff	Management and regional managers	Higher management and branch management
Weekly	Twice a month	Quarterly	Quarterly

## PARENTAL LEAVE

We preserve employees' right to parental leave, in the event of a newborn. Understanding that this personal milestone takes precedence over professional commitments, we ensure that our employees receive adequate time away from work. Our female staffers, who require maternity leave receive 84 days of paid leave, while male employees who welcome a newborn can take up to 3 days of paid leave to spend time with his newborn.

	2022		2021		2020		2019		2018	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
No. of employees that took parental leave/ Maternity Leave	8	17	17	5		12		23		8

## UNION RELATIONS

We continue to maintain amicable relations with our employees in Ceylon Bank Employees' Union (CBEU). From our cadre, 84% of staff have union membership - and covers permanent, probationary and contract-based employees, including several corporate management members which get renewed once every three years.

In 2022, we honoured our commitments to salaries and other benefits according to the terms and conditions of the collective agreement, even amidst the growing economic disruptions and uncertainties that prevailed across 2022. This was done in accord with the collective agreement of 2021-2023, signed between the Bank's management and Union representatives.

Our association with the Union is a vital cord that maintains a clear understanding of their expectations of us while giving us the opportunity to openly communicate the Bank's strategic aspirations and operational challenges that should be dealt with collectively. Meetings with the union are a forum to be transparent of our expectations.

Union member numbers based on employment category	No.
Corporate management	5
Chief / senior managers	20
Regional managers	6
Executive staff	274
Non-executive staff	159
Business promotion assistants	13

Union member numbers based on employment category	No.
Junior business promotion assistants	14
Business Promotion Trainees	-
Palmtop assistants	-

Key benefits covered by the collective agreement:

- Salaries
- Transfer allowance
- Difficult area allowance
- Risk allowance
- Out - of - pocket allowance
- Key handling allowance
- Subsistence and combined, travelling allowance
- Regional and branch managers', and second officers' allowances
- Medical benefits
- Staff housing loan facility
- Vehicle purchase loans
- Distress loans

## HIGH RETENTION AND LOW TURNOVER

At HDFC Bank, our team enjoys a culture of accountability, loyalty and dedication. Our high retention rate reflects this premise, as we had a rate of 98.98% in 2022, with a corresponding turnover rate of 4.98%.

Service tenure	2022		2021		2020		2019		2018	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Less than five years	39	10	60	16	123	43	133	49	139	50
5 to 10 years	123	43	163	63	138	55	176	67	161	68
11 to 15 years	124	65	85	38	66	23	22	10	16	9
16 to 20 years	19	12	31	22	28	22	33	23	35	23
21 to 25 years	25	18	19	24	21	27	21	31	31	49
26 to 30 years	31	62	32	57	27	58	21	60	15	43
Above 30 years	4	13		4		2		1		1

By the end of 2022, 32% of employees have remained with the Bank between 11 and 15 years - and 28% between the years of 5-10 in service. Out of those with more than 30 years of service, nearly 76.5% are female representatives.

Usual instances such as retirements and resignations caused a small level of turnover, with no termination of employment reported from 2022.

	2022		2021		2020		2019		2018	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Employees retired	3	1	3	6	2	7	7	1	3	3

# HUMAN CAPITAL

## RETENTION RATE

	2022		2021		2020		2019		2018	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Retention Rate	94	97	97	98	97	99	94	98	95	98

## TURNOVER AND ANALYSIS

Absenteeism in the year under review remained markedly lower than 2021, as vaccinations against COVID-19 and undisrupted operations, resulted in employees reporting to work similar to pre-pandemic work days.

	2022		2021		2020		2019		2018	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Total	23	7	13	4	13	3	22	5	19	5
Under 30	15	3	10	2	10	1	21	4	18	3
30-50	7	2	3	2	2	2	1	1		1
over 50	1	2			1				1	1
%	3.13	6.07	1.76	3.29	1.28	3.19	2.07	5.51	2.06	4.79

## CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

	Eliminates financial constraints to elevate standard of living and quality of life
	Medical remuneration encourages employees to obtain correct medical treatments
	We provide training to all our staff
	Both women and men receive equal opportunities for career and financial growth
	Employees enjoy decent work and financial growth
	We ensure that there is no discriminatory conduct within our offices

## CAPITAL TRANSFORMATIONS

	Employee training and development elevates the Bank's tacit knowledge base and enables new intellectual assets
	A competent workforce enables employees to be of value to stakeholders
	A productive, committed and satisfied workforce contributes to the Bank's financial objectives such as taking measures to reduce NPL and increase interest income - while pursuing deposit mobilisation.
Trade-off	
Employee-related expenses require a trade-off with financial capital	

## THE FUTURE OF HUMAN CAPITAL

We will continue to improve our human capital through the same approaches, keeping in mind their growth and needs, aligned with Bank's objectives.



# CAPITAL MANAGEMENT REPORTS:

## EXPANDING LIMITS OF POTENTIAL



### Intellectual Capital

INPUTS	VALUE ENHANCEMENT APPROACH	OUTCOMES
<ul style="list-style-type: none"><li>• Organisational tacit knowledge</li><li>• Digital solutions</li><li>• Brand capital</li><li>• HDFC Culture</li></ul>	<ul style="list-style-type: none"><li>• Training programs to enhance employee knowledge</li><li>• Providing inclusive loan schemes</li><li>• Improving digital solutions and services</li><li>• Building the HDFC brand name</li></ul>	<ul style="list-style-type: none"><li>• A diverse range of technical training programs for staff across the bank</li><li>• EPF loans and housing loans to new customers, with specific repayment schemes around financial capacities</li><li>• Increase in brand-building activities</li><li>• A culture that continues to be guided by bank values</li></ul>

Intellectual capital entails mostly unseen and mainly intangible assets, which enable the Bank in its value creation process.

#### OUR INTELLECTUAL CAPITAL

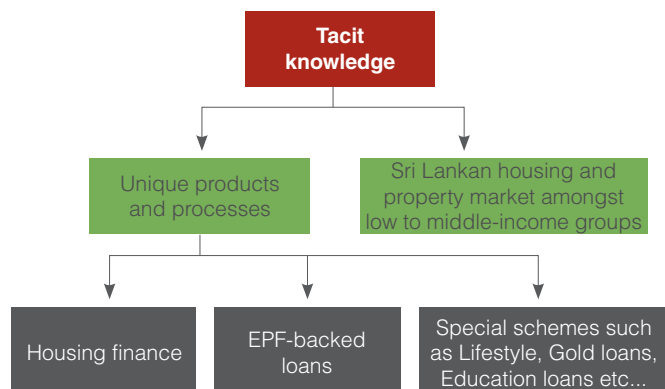
We consider our intellectual capital as the combined value of organisational tacit knowledge, inclusive financial products, unique digital solutions, tech systems, the HDFC brand and Bank culture. We also consider our governance and risk management frameworks as unique to our operating context.

#### WHY IT'S IMPORTANT TO US

The importance of intellectual capital to value creation is underscored by the sum of these intangible assets unique to the HDFC value proposition. From our knowledge of housing and EPF and our inclusive product base, all support value creation over time. Our ability to sustain in a highly competitive sector for 40 years has culminated in a brand that now represents unique products and services and a workforce culture driven by HDFC values. All these aspects enable us to create value for customers and serve the community, including those financially overlooked.

# Intellectual Capital

## ENHANCING AND RETAINING ORGANISATIONAL TACIT KNOWLEDGE

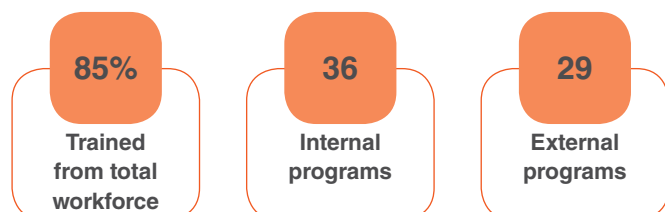


The Bank's 'organisational' knowledge is a unique repository of its collective products and Bank-specific processes. We have an HDFC-specific ecosystem of products, services and processes that has nurtured tacit employee knowledge. Importantly, our work in housing finance and EPF loans has equipped our employees with knowledge and experience unique to the financial solutions we structure for our niche clientele.

Moreover, our knowledge of the domestic housing market, the nature of land and property values and classifications also gives us leverage within the specialised licensed Banks of Sri Lanka. As a result, we have helped thousands of Sri Lankans fulfil their housing aspirations or work towards their vision. What makes our knowledge and experience further unique is providing funding to people overlooked by large-scale financial service providers. Serving a niche market segment with varying financial capacities and largely uncertain livelihoods has equipped us with experienced-based knowledge as one of Sri Lanka's exclusive housing finance institutions.

As on-the-job experiences continue to add value to this tacit understanding of the markets and the products we offer, we work towards enriching employee knowledge through training programs. Our training initiatives have grown in recent years, equipping employees with technical acumen and service expertise.

## HOW WE ENHANCED KNOWLEDGE IN 2022



## TECHNOLOGY THAT DRIVES TACIT KNOWLEDGE AND VALUE CREATION

We have adopted several ICT solutions in recent years, adding efficiency and value to how we deliver Banking services.

Our core Banking system has added value to how we conduct core Banking processes enabling us to switch from manual activities to agility. These systems have added tremendous value to our functions, such as loan and credit approvals and management, recoveries and collection and deposit mobilisation. Moreover, by using ICT systems for such functions, the tacit knowledge of our employees continue to improve.

- During the year, we upgraded the core-banking database to a more efficient Oracle version
- We replaced the main servers related to the core banking system.

## LOAN MANAGEMENT AND ORIGINATION

We adopted the solution in 2020 after a pilot run in 2019. Due to its implementation, we have now made our loan management process more streamlined and efficient with online accessibility to authorised head office and branch staff.

## DELINQUENCY MANAGEMENT SYSTEMS (DMS)

Developed in four modules, we completed the report module of the DMS in 2022, with the development of the legal module pending. The system automates and monitors the NPL levels and recovery of defaulted payments. Functions of the recovery department involving leasing and basic loans, including gold loans are handled by the system, making it convenient to track default payments and manage NPLs.

## SERVICE IMPROVEMENTS THROUGH DIGITAL SOLUTIONS

At HDFC Bank, our pace of implementing digital solutions faced several challenges in the past, especially as budgetary restrictions and the need to preserve our capital base compelled us to adopt a restrained approach. However, based on the numerous benefits of adopting digital and electronic Banking services, we have implemented several solutions that enable our team to deliver services faster and more efficiently. With these solutions, we can tap into previously unapproachable customers, and as a Bank with a small footprint, our foray into the digital sphere makes this possible.

## PALMTOP SOFTWARE (DOORSTEP BANKING SOFTWARE)

In our attempt to take services closer to our customers, the HDFC palmtop software plays a vital role as it equips our palmtop officers to provide doorstep banking to customers with limitations in visiting branches for routine Banking transactions. Our palmtop software is designed around the specific functions of our doorstep banking team. The Palmtop software is an internally developed tool customised around HDFC-specific financial transactions. At present, over 80 personnel use the software on mobile devices sourced for this unique purpose.

## HDFC CLICK

Branded with a unique name, HDFC Click is our dedicated e-Banking portal for all our digitally savvy and convenient-seeking customers. Launched in 2018, the portal now performs thousands of transactions annually.

## INCLUSIVE FINANCIAL PRODUCTS

Our loan portfolio reflects the needs of the customers we serve. As our customers are mostly individuals and businesses with limited payment abilities and with financial vulnerabilities, our loan schemes are designed to accommodate their financial capacities.

Unique solutions for unique clientele:



Our EPF-backed loan scheme is an inclusive solution for the formal workforce of Sri Lanka. We are one of the few financial intermediaries with the intellectual capacity and employee experience in handling EPF-based loans for customers from all social and financial backdrops.

'Arambu' is dedicated to our Tamil-speaking community and to providing them with a unique dedicated solution in addition to other generic investment and savings products. It's one of the first such products to be introduced exclusively for the community.

## IMPROVED BRAND VALUE

We believe that brand building strengthens the brand image and bolsters the perception of stakeholders on the Bank's capabilities. A strong brand reinforces the stability of the Bank and represents our capability in creating value for our stakeholders over time.

Since our inception, we have been known as the Housing Development Finance Corporation of Sri Lanka. Now addressed as HDFC Bank of Sri Lanka, we continue to be recognised as a financial partner within the low-middle-income housing finance market, with a growing Bank portfolio in the segment.

In 2022, Brand Finance ranked HDFC Bank at the 74th position, up two ranks from 2021. Our brand is now valued at Rs. 763 Mn, an increase from Rs. 758 Mn in 2021. Using this brand strength, we see the ability to grow our market position, especially within the housing finance sector. And by using the strength of our name, we will continue to provide sustainable financial solutions to customers seeking housing finance – remaining true to our identity.

## BRAND-BUILDING

### DIGITAL BRANDING

02 LED out door panels – Wellawatte and Dehiwala
27 Digital Panels in Government Institution
35 Digital Panels in all hospitals
20 Panels in Gyms

During the year, we took efforts to enhance the value of our brand by conducting targeted advertising, marketing and promotional campaigns in various parts of the country.

## TAGS AWARDS

HDFC was awarded a Compliance Award in the State Owned Banks category at the TAGS Awards 2022 organised by the Institute of Chartered Accountants of Sri Lanka

The Awards ceremony recognises responsible, integrated reporting by corporates of all sectors and we are humbled to have received this accolade as an appreciation of our efforts.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) organised the TAGS Awards 2022, which is recognised as one of the most prestigious and established corporate events in the country among diverse business sectors.

## Intellectual Capital

Commanding over 57 years of excellence and existence, CA Sri Lanka secured its quest for enhanced transparency, accountability, governance, and sustainability by re-conceptualizing and re-branding the highly prestigious Annual Report Awards at the TAGS Awards 2022, marking a new chapter in corporate reporting in the country.



### HDFC CULTURE – GROOMED TO SERVE THE NATION

The culture at HDFC is reflected by the experience and knowledge of our most senior personnel who have been with us for many years, especially 403 employees who have remained with us for the past 10 years. Since joining the Bank, their conduct has been steeped in a culture driven by strong governance and a accountability to the people and the State.

As a financial intermediary, these qualities are inculcated across divisions, as responsible conduct ensures Bank's reputation and protects stakeholder stakes. Having these values amongst our employees has helped sustain our brand image for 40 years. Our culture is now evolving more towards risk-consciousness with processes and knowledge that aim to balance and improve our credit portfolio. Moreover, through increased training initiatives, we strive to shape a more technically adept workforce that moves with the shifting technical know-how.

### OUR VALUES

#### Ethical

Our employees ensure ethical financial transactions, by adhering to internal controls and established processes, especially our credit approval process.

#### Agile

We adopt new technologies to drive human and process agility

#### Resilient

Our employees and our highly experienced management team takes prudent decisions to ensure operational resilience

#### Respect for diversity

Our work is our pride. Having served more low to middle-income clientele, we respect the diverse needs of clients from diverse social and economic backgrounds.

#### Transparent

We remain transparent in financial reporting, abiding by accounting protocols, regulatory and legal requirements.

### GOVERNANCE AND RISK MANAGEMENT FRAMEWORKS UNIQUE TO OUR CONTEXT

Our governance framework is developed around the HDFC Act, best practices in governance and regulatory requirements. The risk management framework is designed around risk exposures we face as a Banker that predominantly services cash-strapped market segments. We continue to uphold the governance and risk management frameworks to work towards our vision aligned with stakeholder expectations.

Our sound risk management approaches and risk-based trainings enable us to continuously improve risk consciousness, especially as we service entirely unique and different market segments overlooked by other Banking service providers. (For an in-depth understanding please see Corporate Governance and Risk Management reports)

## CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

	Inclusive unique products for low-middle-income segments
	Expanding knowledge limits and filling gaps in technical skills
	Focus on digital solutions to encourage the use of technology amongst low-middle-income segments
	Providing low middle-income earners access to funding for various needs (e.g. housing, education et.) and investment solutions
	Our governance frameworks enable us to ensure that the Bank is void of corruption and abides by laws and regulations. Moreover, it helps to inculcate a culture of accountability and to avoid situations that question the integrity of the company.

## ADDING VALUE TO INTELLECTUAL CAPITAL

With the gradual adoption of digital solutions, we will continue to add value to our intellectual capital. We will continue to introduce new solutions and adopt new systems prudently and timely to accommodate Bank growth, improve tacit knowledge and compliment our goals in expanding business.

As a financial intermediary, we will explore the adoption of new financial technologies in the future, which will augment efficiencies and provide convenience to customers. Further, we have sights on introducing products and revamping existing ones to address the needs of various target segments.

Time Span	Future Focus
Short-term	Enhance interactive features of the corporate website.  Introduce new products targeting various professions and individual needs.
Medium-term	Strengthen corporate culture with strong risk awareness
Long-term	Invest in advanced new digital Banking solutions to enhance service experience and accommodate business growth.

## CAPITAL TRANSFORMATIONS

	Training enhances the capacities of employees and elevates human capital
	Inclusive solutions bring customers closer and enable us to help the underserved in the community
	No transformations
	Reduced paper consumption and resource dependency through increased digital services

### Trade-off

Investments in training, digital solutions and brand building create a temporary (short-term) void in financial capital but they also contribute towards Bank growth and top-line.



# CAPITAL MANAGEMENT REPORTS:

## UNIQUE VALUE CREATION AND STRENGTHENED RELATIONS



### Social & Relationship Capital

#### INPUTS

- Relationship with customers
- Partnerships with institutions
- Cooperation with regulators and the government
- Connections with the community

#### VALUE ENHANCEMENT APPROACH

- Building better solutions and relations with customers
- Creating mutually shared value with partners
- Ensuring and maintaining compliance with regulatory guidelines and requirements
- Understanding community's expectations of us

#### OUTCOMES

- Increased client base, deposits and interest income
- Mutual partner value creation
- Financial services to the community
- Commitment to statutory and regulatory obligations and state revenue contribution
- Contributions to safeguarding the environment

### OUR SOCIAL AND RELATIONSHIP CAPITAL

Behind our social and relationship capital are long-running relationships with customers, partners, regulators and the community. It represents how we maintain our relations with stakeholders and the approaches we take in creating value.

### WHY IT'S IMPORTANT TO US

Relationships define the course of any organisation. Being a financial intermediary, the relationships we have built over the years, continue to sustain us and direct us to enhance what we offer. The relationships we maintain with our stakeholders give life to everything we do, and they are the foundation on which we have built our brand, our legacy and our growth. Therefore, our relations with customers and other social stakeholders and their expectations of us underpin who we are and what we aim to be. For viewing stakeholder expectations, please see pages 22 - 28.



## CUSTOMERS – SUSTAINABLE FINANCIAL SOLUTIONS AND SUSTAINED RELATIONS

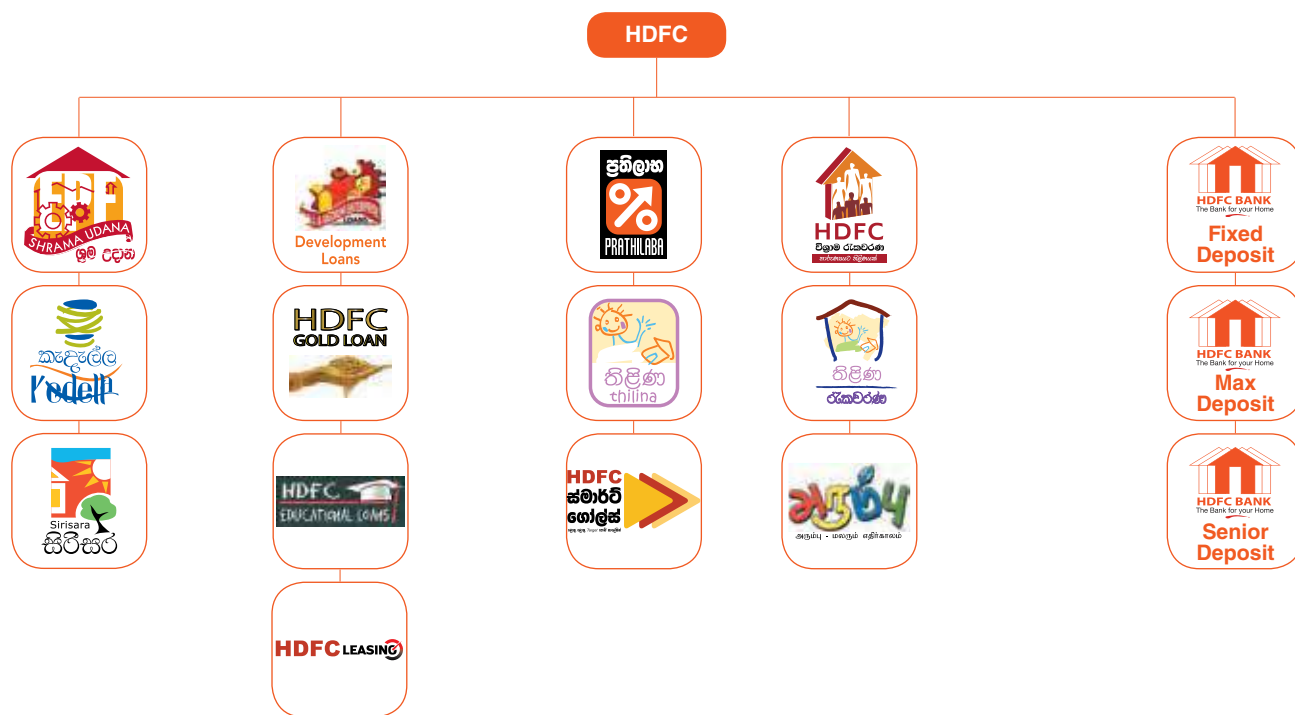
Throughout the year under review, we continued to provide inclusive financial solutions to all our customers, ensuring they receive the right financial assistance. Given our small operational scope, we work with a client base of 649,008 with customer segments concentrated on deposits and loans.

<b>Depositors</b> 503,870 (2021: 495,625)	<b>Total Customers</b> 649,008 (2021: 633,989)	<b>Borrowers</b> 86,146 (2021: 90,591)
<b>No. of fixed deposit accounts</b> 20,427 (2021: 23,380)	<b>No. of savings accounts</b> 668,869 (2021: 655,473)	<b>No. of loans granted</b> 15,805 (2021: 19,852)

## DIVERSE, INCLUSIVE AND RESPONSIBLE PRODUCTS

At HDFC Bank, our focus is to financially empower customers. Whether it's inculcating the habit of being thrifty or fulfilling life's goals – our products cover the entire spectrum of products from childhood to retirement.

We continue to provide loan schemes to low and middle-income groups, with a view to supporting the nation's social development. Consequently, to protect depositors' funds, we ensure that our operational expenditure remains at an optimal level alongside top-line growth – both of which contribute towards profitability. This helps to buffer the risks we absorb by providing funding to low-income and middle-income groups.



## Social & Relationship Capital

### AFFORDABILITY OF CREDIT SCHEMES

Product distribution - Loans	2022	% change	2021
Housing Loans Secured by Primary Mortgage Over Residential Properties	11,437	-5%	11,995
Housing Loans Against EPF	13,633	9%	12,476
Housing Loans on Guarantors & Others	7,261	-6%	7,728
Business loans	3,066	-17%	3,698
Gold Loans	437	1%	434
Lease & Hire purchase Receivables	762	-19%	942
Staff Loans	1,869	9%	1,709
Cash Margin Loans	2,637	57%	1,678
Interest & Other Receivables	3,535	21%	2,912
Total	44,637	2%	43,572
Customer - wise product distribution - Deposits	2022	% change	2021
Savings	7,942	-7%	8,542
Fixed deposits	42,302	2%	41,271

Our financial products have the distinction of being developed with the financially vulnerable in mind. The HDFC product portfolio includes a range of collateral based loans, which enable low to middle-income earners to obtain funds against several types of collateral.

#### How we ensure affordability

- Restructuring loans in the event of not being able or failing to continue repayments
- Reducing loan instalments by loan tenure to sustain continued payments

#### EPF loans (Shrama Udana)

During the year, we continued to promote EPF loans, which provide a lower-risk return as a lower credit risk other types of loans. EPF loans are provided where contributing to the Employee Provident Fund and also those who centralised to the Employee Provident Fund previously but not being employed with a portion of the salary becoming the loan instalment. Any member of the employee provident fund can access EPF loans, for several specific purposes related to housing. These are:

- Building or purchasing a house
- Purchase of a plot of land for building a house
- Adding an extension to a house
- Completion of a partly - built house
- Obtaining water, sanitary and electricity facilities
- Reclaiming a house

### IMPROVING ACCESSIBILITY

We ensure that all citizens have equal access to our services and receive capital irrespective of social position. To make this a realisation, we continue to improve existing delivery channels, despite a slowdown in expanding our branch network. We continue to improve our digital delivery channels and have adopted several new digital services in recent years, in addition to strengthening ATM access - physically.

Customer reach	2022	2021	2020
Branches	39	39	39
ATM access	5,845	5,526	5,075

### ELECTRONIC AND DIGITAL SERVICES

To better serve customers during the onboarding process, we partnered with the Department for Registration of Persons in 2022. The partnership enables us to adopt a digital customer verification process through ID card, document and proof of address verifications through the DRP portal. Moreover, the IT department also took measures to improve the HDFC website for better feature functionality.

## PROMOTIONS AND GIVEAWAYS

In creating meaningful and engaging moments with customers, we initiated the 'Thilina Inspiring Kids' Corner' to enable them to showcase their little activities of inspiration.

## CODE OF CONDUCT ON CUSTOMER PROTECTION

When undertaking transactions with customers, especially with depositors' investments, we take accountability and prudence - seriously. As guidance to fair banking practices, we follow the customer charter for licensed banks, issued by the Central Bank of Sri Lanka. The charter also specifies customer obligations in effecting responsible and ethical financial conduct.

## CUSTOMER COMPLAINT MANAGEMENT

We uphold customers' right to have their complaints resolved, fairly. Customer complaints are reviewed through a formal dispute resolution procedure. We strive to be as swift as possible in resolving complaints. The Bank's Operations Division oversees complaint handling and resolution across the head office and branches, while branch managers are responsible for resolving complaints at the branch level. Each step in the process is done formally and documented.

## RIGHT TO INFORMATION AND TIMELY COMMUNICATION

We uphold customers' right to receive product and service information through proper communication channels and engagement mechanisms. This is an important aspect of our accountability towards customers - especially in increasing product awareness, financial literacy and in complying with financial consumer protection regulations.

- Website

Our website is a repository of product and bank information for customers. We regularly update interest rate information.

- Digital signage system

We administer the system centrally in communicating with customers through branches. The signage boards display all deposit and loan rates and promote HDFC products via HDFC advertisements.

- Social media communications

Across 2022, we utilised our social media platforms not only for product information dissemination - but also to proactively encouraging customers on timely repayments.

## RESPONSIBLE BANKING

In ensuring fair treatment of customers, we adopt several policies and procedures structured around various aspects of banking and business.

Mandatory and voluntary regulations and practices	Customer charter (CBSL) Anti-money laundering regulations Know-your-customer policy Maintained display of all rates and charges Code of best practices issued by CA Sri Lanka and CSE
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## WHISTLE BLOWING

Customers can report any fraudulent activity surrounding their accounts and deposits, if they are aware of such suspicions. Action will then be taken by the management to investigate any suspicious financial activity.

## DATA PRIVACY AND PROTECTION

Customers are advised to exercise caution in using or handling personal and security information, such as Personal Identification Numbers (PIN) and passwords when accessing ATMs with electronic cards, e-banking and mobile payments.

The bank has taken all measures to strengthen the electronic and digital safety of customer data and privacy.

- OTPs issued when logging into e-banking
- Confidential PIN for safe ATM access
- Working on an Information security strategy that covers security governance, risk assessment and management through controls and user awareness
- Disaster recovery that ensures backup of information
- Adherence to the payment and settlement act and privacy and safety of SLIPS transactions.

# Social & Relationship Capital

## OUTCOMES

By providing a trusted service to our customers, we continued to retain our customer base while achieving several feats.

- Marginal growth in the deposit base
- 27% increase in interest income
- 1% increase in deposit customer base
- Rs. 5,134 Mn in interest payments to customers (64% growth)

## PARTNERS

Our business partners help sustain operations of the Bank and in some direct or indirect form, raise the value of other capitals. We maintain formal engagements and agreements with our business partners - based on specific purposes that help fulfill - business objectives.

## SUPPLIERS AND SERVICE PROVIDERS

Suppliers and service providers fulfill a vital role in how we sustain and grow operations. Suppliers enhance manufactured capital by providing fixed and short-term assets and equipment, while enabling our employees to perform their functions effectively without disruptions. In addition, utilities and ICT infrastructure solutions/services are imperative for operational continuance.

Physical resources	Non-financial service providers	Financial and professional service providers
<ul style="list-style-type: none"><li>• Office equipment</li><li>• Furniture and fittings</li><li>• IT Hardware</li><li>• Stationery</li><li>• Property</li><li>• Motor vehicles</li><li>• Tools and machinery</li><li>• Others</li></ul>	<ul style="list-style-type: none"><li>• IT solutions and services</li><li>• Advertising, media and promotions</li><li>• Licenses</li><li>• Printing</li><li>• Utilities</li><li>• Transport</li><li>• Cleaning</li><li>• Food and beverages</li><li>• Security</li><li>• Maintenance</li><li>• Construction</li></ul>	<ul style="list-style-type: none"><li>• Official bankers</li><li>• External auditor</li><li>• Auditor general</li><li>• Insurance</li><li>• Legal</li></ul>

## CORDIAL AND SOLID PARTNER RELATIONS

Commitment to timely payments, approachability to obtain information, and clear communication, while respecting their rights remain our focus. There have not been any instances where supplier—bank trust was compromised in the year under review.

## PROCUREMENT AND SCREENING

The relationships we maintain with our suppliers are based on professionalism, accountability, and transparency in how we secure suppliers for various objectives. We use standard procurement practices, beginning with tenders in gathering supplier information. Based on the evaluation of quotations, we then register suppliers before obtaining goods and services. We also make an effort to secure suppliers from Colombo.

The majority of our suppliers and service providers originate locally and we work with a few overseas companies in procuring IT and payment related services.

In the year, we made Rs. 534 Mn as payments to local suppliers and service providers.

## INSTITUTIONAL BUSINESS PARTNERS

We work with numerous business entities, including MSMEs and corporates, from the public and private sectors. Importantly, our liaisons with prominent institutions enables us to grow our business segments, while providing both financial and social value to these institutions and indirectly to the people they serve.

Sharing mutual economic and social benefits, we have entered into MOUs (memorandum of understanding) with several institutions. These institutions provide vocational and entrepreneurial support to individuals who aspire towards established livelihoods in chosen professions. What we provide is financial support through our various loan schemes to help these individuals secure equipment and necessary resources.

**Rs 534 Mn**  
(2021: Rs 402 Mn)

**Economic value to suppliers**

- Partnership with DRP

We signed an MOU with the Department for Registration of Persons (DRP) to digitally verify customer identity. This was done in commitment to the guidelines of the Central Bank of Sri Lanka in identifying and verifying customers that onboard through digital and electronic channels. The partnership was inked by former GM/CEO - Mr Palitha Gamage and the Commissioner General of the Department for Registration of Persons.

- Agreement with JAT Holdings PLC

To help strengthen wood - craftsman and professional painters involved with JAT Holdings, we signed a special Memorandum of Understanding (MOU) to provide special low - interest loan schemes. Individuals involved with the company receive NVQ level 3 professional qualifications from NAITA. We will be guiding and financially supporting them to continue their businesses in an effort to strengthen local entrepreneurs in the MSME sector. It is also an endeavour that will provide a level of support to uplift the woodcraft and paint industries and to help contribute to the nation's GDP growth in the long run.

- Partnership with the Industrial Development Board

Ministry of Industries, in collaboration with the Industrial Development Board, has organised 'Get up Startup for a Wealthy Nation', a national programme held in October 2022 at BMICH. An MOU was signed between HDFC Bank and IDB to strengthen the MSME in Sri Lanka. The partnership will enable our branches to capture new business opportunities through IDB members.



## OUTCOMES

The outcomes of our partner relations are varied and skewed towards sharing economic benefits and growth.

- Suppliers and service providers – timely payments
- Banking partners – Rs 234 Mn in interest expenses and provision of payments for professional service providers.

## REGULATORS AS PARTNERS

As a financial intermediary and a listed entity, we are held responsible for depositor money and shareholder investments. Moreover, as a bank with majority state ownership, we are directly answerable for our actions to our state principles. Our relationships with regulatory authorities - enables us to sustain within the banking sector - while receiving guidance on improving various aspects of our business.

Being accountable entails adherence to regulatory directives and laws that affect financial transactions, regulatory capital, accounting procedures, business practices, including governance and risk management. At HDFC Bank, our efforts culminate in fulfilling these regulatory and legal requirements - while communicating our adherence to every regulatory partner.

Regulatory partners within the financial and banking environment of Sri Lanka, have a strong connection with our operations. The relationship we have maintained and continue to enhance with these partners adds value to our social and relationship capital.

### 1. Ministry of finance and economy and policy development (representing the State)

**The Bank operates under the purview of the Ministry since 2019.**

**HDFC Bank is backed by the Government through the Ministry of Finance and Economy and Policy Development.**

### 2. Central Bank of Sri Lanka

**CBSL supervises the bank's operations and is the primary regulator of the Bank; and oversees regulatory capital requirements.**

**HDFC Bank adheres to CBSL regulations and banking act, and their amendments.**

**Financial statements are prepared in accordance with CBSL formats.**

### 3. Colombo stock Exchange

**As a publicly quoted bank, we comply with the listing rules of the CSE, subject to the Securities and Exchange Commission Act No. 36 of 1987.**

**CSE also sets governance rules for listed companies.**

### 4. Chartered accountants of Sri Lanka

**As the National Professional Accountancy Organisation, CA Sri Lanka sets guidelines for financial reporting and accounting standard.**

# Social & Relationship Capital

## HOW WE ENSURE REGULATORY COMPLIANCE AND TRANSPARENCY

During 2022, we ensured compliance with all regulatory demands. As a state-backed LSB and a listed entity, we are statutorily bound to ensure accountability for our decisions and actions. We adhere to a robust governance framework, holding both internal controls as per the HDFC Act of Incorporation and compliance with regulations of external regulatory bodies as provided below.

### Ministry of Finance and Economy and Policy Development

- **Compliance with provisions of the HDFC Act**
- **HR and remuneration committee ensure adherence to ministry guidelines on remuneration**
- **Monitors transactions as per guidelines**

### Central Bank of Sri Lanka

- **Maintain and ensure regulatory capital requirements**
- **Assess the impacts of decisions and consider capital impacts**
- **Control bank's financial risk exposures prudently under CBSL guidelines**
- **Adopt measures to rectify matters and gaps raised by CBSL**

### CSE

- **Board related party transaction review committee ensures consistency with SEC and CSE provisions, in addition to ensuring disclosures**
- **Monitors transactions as per guidelines**

### CA Sri Lanka

- **Assist the Auditor General of Sri Lanka to carry out reviews on internal control system**

## OUTCOME

The following provides a general view of the outcomes of our regulatory commitments.

- All necessary disclosures made within the year and compliance with all regulations
- No incidents of non-compliance with laws and regulations were reported and no fines incurred, no sanctions incurred, as well.
- External audit and other statutory audits conducted by the Auditor General
- Timely submissions of interim and annual financial statements.
- Payment to government Rs. 289 Mn in taxes
- Compliances on governance reported on pages 124 - 166 of the Corporate Governance report
- Financial statements which were audited and assured by the Auditor General, are presented from pages 201 - 266 onwards of this report

## SERVICE TO THE COMMUNITY

Our relationship with the community enhances our social license to operate, while allowing us to take socially-responsible actions through public services and banking activities.

### Activities for the FY 2022

- During the year, we partnered with ECO Spindles to enable the general public with proper plastic and polythene disposal through Eco Spindles' waste collection units.
- Awareness messages towards caring for nature and nurturing the environment
- An urban agriculture program to promote planting in places with low or no space. Techniques were discussed by the District Agricultural Consultant of the Department of Agriculture. Fertiliser and plants were also distributed at this event.
- The program became a public service endeavour by promoting food agriculture during the tough economic times and fears of food scarcity. We conducted several social media awareness posters to educate the public on the importance of urban agriculture.



## SOCIALLY RESPONSIBLE BANKING AND FINANCIAL INCLUSION

We are responsible for focusing on the country's low and middle-income groups and statutorily responsible for providing affordable housing loans. A perceptible segment of such individuals or households is do not have to access housing finance; therefore, it is our duty to provide low-cost housing finance to such persons. With access to funds and housing, we can help improve their quality of life while contributing to the social development of Sri Lanka.

We promote financial inclusion through our mobile banking operations (palmtop banking team) by taking our services closer to customers in rural areas and to those with low financial literacy.

## CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

	Helping to eradicate poverty through low-cost loans (housing, all-purpose and development finance) and enhancing standards of life
	Through development finance to MSMEs and institutional clientele, we strive to enable them with stable livelihoods, economic and social growth; and a better quality of life
	Reducing economic inequalities and social gaps by financing low and middle-income persons and households
	Taking action to promote responsible consumption amongst our staff and the community
	Compliance with anti-money laundering and fraud-related laws and complying with CBSL directions to maintain industry stability.
	Adopting responsible tax submissions and financing sustainable development

## CAPITAL TRANSFORMATIONS AND TRADE-OFFS

	Relationships with customers and financial service providers enabled revenue growth.
	New products form new experiences and new knowledge of niche market segments and customer behaviors
	Relationships with stakeholder builds employee capabilities, especially through on the job training

### Trade-off

Economic value delivered to customers, service providers, partners and the community require financial trade-off.

## Social & Relationship Capital

### ENHANCING RELATIONSHIPS FOR THE FUTURE

The relationship with each stakeholder rests on how we create value for them over time. HDFC Bank will continue to meet their needs, while leaving room to accommodate changing stakeholder expectations.

Time Span	Future Focus			
	Customers	Partners	Regulators and the state	Community
Short-term	Retaining clients through inclusive financial products, convenient services and friendly service	Enhancing relationships through timely focus and contractual obligations	Compliance with regulations and fulfilment of minimum capital requirement of Rs. 7.5 Bn	Public services to the community
Medium-term	New products and digital services		Conformance to baseline security standards by CBSL for bolstered IT governance	Development finance, including green financing
Long-term	Branch expansions to new locales across the island		Continued adherence to regulations as per the banking act, code of best practices in corporate governance, accounting and auditing standards	Increased social contributions and socially inclusive projects

# CAPITAL MANAGEMENT REPORTS:

## SUSTAINABLE EFFORTS



### NATURAL CAPITAL

INPUTS	VALUE ENHANCEMENT APPROACH	OUTCOMES
<ul style="list-style-type: none"><li>• Energy</li><li>• Water</li><li>• Degradable and non-biodegradable material</li></ul>	<ul style="list-style-type: none"><li>• Gradual investments in renewable energy generation</li><li>• Cautious electricity and water consumptions</li><li>• Proper waste disposal and recycling</li></ul>	<ul style="list-style-type: none"><li>• Waste disposal for recycling</li><li>• Small but continuous steps in minimising the environmental impact of our operations</li></ul>

Natural capital entails renewable and non-renewable resources used to sustain the scope of our operations.

#### THE NATURAL CAPITAL WE UTILISE

As a service provider, our use of direct natural resources is next to non-existent. However, we utilise several resources which have been processed using non-renewable and renewable sources: these include electricity (energy) and water; in addition to degradable and non-biodegradable materials used in routine operations, such as paper, plastic, glass and food waste.

#### WHY IT'S IMPORTANT TO US

Elements from the environment have an indirect impact on our operations. Although they are not direct inputs, such elements are obtained as utilities to facilitate routine operations, across our branches and head office; with the exception of renewable solar energy used across three branches.

Although there are gaps in how we approach our management of natural capital, we have taken several measures to consume resources mindfully, conserve wherever plausible and adopt renewable energy sources to gradually lessen our impact on the environment.

## Natural Capital

- Optimised and cautious energy and water consumption

Across the Bank's branches and head office, we approach energy consumption mindfully. Energy consumption is optimised through efficient LED lighting and air conditioners that run at 24 degrees to optimise usage and cost. Similarly, water is consumed cautiously.

### CONSUMPTIONS

	BRANCHES				HEAD OFFICE			
	2021		2022		2021		2022	
	No. of Unit	Cost	No. of Units	Cost	No. of Unit	Cost	No. of Units	Cost
Electricity (kWh)	38,356	14,094,016	<b>38,597</b>	<b>15,531,834</b>	426,500	8,359,328	<b>388,900</b>	<b>9,815,322</b>
Water (Liters)	429,000	129,446	<b>486,000</b>	<b>1,014,792</b>	1,800,000	20,648	<b>1,300,000</b>	<b>161,867</b>

Despite certain efforts, consumption of electricity and water at branch level has increased. There is a reduction shown in the consumption of electricity and water at the Head Office.

- Recycled and re-used material

Papers used at Head Office and branches are recycled. As such newspapers and used A4 papers are reused, while printer cartridges are recycled and their proper disposal ensured.

- Technology to reduce resource dependence

Recent years, our core banking platform and related systems have enabled us to reduce our consumption of paper and other material. With digital services such as e-banking, we expect our need for such resource will further diminish and help create a zero-waste culture in the future. This is imperative to our building a strong sustainable approach to managing our impact on the environment.

During the pandemic, the transition to online communications created the context which enables us to maintain online programs even afterwards. At present, we continue to use Zoom and other online communication platforms to conduct meetings and training programs with stakeholders and employees, respectively.

In 2022, we conducted a large number of online training programs, contracting the use of materials and energy. Additionally, options such as e-meetings and loan origination systems adopted during the height of the pandemic, has enabled us to maintain lesser printed documents. Furthermore, the loan origination system also trims transportation, which reduced fuel consumption. Indirectly, this contributes to fewer emissions through lesser vehicular movements.

- Investments in renewable energy

We have installed solar power generating panels at our branch in Hyde Park Corner. In 2019, we installed 84 panels as a way to minimise the branch's non-renewable energy dependence and also as a test of its effectiveness.

We also installed panels at our Kalutara and Ampara branches, increasing our use of renewable solar energy with a view to reducing dependency on the national power grid and lessen our environmental impact.

- Waste Management

Proper waste disposal has become a serious challenge in and around Colombo. While resolving this challenge requires significant spending by municipalities and the state, we have taken a small step towards contributing to proper waste disposal and management. During the year, we partnered with ECO Spindles, a company which provides plastic waste collection bins to provide bins for selected locations.

Type	How we handle waste
Food waste	Collect separately and handing over to CMC garbage collectors
Polythene waste	Collect separately and handed over to CMC garbage collectors
Plastic waste	Collected in plastic collection bins and handing over to ECO Spindles (Pvt)Ltd.
Glass waste	Collect separately and handed over to CMC garbage collectors




- Urban agriculture

"A small step for a GREAT START" – we initiated a program to promote urban agriculture through knowledge-sharing and distribution of plants and seeds. It is crucial for allowing people to affordably undertake urban agriculture, which is rewarding in numerous ways.

Program inauguration took place in the Hyde Park Corner Branch under the patronage of former Chairperson Mrs. Manchanayake's and with the participation of the senior leadership of the Bank. Invitees included guests Department of Agriculture, District Agriculture Consultant for Western Province, Mr. Samitha Madushanka, Deputy Provincial Agricultural Director Mrs. Samanmalee Fernando and Assistant Provincial Agricultural Director Mrs. Subhashini Premaratne.

## CONTRIBUTION TO SDGS

Through the aforementioned approaches, we contribute to several sustainable development goals related to the environment.

	Renewable energy usage
	Responsible consumption of material and responsible disposal methods
	Our consumption of resources should be minimised further, to help reduce resource depletion and reduce carbon footprint

## CAPITAL TRANSFORMATIONS AND TRADE-OFF

Certain activities which create value carry a level of cost that will impact other capitals. The following value-creating activities impact financial capital and natural capital in short term and in the long term, both in positive and negative ways.

	Tech infrastructure that replaces paper usage enhances employee productivity
	Re-cycled and reused material can become a livelihood for community individuals.
	Urban agriculture creates positive community sentiments and provides some support to smallholder agriculture
	Private partnerships enriches relational capital by bringing in new partners and suppliers
	ICT infrastructure that minimises use of resources and exchanges elevates asset base
	Above mentioned technological solutions elevates the bank's intellectual knowledge base on IT infrastructure development

### Trade-off

Financial capital trade-off when investing in tech solutions, renewable energy projects

## STRATEGIC VALUE CREATION

The Bank has begun to disburse loans for green energy projects. We will expedite fund disbursement to businesses with viable and valuable renewable energy projects in solar power and other renewable, sustainable solutions.

We understand that the absence of a structured approach to managing natural capital is a serious deficit in our approach to sustainability. As a result, we are now looking at ways which can help us incorporate a proper management approach; one that would be accountable for consumption of renewable and non-renewable energy sources, water and non-degradable and biodegradable resources.

As our operations carry direct impacts on the natural environment, we are now in the process of gradually assessing these impacts by tracking consumption. Nevertheless, as a bank network that is smaller in scale, our banking activities have a comparatively lesser impact on the environment, in comparison with the industry.

Time Span	Future Focus
Short-term	<ul style="list-style-type: none"> <li>Encourage employees to adopt "Sustainable environment. Moving towards paperless processes both externally with customers and for internal administration</li> </ul>
Medium-term	<ul style="list-style-type: none"> <li>Green financing</li> <li>A structured approach to managing natural capital with a proper data measurement mechanism (consumption tracking)</li> </ul>
Long-term	<ul style="list-style-type: none"> <li>Utilisation of natural resources in delivering the client experience (Green branches and renewable energy)</li> </ul>









# Corporate Governance **AND RISK MANAGEMENT**

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# THE CHAIRMAN'S MESSAGE ON CORPORATE GOVERNANCE

It is with great pleasure that we present our Corporate Governance Report. The Board is collectively aware of the need for sound corporate governance to maintain an appropriate balance between stakeholder interests while driving responsible growth at the Bank.

## OUR APPROACH

The Board's stewardship necessitates upholding high standards of Corporate Governance and ensuring accountability, fairness, and transparency throughout the Bank. The Board ensures that the Bank's Corporate Governance framework remains robust and relevant in a highly regulated industry and a challenging business environment. Industry regulations and internal policies underpin the governance framework, regularly reviewed to adapt to internal developments and benchmarked against international best practices.

The Annual Report of the Board of Directors on the Affairs of the Company has been expanded to enhance disclosures on the Bank's Corporate Governance practices. A more detailed report on Corporate Governance forms part of the suite of reports included in the Annual Report.

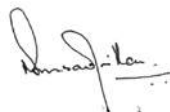
Accordingly, the HDFC, on a mandatory basis, adopted the BANKING ACT DIRECTION NO. 12 OF 2007 (and subsequent amendment thereto) as applicable to the Licensed Specialised Banks, issued by Central Bank of Sri Lanka. Our compliance status is reported in SECTION ONE OF THE CORPORATE GOVERNANCE REPORT.

In addition, HDFC adopted 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 in 2017. Our compliance status is reported in SECTION TWO OF THE CORPORATE GOVERNANCE REPORT.

Further, our compliance status of the CSE LISTING RULES (under section 7.10) is reported in SECTION THREE OF THE CORPORATE GOVERNANCE REPORT.

## INDEPENDENT ASSURANCE

Further, we report the findings of the External Auditor pertaining to 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 (SLSRS 4400),' have been incorporated into this report.



**D. Soosaipillai**  
*Chairman*

Colombo, Sri Lanka

# CORPORATE GOVERNANCE

## INTRODUCTION

The following governance report highlights aspects imperative to the proper functioning of the Bank and presents key processes on how the leadership performs its duties responsibly as Directors, executive leaders and management. It also draws key topics that highlight the Bank's adherence to governance practices, as required by the HDFC Act, CBSL directives and the Code of best practices by CA Sri Lanka and the SEC (from pages 124 - 166).

## PURPOSE OF OUR GOVERNANCE FRAMEWORK

The Bank's corporate governance framework ensures the leadership's accountability in maintaining transparency, credibility and compliance. Through the governance structure, the Bank executes the allocation of power and authority over strategic and operational decisions while setting in place effective oversight of employees' compliance with rules and laws. Moreover, through appropriate delegation of responsibilities, corporate governance enables leadership to appease stakeholder expectations – from shareholders to the community.

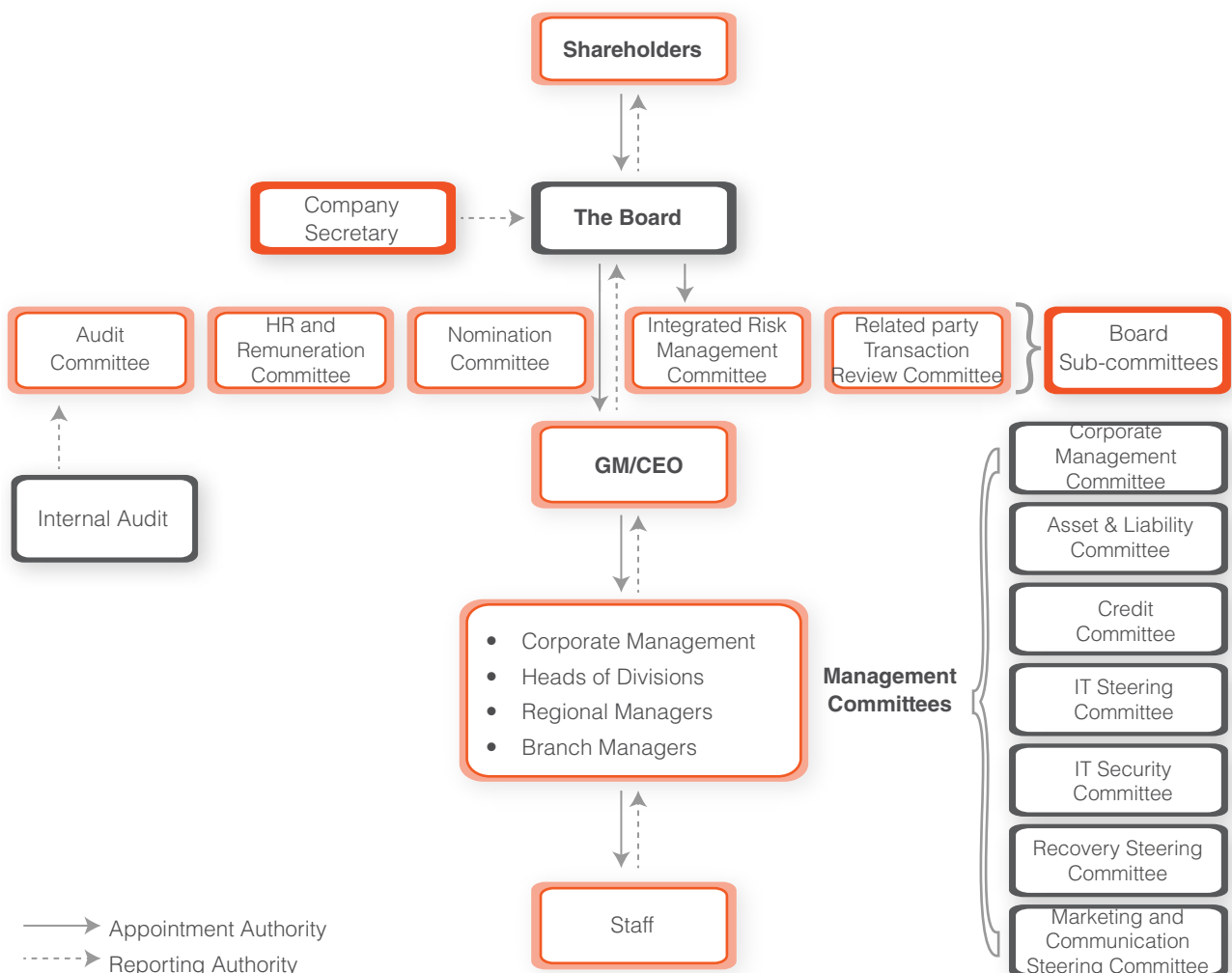
The bank's highest governance body (the Board) along with Board sub-committees and executive committees ensure compliance with a set of regulatory guidelines related to banking, finance, governance and operations.

## APPROACH TO GOVERNANCE

With years of reviews and necessary adjustments, the Bank has adopted a comprehensive governance framework, which encompasses a proper governance structure, board charter and regulatory frameworks that ensure financial and operational accountability to our shareholders, regulators, government, customers and other stakeholders.

## THE GOVERNANCE STRUCTURE

The Bank's governance structure is based on the principles of best governance standards, external regulations and the Board Charter. At its core are three key leadership levels: The Board, the GM/CEO and the Key Management personnel with the management committees. The Bank's leaders and staff understand the importance of ensuring that stakeholder interests remain secured and that value continues to be created over time.



## THE BOARD

The Board plays the role of collective leadership with responsibility towards achieving the Bank's strategy and objectives surrounding it. As the top hierarchical level of the Bank, the Board sets the direction of the Bank, including its strategy, policies and corporate culture. The Board carries primary oversight on the effective, ethical and transparent conduct of financial management and performance against targets and ensures that the executive leaders fulfil their duties in the best interest of stakeholders. They are responsible for guiding the Management but ensure that they maintain a balance of authority and power, without undue influence on the matters of the Bank, except in safeguarding shareholder and other stakeholder interests.

## BOARD COMPOSITION

According to the HDFC Act, the Board comprises only Non-Executive Directors, without executive oversight or responsibility for the Bank's day-to-day operations. Across 2022, the Board consisted of 11 Directors. The following depicts the Directors appointed and those that left the Board in 2022.

Appointed	Retired	Resigned
Mr. P.M.K. Hettiarachchi (Appointed on 28.04.2022)	Dr. S.N. Morais (Retired from Board 29.06.2022)	Mr. P.A.S.A. Kumara (Resigned from Board 02.03.2022)
Dr. P.A. Krishantha (Appointed on 30.06.2022)		Mr. M.P.D.U.K. Mapa Pathirana ( Resigned from Board 28.04.2022)
Mr. R. Sooriyaarachchi (Appointed on 30.06.2022)		Mr. D.M.A. K. Dassanayake ( Resigned from Board 13.06.2022)
Mr. R.P.A. Wimalaweera (Appointed on 14.11.2022)		Mr. R.P.A. Wimalaweera ( Resigned from Board 28.11.2022)

## BOARD APPOINTMENTS, RESIGNATIONS AND REMOVAL OF DIRECTORS

The Bank appoints Directors according to the provisions of the applicable governance directions, including the HDFC Act. Two ex-officio Directors namely a representative of the Ministry of the Minister in charge of the subject of Housing to be nominated by the Minister and Secretary to the Treasury or his representative, four Directors, of whom representative of the Central Bank of Sri Lanka, Representative of the Minister in charge of the Housing, Minister in charge of Finance and Representative of the Ministry of Labour and five shareholding Directors. All appointments are subject to the Central Bank's fit and proper criteria. Thereafter, the nomination committee considers nominations and provides necessary recommendations on nominees to the Board. Once approved, the fit and proper documents will be submitted to CBSL for their approval. The Bank notifies all new appointments to the Colombo Stock Exchange and CBSL as well as their removals. Once appointed, each Director receives appropriate training as required.

The Nomination Committee recommends the re-election of Directors according to provisions of the HDFC Act; the committee also considers the performance and contribution to Board's responsibilities when being considered for re-elections.

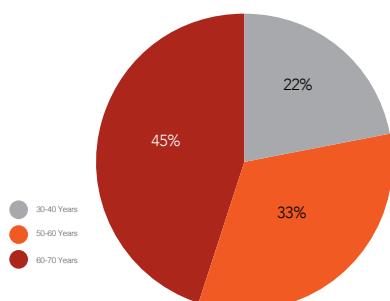
## SKILLS, QUALIFICATIONS AND EXPERIENCES

Our Board of Directors is diverse in age, professional experience and expertise. They are experts in various technical and industrial areas, with varying insights and experiences in banking, finance, strategic leadership and policy making. They have a collective backdrop of experiences from the public and private sectors.

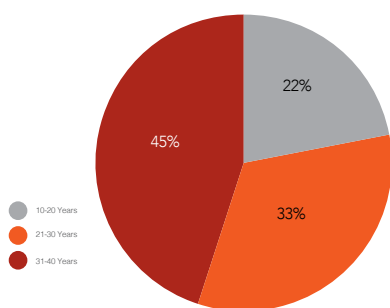
The professional qualifications and knowledge of our Directors complement all the attributes that make a strong apex leadership team. The Directors collectively hold professional acumen in banking, development finance, accounting and auditing, economics, law, public service, management and administrative affairs, human resource management and industrial, equity and treasury.

More information on the experience and professional qualifications of our Directors can be gathered on pages 58 to 60.

## Age Based Diversity



## Professional Experience



## POWERS OF THE BOARD

The powers of the Board derive from the HDFC Act of Incorporation and subsequent amendments, while the Board Charter describes the roles and responsibilities, as well as the powers of the Board for discharging duties. The Board oversees the performance of the Corporate Management (Key Management Personnel) and ensures that they remain compliant with the directions of the HDFC Act, the Banking Act and CBSL directives and guidelines, the Company Act, CSE listing rules and the codes of best practice on corporate governance.

In discharging functions, the Board has the power to grant loans, acquire and dispose of property, enter into agreements, employ personnel, and set rules for management and employees including their recruitment, promotion, remuneration and disciplinary controls. Moreover, they also have the power to invest corporation funds in securities and have the authority to borrow and raise funds. However, the Board does not have any executive authority or power vested in them to undertake routine operations of the Bank.

## BOARD'S ROLES AND RESPONSIBILITIES

The Board's primary role is to fulfil its duties to achieve the Bank's objectives while setting and revising its strategy. They are responsible for conducting Board functions while recognising the defined responsibilities of the Board as set forth by statutory laws, best practices of governance and banking, and rules, directions and guidelines as stipulated by legislative and regulatory authorities. The Board's main responsibilities are:

Bank strategy and values	<ul style="list-style-type: none"> <li>Approving and overseeing the strategic objectives and corporate values of the bank while communicating them to the bank and conducting regular board meetings.</li> </ul>
Business strategy, risk management and policies	<ul style="list-style-type: none"> <li>Approving the bank's business strategy, identifying risks, approve risk policy and risk management mechanisms and ensure the implementation of proper procedures and systems to manage risks</li> <li>Review policies with key management when required, establish communication lines and oversee progress towards objectives</li> </ul>
Recruitment of management	<ul style="list-style-type: none"> <li>Appoint chairman, CEO key management personnel and accompany secretary as per CBSL Direction and define their responsibilities</li> <li>Ensure a proper succession plan for key management</li> </ul>
Performance and Evaluation	<ul style="list-style-type: none"> <li>Directors should assess their performance annually, including periodic assessment of their governance practices</li> <li>Monitor and evaluate performance of GM/CEO and management personnel</li> </ul>
Internal controls and management information systems	<ul style="list-style-type: none"> <li>Review the strength of internal control systems and management information systems</li> <li>Ensure proper oversight of bank affairs by KMPs in line with Board policy</li> <li>Due diligence in appointing external auditors</li> </ul>
Capital Adequacy	<ul style="list-style-type: none"> <li>Ensuring that the bank is well-capitalised as required by statutory conditions</li> </ul>
Stakeholder relations	<ul style="list-style-type: none"> <li>Approve the implementation of a stakeholder communication policy</li> <li>Assess regulatory environment and maintain effective relationships with regulators</li> </ul>

## THE BOARD AND RISK MANAGEMENT

Primary responsibility and oversight of the Bank's risk management and mitigation rest with the Board. The Board has delegated responsibilities to the Integrated Risk Management Committee or the BIRMC. The committee's terms of reference align with the guidelines of CBSL, which the Board adheres to in determining the composition and nature of work undertaken by the Committee. The Committee comprises Directors of the Bank, including the Chairman and meets regularly to reassure the strength of the existing risk management framework, review it and make necessary revisions.

The Board receives regular communication and reports from the committee, which works closely with KMPs to ascertain the Bank's risks and management. The committee makes decisions on behalf of the Board, as per the boundaries of authority delegated in line with responsibilities allotted to the BIRMC.

During the year, the Board and the BIRMC approached risk management prudently, given the volatile economic crisis of the country. The BIRMC obtained relevant management information, monitoring the risk profile closely, while the Board sought reports from the Committee in assessing the Bank's strength against all internal and external risks. The Committee assessed the management's adherence to appropriate risk appetite levels while ensuring that the management followed prescribed steps to mitigate potential or current risks. The Board and the BIRMC assessed such risks alongside the Bank's ability to minimise its non-performing loans while maintaining a healthy level of assets, in addition to ensuring that risk exposures do not impede the Bank's ability to remain profitable and financially stable.

## BOARD AGENDA 2022

The Board focused on various matters in 2022, apart from their assessment and discussion on minimising the impacts of the economic crisis and the volatilities the bank faces with its borrowers. The economic crisis emphasised the need of the Board to focus more on strengthening the credit approval and recovery efforts, while providing appropriate relief to customers.

## INFORMATION AND ADVICE

The Board can obtain reports, statements and information prepared by the KMPs and Board committees on any operational and professional matter. They receive access to information and resources necessary to fulfil their duties effectively. Furthermore, the Board can obtain independent professional advice on reasonable requests at the expense of the Bank.

The Board PAC software enables them to access information on meetings, such as Board papers, which provides them enough time to peruse and make necessary preparations before meetings.

Minutes of Board meetings will be recorded and provided in adequate detail to the Board to deliberate meeting proceedings and enable them to make necessary actions or decisions. The minutes shall contain a summary of the information used for Board deliberations, decisions and resolutions of the Board, matters discussed, issues of contention, risk exposures and risk management measures, in addition to confirmations by the executive leadership on their adherence to applicable laws and regulations and strategies and policies mandated by the Board.

## CONFLICTS OF INTEREST

In activities and commitments related to the Bank or related parties, Directors should avoid any incident or aspect that could potentially cause a conflict related to the Bank's activities. If a Director or close relation has considerable interest in any matter which requires voting, the related Director/Directors in question should abstain from voting on any resolution.

Further to this, the related party transaction review committee monitors and administers any conflict that could arise from related party transactions by Directors, ensuring that the Bank maintains transparency and ethical conduct to safeguard the bank's interests. Directors with any interest in contracts should disclose the nature of their interest to the Board and record it in minutes.

In the event of such a conflict of interest, the Board will consider the matter if it is material during a Board meeting with the participation of directors who bear no involvement in the conflict. These fall in line with the provisions of the HDFC Act, CBSL and CSE rules.



Directorships of Directors in other companies. The following Directors also hold leadership/board positions in other organisations.

Name	Organisation	Designation	Nature of Appointment
Senior Prof. A. Jayamaha (Non-Executive Independent Director)	Sri Lanka Accounting and Auditing Monitoring Board	Director	Non-Executive
Dr. P.A. Krishantha (Non-Executive Independent Director)	Palmyrah Development Board	Chairman	Executive
Mr. R. Sooriyaarachchi (Non-Executive, Non-Independent Director)	National Housing Development Authority	Chairman	Executive
	Urban Development Authority	Board Member	Non-Executive
	Urban Settlement Development Authority	Board Member	Non-Executive
	Coop life Insurance Company Ltd.	Vice Chairman	Non-Executive

## BOARD MEETING PROCESS

The Board meets regularly at meetings, which are held at least 12 times during a year. Meetings occur with the active participation of a majority of Directors, who receive 14 days' notice before each meeting or seven days if meetings do not change as per the Board meeting calendar. This becomes an exception for urgent Board meetings, where the 14-day formal notice is waived.

Directors receive an agenda of matters that will be addressed during the meeting along with relevant papers to be taken up at meetings. Directors can include proposals and matters in the agenda related to risk management and business promotion. The agenda will be circulated either as a hard copy or uploaded to the Board PAC software. Minutes of meetings will be recorded to deliberate the Board's prudent performance of responsibilities. It serves as a reference point for regulatory authorities to evaluate Board's deliberations.

## BOARD MEETING ATTENDANCES

Each Director must attend at least two-thirds of all meetings within the fiscal year. If there are considerable absences, a Director must submit an appeal to the Chairman with explanations for his/her absence. As per the Board Charter, the CBSL holds final authority in either accepting or rejecting such appeals.

Attendance at Board Meetings - 2022			
Names	Directorship Status As at 31/12/2022	Number of Meetings Entitled	Meetings Participated
Mrs. R.M.R.W. Manchanayake	Chairperson and Director (Independent, Non-Executive)	16	16
Mr. L.E. Susantha Silva	Director (Independent, Non-Executive)	16	16
Senior Prof. A Jayamaha	Director (Independent, Non-Executive)	16	15
Mr. W.M. Ananda	Director (Independent, Non-Executive)	16	15
Mr. P.A. Lionel	Director (Independent, Non-Executive)	16	16
Mr. D.M.M.M. Wijayarathna	Director (Independent, Non-Executive)	16	13
Mr. P.M.K. Hettiarachchi (Appointed on 28.04.2022)	Director (Independent, Non-Executive)	10	10
Dr. P.A. Krishantha (Appointed on 30.06.2022)	Director (Independent, Non-Executive)	7	6
Mr. R. Sooriyaarachchi (Appointed on 30.06.2022)	Director (Non-Independent, Non-Executive)	4	4
Dr. S.N. Morais (Retired from Board 29.06.2022)	Director (Independent, Non-Executive)	8	8
Mr. D.M.A.K. Dassanayake (Resigned from Board 13.06.2022)	Director (Non-Independent, Non-Executive)	7	7
Mr. M.P.D.U.K. Mapa Pathirana (Resigned from Board 28.04.2022)	Director (Independent, Non-Executive)	6	6
Mr. P.A.S.A. Kumara (Resigned from Board 02.03.2022)	Director (Independent, Non-Executive)	2	2

## DIRECTORS' REMUNERATION

Director allowances are paid as per the PED Circular No. 3/2015 on SOEs and Subsequent amendments.

## SETTING REMUNERATION LEVELS

The Human Resources and Remuneration Committee plays a key role in determining levels of remuneration at the executive leadership level, key management personnel and employees. They make necessary recommendations to the Board in determining remunerations of GM/CEO and key management personnel; they base their decisions on the collective agreement, which gets renewed every three years. In setting remuneration levels, the committee considers fair and equitable levels of thresholds that reflect the responsibilities, industry standards and performance of employees. The committee understands that remuneration should provide leadership and employees with the right incentives for good performance.

In obtaining final approval for the desired remuneration levels, the committee presents its recommendations to the Board of Directors of the Bank and the relevant Minister, who assigns the right financial incentive to the executive leadership and KMPs.

## BOARD COMMITTEE EVALUATION

The Board undertakes a self evaluation, annually. The Board evaluated its performance during the year under review. Each member has evaluated his performance and findings submitted to the Board.

## BOARD SECRETARY

The Board Secretary is a vital link between the Bank and its stakeholders. The Secretary is highly experienced and qualified in providing advice and consultation for Directors while ensuring their adherence to relevant Laws and Regulations. The Board appoints the Company Secretary to obtain professional advice related to corporate matters and is accessible to all Directors.

The Board receives secretarial services from the Secretary in compliance with CBSL guidelines. She is also responsible for maintaining minutes of Board Meetings. The Company Secretary also drafts the Board agenda according to Chairperson's guidance.

The Secretary also organises the Annual and Extraordinary General Meetings while assisting the Chairperson to ensure that all relevant aspects are met. It is also the responsibility of the Secretary to maintain communication with regulators on behalf of the Bank to ensure that compliance-related aspects are communicated and confirmed.

## BOARD COMMITTEES

The Board has the power to appoint committees with responsibilities and the authority to act on good judgement to ensure the strategic and operational effectiveness of the Bank. The sub-committees assist the board in fulfilling its fiduciary duties, enabling the Board to oversee the Bank's strategic direction. The Board can delegate powers and duties to any committee, yet despite such delegation, the Board may undertake such duties and powers. The Committees are answerable to the Board and report directly to the Board on their findings and recommendations, while the Board reserves authority over committee decisions and their performance. Moreover, the Board Secretary functions as Secretary to each subcommittee except Board Audit Committee.

The Board Charter sets clear demarcations on the scope of the Board sub-committees while the terms of reference specify the committee's responsibilities and the level of judgement they can exercise when executing their duties.

The Bank has five sub-committees: The Board Audit Committee, Board Human Resource and Remuneration Committee, Board Nomination Committee, Board Integrated Risk Management Committee and the Board Related Party Transaction Review Committee. As per directives under CBSL Corporate Governance Rules, the Board shall report on the performance of each committee, at the Annual General Meeting.

### Board Audit Committee (committee report on page 188)

Chairman	Senior Prof. A. Jayamaha - Non-Executive Independent Director Mr. L.E. Susantha Silva - Non-Executive Independent Director (Resigned from Board 20.02.2023)
Composition	04 Non-Executive, Independent Directors
Responsibilities	<ul style="list-style-type: none"> <li>Recommend external audit, service period, and relevant aspects</li> <li>Implementation of relevant CBSL guidelines for auditors</li> <li>Apply accounting standards and review Bank's financial reporting procedures</li> <li>Oversee internal audit function; review its scope, resources, internal audit process and performance of internal audit department.</li> </ul>

### Human Resources and Remuneration Committee (committee report on pages 181 - 183)

Chairman	Mr. P.A. Lionel - Non-Executive Independent Director Mrs. R.M.R.W. Manchanayake - Non-Executive Independent Director (Resigned from Board 27.02.2023)
Composition	04 Non-Executive, Independent Directors
Responsibilities	<ul style="list-style-type: none"> <li>Determine remuneration policy</li> <li>Set objectives for the upper leadership</li> <li>Evaluate performance of CEO and KMPs</li> <li>Revise remuneration and financial incentives</li> </ul>

### Nomination Committee (committee report on pages 184 - 185)

Chairman	Mr. P.M.K. Hettiarachchi - Non-Executive Independent Director Mrs. R.M.R.W. Manchanayake - Non-Executive Independent Director (Resigned from Board 27.02.2023)
Composition	03 Non-Executive, Independent Director and 01 Non-Executive, Non-Independent Director
Responsibilities	<ul style="list-style-type: none"> <li>Oversee selection, appointment, re-election of Directors and higher management personnel</li> <li>Make recommendations for succession planning</li> </ul>

### Integrated Risk Management Committee (committee report on pages 189 - 190)

Chairman	Mr. P.A. Lionel - Non-Executive Independent Director
Composition	04 Non-Executive, Independent Directors
Responsibilities	<ul style="list-style-type: none"> <li>Regularly assess all risks related to credit, liquidity, operations, IT and strategic risks.</li> <li>Reviewing of Management Level Committees</li> </ul>

### Related Party Transactions Review Committee (committee report on pages 186 - 187)

Chairman	Mr. W.M. Ananda - Non-Executive Independent Director Mrs. R.M.R.W. Manchanayake - Non-Executive Independent Director (Resigned from Board 27.02.2023)
Composition	03 Non-Executive, Independent Director and 01 Non-Executive, Non-Independent Director
Responsibilities	<ul style="list-style-type: none"> <li>Reviews related party transactions, promoting, ensuring that no unfair or unethical transactions transpire.</li> <li>Work in agreement with Related Party Transaction Policy, complying with CBSL and CSE regulations.</li> </ul>

## ATTENDANCE AT COMMITTEE MEETINGS

Committee	Members	Meetings FY 2022 and attendance		
		Meetings	Entitled	Attendance
Board Nomination Committee Meeting	Mrs. R.M.R.W. Manchanayake	4	4	4
	Mr. W.M. Ananda	4	4	4
	Mr. P.M.K. Hettiarachchi (Appointed to Committee on 24.08.2022)	4	2	2
	Mr. R. Sooriyaarachchi (Appointed to Committee on 24.08.2022)	4	1	1
	Mr. P.A.S.A. Kumara (Resigned from Board 02.03.2022)	4	1	1
	Mr. M.P.D.U.K. Mapa Pathirana (Resigned from Board 28.04.2022)	4	2	2
Board Human Resource & Remuneration Committee Meeting	Mrs. R.M.R.W. Manchanayake	4	4	4
	Senior Prof. A Jayamaha	4	4	4
	Mr. P.A. Lionel	4	4	4
	Dr. P.A. Krishantha (Appointed to Committee on 24.08.2022)	4	2	2
	Mr. M.P.D.U.K. Mapa Pathirana (Resigned from Board 28.04.2022)	4	2	2
	Mr. P.A.S.A. Kumara (Resigned from Board 02.03.2022)	4	1	1
Board Integrated Risk Management Committee Meeting	Mr. P.A. Lionel (Appointed to Committee on 24.08.2022)	5	2	2
	Senior Prof. A Jayamaha	5	5	5
	Mr. P.M.K. Hettiarachchi (Appointed to Committee on 24.08.2022)	5	2	2
	Dr. P.A. Krishantha (Appointed to Committee on 24.08.2022)	5	2	2
	Mr. L.E. Susantha Silva (Reconstitution of Committee 24.08.2022)	5	3	3
	Mr. P.A.S.A. Kumara (Resigned from Board 02.03.2022)	5	0	0
	Dr. S.N. Morais (Retired from Board 29.06.2022)	5	2	2
Board Related Party Transaction Review Committee Meeting	Mrs. R.M.R.W. Manchanayake	4	4	4
	Senior Prof. A Jayamaha	4	4	4
	Mr. W.M. Ananda	4	4	4
	Mr. R. Sooriyaarachchi (Appointed to Committee on 24.08.2022)	4	1	0
	Mr. D.M.A. K. Dassanayake (Resigned from Board 13.06.2022)	4	2	1
	Mr. L.E. Susantha Silva (Reconstitution of Committee 24.08.2022)	4	3	3
Board Audit Committee Meeting	Mr. L.E. Susantha Silva	4	4	4
	Senior Prof. A Jayamaha	4	4	4
	Mr. P.A. Lionel	4	4	4
	Mr. P.M.K. Hettiarachchi (Appointed to Committee on 24.08.2022)	4	2	2
	Dr. S.N. Morais (Retired from Board 29.06.2022)	4	2	2
	Mr. P.A.S.A. Kumara (Resigned from Board 02.03.2022)	4	1	1

## STAKEHOLDER ENGAGEMENT

The Bank engages with its stakeholders to understand their expectations, which has significant importance for the value creation process. We have provided a detailed review of how the Bank engages with each stakeholder group on pages 22 to 28.

## EXECUTIVE COMMITTEES

The Bank has also appointed management level committees namely Corporate Management Committee, Asset and Liability Committee, Credit Committee, IT Steering Committee, IT Security Committee to oversee the effectiveness of key functional areas. During the year, two new committees came into place, the Recovery Steering Committee and the marketing and Communication Steering Committee making a total of seven committees.

## THE CHAIRMAN AND GM/CEO

The Chairman and GM/CEO play the apex roles in the Bank's strategic and operational decision-making, respectively. While the GM/CEO is accountable to the Chairman and the Board, the Chairman ensures that the Board fulfils its duties to the fullest possible extent.

The separation of the powers between the Chairman and CEO aligns with the HDFC Bank Act and best practices as per CBSL guidelines. Moreover, the Bank also honours and complies with the guidelines under the Code of best practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The clear distinction of power between the Chairman and GM/CEO ensures that there is a balance of power and that the boundaries of their powers do not conflict in the process of decision-making. The separation also ensures that they work towards fulfilling the strategy and goals of the Bank, working towards the betterment of the bank and its stakeholders.

The bank's present-day Chairman Mr. E. D. P Soosaipillai is a Non-Executive, Independent Director vested in the strategic direction of the Bank while heading the Board of Directors effectively, with the support of the GM/CEO and key management personnel. In 2022, the Bank's GM/CEO resigned, resulting in the appointment of a new GM/CEO in January of 2023. The GM/CEO is not a member of the Board of Directors and is appointed by the Board based on final approval from the Ministry. He is accountable and answerable to the Chairman and the Board of Directors.

# ASSURANCE REPORT OF THE AUDITOR GENERAL ON CORPORATE GOVERNANCE



## ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல.  
My No.

BAN/ 01/C/HDFC/CG/22/20

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

13 May 2023

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) on the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka-31 December 2022.**

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 Directive issued by the Central Bank of Sri Lanka (CBSL). My engagement was undertaken in accordance with the principles set out in Sri Lanka Standard on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the Corporate Governance Directive.

I report my findings in the attached Annexure-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.

අංක 306/72, පොල්වත්ත පාර, පත්තරාමුල්ල, දි. කොටු.



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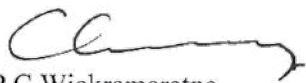


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My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

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

## SECTION ONE

### COMPLIANCE REVIEW

The compliance status of the HDFC Bank for the financial year 2022 with regard to the corporate governance framework pertaining to the Central Bank of Sri Lanka, Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka is henceforth defined.

### SECTION ONE (ANNEXURE 01 OF THE AUDIT REPORT DATED 23RD MAY 2023)

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

Section	Requirement of Corporate Governance	Level of Compliance
<b>3(1)</b>	<b>THE RESPONSIBILITIES OF THE BOARD</b>	
<b>3(1)(I)</b>	<b>PROCEDURES TO BE CARRIED OUT TO ENSURE THE BOARD HAVE STRENGTHENED THE SAFETY AND SOUNDNESS OF THE BANK.</b>	
	<p>a) The board approval of the bank's strategic objectives and corporate values.</p> <p>Whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.</p>	<p><b>Complied with</b> Strategic objectives and values are incorporated in the Board approved Strategic Plan for the period 2021-2025.</p> <p>Strategic Objectives are communicated to the branches and head office staff at the presentation of the bank and Branch Budgets, annually. The corporate values are included in the HDFC Web Portal which is referred to by the staff for their day-to-day operations.</p>
	<p>b) The board approval of the overall business strategy of the bank.</p> <p>The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.</p> <p>The overall business strategy contains measurable goals, for at least the next three years.</p>	<p><b>Complied with</b> Board approved Strategic Plan, which includes the overall business strategy for the period 2021-2025 is available. The Strategic Plan implemented through the Divisional Activity Plan.</p>
	<p>c) The appropriate systems to manage the risks identified by the board are prudent and are properly implemented.</p>	<p><b>Complied with</b> Risk Department and Integrated Risk Management Committee were established</p> <p>Risk Policy adopted by the Committee.</p> <p>The Integrated Risk Management Committee sets the governance structure for implementing, monitoring and managing the principle risks.</p>
	<p>d) The board has approved and implemented a policy of communication with all stakeholders, including deposits, creditors, shareholders and borrowers;</p>	<p><b>Complied with</b> Board approved Communication Policy is in place.</p>
	<p>e) The board has reviewed the adequacy and the integrity of the bank's internal control systems and management information system;</p>	<p><b>Complied with</b> Bank Audit Committee is assisting the Board to review the adequacy and integrity of the bank's internal control systems and management information system. Audit Committee of bank reviewed the periodic reports of Internal Audit, which explained the Internal Control systems and necessary measures to address the findings.</p>

Section	Requirement of Corporate Governance	Level of Compliance
	f) The board has identified and designated key management personnel, as defined in the CBSL guidelines, 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 by Sri Lanka Accounting Standards. The Bank has identified KMPs as per the CBSL Direction on Corporate Governance as defined in Board Charter.
	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>Complied with</b> The administration and management of the affairs of the Corporation are vested in Board of Directors as per the HDFC Act.  Key responsibilities of the KMPs are specified in their respective job descriptions and the authority of Key Management Personnel are defined under delegation authority limits.
	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 of the performance of Board is carried out annually assessing its own governance practices. Self-evaluation for the year 2022 will be carried out in January 2023 and a summary will be submitted to the Board on January 2023 for their review and to discuss areas of weaknesses and to recommend changes where necessary. Policy was adopted for recruitment and promotions of employees including KMP in 2022.
	j) The board has a succession plan for key management personnel.	<b>Complied with</b> The Board approved Succession Plan is in place. The Board approved succession plan 2022, was approved by the Board on 28th September 2022.
	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> The Board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.
	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, as being a 51% of the ownership of the Bank is vested with a State-owned enterprise.

# Corporate Governance

Section	Requirement of Corporate Governance	Level of Compliance
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 HDFC Act separates the positions of the Chairman and General Manager/Chief Executive Officer for balance of power.</p> <p>Chairman has been appointed in accordance with the HDFC Act. Whilst the General Manager/Chief Executives Officer has been appointed by the Board.</p> <p>Their functions and responsibilities are clearly defined in the HDFC Act. The Board has adopted a Board charter on 29th January 2020 which defines the Governance Framework of HDFC.</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 scheduled on a need basis.</p> <p>16 Meetings were held during the year 2022 and attendance of Board meetings is given in the Annual Report along with number of meetings.</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 has advised 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 as given in the Annual Report 2022.</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>The Secretary is an Attorney-at-Law with additional qualifications (LLB and Chartered Secretary) in compliance with the provision of the Banking Act and CBSL direction.</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>
3(1)(ix)	<p>The company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.</p>	<p><b>Complied with</b></p> <p>All records are kept with the Company Secretary and has access to the past Board papers and minutes.</p>

Section	Requirement of Corporate Governance	Level of Compliance
3(1)(x)	<p>The minutes of a board meeting contain or refer to the following:</p> <ul style="list-style-type: none"> <li>a) A summary of data and information used by the board in its deliberations.</li> <li>b) The matters considered by the board</li> <li>c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence;</li> <li>d) The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;</li> <li>e) The understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and</li> <li>f) The decisions and board resolutions.</li> </ul>	<p><b>Complied with</b></p> <p>Necessary information is given in the Board minutes. Such as,</p> <ul style="list-style-type: none"> <li>i) Business decisions taken on particular subjects</li> <li>ii) Resolutions passed on special subjects</li> <li>iii) Recommendation on Board sub-committee reports</li> <li>iv) Policy decisions on matters and review of performance.</li> <li>v) The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;</li> </ul>
3(1)(xi)	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.	<p><b>Complied with</b></p> <p>The Board is free to obtain independent professional advice on a need basis.</p>
3(1)(xii)	<p>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.</p> <p>Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.</p> <p>Has he/she been counted in the quorum for the relevant agenda item at the board meeting?</p>	<p><b>Partially Complied</b></p> <p>Related Party Transaction Policy has been scheduled for review by next RPTC meeting aligning with CBSL requirements and the standard practices in the industry.</p>
3(1)(xiii)	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.	<p><b>Complied with</b></p> <p>Authority matrix is in place as adopted in 26.07.2013 initially. Thereafter the authority matrix was reviewed and included in the Board Charter in 2020.</p>
3(1)(xiv)	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.	<p><b>Complied with</b></p> <p>There have been no situations where the Bank's solvency has been in doubt. Monthly financial statements submitted to the Board to assure the Bank's position.</p>
3(1)(xv)	The board has the bank capitalised at levels as required by the Monetary board.	<p><b>Complied with</b></p> <p>Capital Adequacy Ratios were met by the Bank. The Bank complied with minimum capital level of Rs. 5 billion.</p> <p>However, section 02 of the banking Act Direction No 05 Of 2017 dated October 2017, Bank has to comply with Rs. 7.5 billion minimum capital requirement by 31.12.2020. Thereafter, CBSL has extended the timeline till end of 2023.</p>

Section	Requirement of Corporate Governance	Level of Compliance
3(1)(xvi)	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> The Annual Report includes the Corporate Governance Report setting out the compliance requirement with the corporate governance direction issued by the Central Bank of Sri Lanka.
3(1)(xvii)	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 will be in January 2023 and the Bank has a scheme of self-evaluation for Directors in place and the Board Secretary annually obtains the evaluation forms from all the Directors.
<b>3(2) THE BOARD'S COMPOSITION</b>		
3(2)(i)	The board comprise of not less than 7 and not more than 13 directors.	<b>Complied with</b> The Board comprises of 09 Directors as at 31.12.2022.
3(2)(ii)	a) 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 2022.
	b) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	<b>Complied with</b> No Director has exceeded nine years of service as per CBSL requirement.
3(2)(iii)	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)	The board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher.  Check if non-executive directors can be considered independent if he/she:	<b>Complied with</b> The Board comprises of 09 Directors as at 31.12.2022. The Board comprises 08 Non-Executive, Independent Directors on the Board to comply with the direction during the current year.
	a) Holds a direct and indirect share holdings of more than 1 per cent of the bank;	<b>Not arisen</b>
	b) Currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.	<b>Not arisen</b>
	c) Has been employed by the bank during the two year period immediately preceding the appointment as director.	<b>Not arisen</b>
	d) Has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)	<b>Not arisen</b>
	e) Represents a specific stakeholder of the bank.	<b>Not arisen</b>



Section	Requirement of Corporate Governance	Level of Compliance
	<p>f) Is an employee or a director or a material shareholder in a company or business organisation:</p> <p>I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or</p> <p>II. In which any of the other directors of the bank are employed or are directors or are material shareholders; or</p> <p>III. In which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank.</p>	<b>Not arisen</b>
3(2)(v)	In the event an alternate director was appointed to represent an independent director, check the person so appointed meet the criteria that applies to the independent director.	<b>Not arisen</b> There is no such Director was appointed
3(2)(vi)	The bank has a process for appointing independent directors.	<b>Complied with</b> The appointments to the Board are made as per the Housing Development Finance Corporation Act.
3(2)(vii)	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 the Directors of the Bank are Non-Executive. The profile of the Non-Executive Directors are detailed in the Annual Report of the HDFC bank.
3(2)(viii)	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> Composition of the Board and their information is disclosed in the Annual Report 2022.
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 according to sec .03(1) (a), (b) & (d) of the HDFC Act No 07 of 1997 and Sec 04 in amended by Act No.15 of 2003. Further the Board Charter is applicable.
3(2)(x)	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> Such a situation does not arise.
3(2)(xi)	<p>A director resigns or is removed from office, the board:</p> <p>a) Announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and</p> <p>b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>	<b>Complied with</b> Public announcements are made to the CSE and CBSL.
3(2)(xii)	There is 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. Also Central Bank of Sri Lanka assesses Fitness and Propriety of Directors.

# Corporate Governance

Section	Requirement of Corporate Governance	Level of Compliance
<b>3(3)</b>	<b>CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS</b>	
3(3)(i)	Check that the age of a person who serves as Director does not exceed 70 years.	<b>Complied with</b> There were no Directors who reached the seventy years of age during the year under review.
	A) The transitional provisions have been complied with.	<b>Not arisen</b> Such a situation does not arise.
3(3)(ii)	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> As per their declarations, the Directors do not hold directorship of more than Twenty (20) companies, entities, institutions inclusive of subsidiaries or associate companies of the bank as per their declarations.
3(3)(iii)	Check that a Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka.	The Company Secretary monitors this requirement and there were no Director or CEO appointed from another bank during the period under review.
<b>3(4)</b>	<b>MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD</b>	
3(4)(i)	The delegation arrangements have been approved by the board.	<b>Complied with</b> Board approved Delegation of Authority in place.
3(4)(ii)	The Board has taken responsibility for the matters in 3(1)(i) even in the instances such actions are delegated.	<b>Complied with</b> Delegation of Authority has been prepared subject to the provisions specified in HDFC Act. No 7 of 1997 with subsequent amendments and powers and authorities specified in that document are also subject to the regulations and directions issued from time to time by the Central Bank of Sri Lanka.
3(4)(iii)	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.
<b>3(5)</b>	<b>THE CHAIRMAN AND CEO</b>	
3(5)(i)	The roles of Chairman and CEO are 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/Chief Executive Officer are held by two individuals.
3(5)(ii)	The Chairman is a Non-Executive Director.  In the case where the Chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference.  The designation of the Senior Director be disclosed in the bank's Annual Report.	<b>Complied with</b> The Chairman is a Non-executive and Independent Director and Bank has not designated any Director as Senior Director.

Section	Requirement of Corporate Governance	Level of Compliance
3(5)(iii)	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.	<p><b>Complied with</b> As per the declarations such relationships can be identified and those disclosures are included in the Annual report 2022.</p> <p>As stated in the declaration, there are no any relationship of any kind of financial business family and other relevant relationship between the Chairman and General Manager (CEO) and among the other members of the Board.</p>
3(5)(iv)	The board has a self-evaluation process where the Chairman: a) Provides leadership to the board; b) Ensures that the board works effectively and discharges its responsibilities; and c) Ensures that all key and appropriate issues are discussed by the board in a timely manner.	<p><b>Complied with</b> Board has a self-evaluation process. The Chairman provides leadership to the Board and ensures that Board functions effectively to discharging its responsibilities.</p>
3(5)(v)	A formal agenda is circulated by the Company Secretary approved by the Chairman.	<p><b>Complied with</b> Agenda discussed by the Chairman verbally with the Secretary and finalised before the meeting.</p>
3(5)(vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	<p><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 Board pack. Minutes of previous month's Board meeting are distributed to the Board members and tabled at the subsequent Board meeting for ratification/approval.</p>
3(5)(vii)	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.	<p><b>Complied with</b> Board has a self-evaluation process.</p>
3(5)(viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	<p><b>Complied with</b> Board has a self-evaluation process.</p>
3(5)(ix)	The Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	<p><b>Complied with</b> Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties.</p>
3(5)(x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	<p><b>Complied with</b> The AGM is considered as the forum to address shareholder matters.</p>
3(5)(xi)	The CEO functions as the apex executive-in-charge of the day to - day management of the bank's operations and business.	<p><b>Complied with</b> GM/CEO is the executive in charge of the day to day management of the bank's operations as per the HDFC Act.</p>

Section	Requirement of Corporate Governance	Level of Compliance
<b>3(6)</b>	<b>BOARD APPOINTED COMMITTEES</b>	
3(6)(i)	<p>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.</p> <p>Check that each Board Committee report is addressed directly to the Board.</p> <p>The Board presents in its annual report, a report on each Committee on its duties, roles and performance.</p>	<p><b>Complied with</b></p> <p>Bank Has established the following Board Sub Committees which directly report to the Board as set out in Directions 3(6) (ii), 3(6) (iii), 3(6) (iv) and 3(6) (V) of these directions.</p> <ul style="list-style-type: none"> <li>i) Board Audit Committee</li> <li>ii) Board HR and Remuneration Committee</li> <li>iii) Board Nomination Committee</li> <li>iv) Board Integrated Risk Management Committee</li> <li>v) Board Related Party Transaction Review Committee</li> </ul> <p>Committee Minutes are directly submitted to the Board and each Committee report appears in the Draft Annual Report.</p>
<b>3(6)(II)</b>	<b>AUDIT COMMITTEE</b>	
	a) The Chairman of the Committee is an independent Non-Executive Director and possesses qualifications and related experience.	<p><b>Complied with</b></p> <p>Board has appointed a Non-Executive, Independent Director as the Chairman of the Board Audit Committee (Sn. Prof. A. Jayamaha) and he holds required qualifications and experience as indicated under his profile.</p>
	b) All members of the Committee are Non-Executive Directors.	<p><b>Complied with</b></p> <p>All the Directors are Non-Executive.</p>
	c) The Committee has made recommendations on matters in connection with:	<p><b>Complied with</b></p> <p>As per section 26 (2) of Housing Development Finance Corporation Bank Act No 7 of 1997, the Auditor General is the External Auditor of the bank.</p>
	i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;	
	ii) The implementation of the Central Bank guidelines issued to auditors from time to time;	<p><b>Complied with</b></p> <p>Committee has made recommendations on matters in connection with the implementation of the Central Bank guidelines issued to auditors from time to time.</p>
	iii) The application of the relevant accounting standards; and	
	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><b>Not Applicable</b></p> <p>The Auditor General is the external auditor of the Bank as provided in the constitution of the country. Therefore, Bank has no role to play in the engagement of the External Auditors.</p> <p>Audit fee is decided by Auditor General according to the National Audit Act No 19 Of 2018. As per the section 18 (1) and (2) of National Audit Act No 19 of 2018, the Auditor Generals shall charge a fee for conducting on audit on relevant audit entities and the fee to be charged shall be determined by the Auditor General in consultation with the secretary to the Ministry of the Minister assigned on the subject of Finance with the concurrence of the Secretary to the relevant Minister of the Minister assigned the respective entity.</p>

Section	Requirement of Corporate Governance	Level of Compliance
	d) The committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAuS.	<b>Not Applicable</b> Since the independence and effectiveness of Auditor General is guaranteed under the Constitution of the country.
	e) The committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	<b>Not Applicable</b> This does not arise since the Auditor General is the Auditor of the bank.
	f) The committee has discussed and finalised, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	<b>Not Applicable</b> Sub –sections (3) and (4) of the section 13 of the Finance Act No 38 of 1971 give discretionary powers to Auditor General to determine the scope and extent of the audit and Part1 Section 3(i) of the National Audit Act 19 of 2018 also determine the scope of audit in relation to auditee entities.
	g) 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;  i) major judgmental areas; ii) any changes in accounting policies and practices; iii) the going concern assumption; and iv) the compliance with relevant accounting standards and other legal requirements, and; v) in respect of the annual financial statements the significant adjustments arising from the audit.	<b>Complied with</b> The committee reviews financial information of the bank when quarterly and annual financial statements are presented to the committee. As CEO and CFO participate in BAC meetings clarifications are obtained on these areas when required.
	h) 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) The Committee has reviewed the external auditor's management letter and the management's response thereto.	<b>Complied with</b> The Audit Committee reviews the External Auditor's management letter annually and Committee has reviewed the Auditor General's Report of 154 (6) for the year 2021.
	j) The committee shall take the following steps with regard to the internal audit function of the bank:  I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;  II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;  III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;  IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.	<b>Complied with</b> BAC reviewed Internal Audit plan at the meeting held on 09.11.2022  <b>Complied with</b> The Committee reviews the internal audit plan and the results of the internal audit procedures and ensures that appropriate actions are taken for improvements.  <b>Complied with</b> BAC reviewed appraisal of CIA at the meeting held on 09.11.2022

Section	Requirement of Corporate Governance	Level of Compliance
	V. Check 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;	<b>Complied With</b> Head of IAD (CIA) appointment was recommended by the BAC and approved by the Board.  Such situation has not
	VI. Check that the internal audit function is independent of the activities it audits.	<b>Complied With</b> Internal audit functions are independent of the activities it audits and directly reports to the Board Audit Committee.
	k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	<b>Complied with</b> The major internal Audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.
	l) Whether the committee has had at least two meetings with the external auditors without the executive directors being present.	<b>Complied with</b> This is not relevant since there are no executive directors in the Board. All committee members are non-executive directors.
	m) The terms of reference of the committee to ensure that there is; i) Explicit authority to investigate into any matter within its terms of reference; ii) The resources which it needs to do so; iii) Full access to information; and  Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	<b>Complied with</b> The "Terms and Reference" of the Audit Committee covers all these areas. The last review date was 10th February 2023.
	n) The committee has met, at least four times and maintained minutes.	<b>Complied with</b> Four (04) Audit Committee meetings had been held during the year 2022 and minutes maintained.
	o) The board has disclosed in the annual report, i) Details of the activities of the audit committee; ii) The number of audit committee meetings held in the year; and  Details of attendance of each individual director at such meetings.	<b>Complied with</b> These details are included in the Audit Committee Report of the Annual Report 2022 are as follows.  Details of the activities of the Audit Committee. The number of Audit Committee meetings held in the year. Details of attendance of each individual Director at such meetings.
	p) 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 and maintained minutes.
	q) Check that the "whistle blower" policy covers the process of dealing with; i) The improprieties in financial reporting, internal control or other matters. ii) In relation to the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and iii) Appropriate follow-up action.	<b>Complied with</b> Whistle Blowing Policy – 2017 adopted on 13/10/2017 (08/53/HR/2017) and revised on 21.10.2019  To facilitate this requirement Chief Internal Auditor (CIA) has been nominated as one of the officers to receive whistle blower Information and the policy has already been scheduled for review by the next Board Audit Committee (BAC) in June 2023.



Section	Requirement of Corporate Governance	Level of Compliance
<b>3(6)(III)</b>	<b>DOES THE FOLLOWING RULES APPLY IN RELATION TO THE HUMAN RESOURCES AND REMUNERATION COMMITTEE:</b>	
	a) 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 is decided based on the guidelines set up by the Ministry of Finance. The Remuneration of CEO/GM and KMPs is determined by the Human Resources / Remuneration Committee on the basis of the Collective Agreement and approved by the Board of Directors.
	b) The goals and targets for the Directors, CEO and the key management personnel are documented.	Since Directors are Non-executive, they are not involved in operational matters like Executive Directors. KMP's are responsible for the budgetary targets.  Department/Branch wise Key Performance Indicators are set out and All KMPs are responsible for therein.
	c) 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> Performance of the CEO and key management personnel against the set targets should evaluate beginning of every year.
	d) 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 addresses this requirement. The CEO/General Manager attends all meetings of the Committee, except when matters relating to the CEO/General Manager are being discussed.
<b>3(6)(iv)</b>	<b>Does the following rules apply in relation to the Nomination Committee</b>	
	a) The Committee has implemented a procedure to select/appoint new Directors, CEO and key management personnel.	<b>Complied with</b> The appointments to the Board to be made according to provisions of the HDFC Act. Further Board Charter is also applicable.  According to the Recruitment Policy, it includes a selection procedure for CEO/General Manager and as per part III of 14 (1) HDFC Act.  Recruitment Policy is applicable for the selection and appointment of Key Personnel Managers and Board of Directors appoints KMPs with the recommendation of Board Nomination Committee.
	b) The Committee has considered and recommended (or not recommended) the re-election of current directors.	<b>Complied with</b> According to section 3(4) (e) of the HDFC Act No. 07 of 1997(amended by Act No. 15 of 2003 and 45 of 2011) An elected director vacating office by fluxion of time shall be eligible for re-election.  In addition to Committee shall consider and recommended (or not recommended) the re-election of current directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities. Such a situation has not arisen.

Section	Requirement of Corporate Governance	Level of Compliance
	c) 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.	Board approved Recruitment Policy is Available. General Manager and Key Personnel Manager's educational and professional qualifications, experience are defined in the in the recruitment policy. Duties and Responsibilities Job competencies and Performance Review of KMPs are included in their Job Descriptions.
	d) 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> Declarations of Directors and CEO have been submitted to the CBSL through the Board annually.  Declarations on Fitness and Prosperity relating 10 Officers Performing Executive Functions (KMP) re-assessed at the time of promotions were obtained and approved by the bank supervision in year 2022 as per the section 5.2 of the Banking act direction dated 19th December 2019.
	e) The committee has considered a formal succession plan for the retiring directors and key management personnel.	<b>Complied with</b> The Board approved Succession Plan is in place. The Board approved succession plan 2019, for KMPs on 14 February 2019 which has been further revised on 2021 and 2022. However, existing succession plan should have been revised in line with changes in the KMP position that had taken place during the year under review.
	f) 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> Committee consists of Chairman of Committee and Two Non-Executive, Independent Directors. CEO shall participate in meetings by invitation.
3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	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> Committee consists of Three Non- Executive Directors, and Key management personnel of the Bank such as CEO, COO, CFO, CIA, Compliance Officer, Head of Treasury, Head of Credit, Head of IT and Risk Officer. Risk Officer supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.
	b) 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> Risk division of the bank assess credit risk, market liquidity, operational and strategic risks to the bank  Currently there are no subsidiary companies and associate companies.
	c) 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> Bank has seven management level committees such as Corporate Management, Asset and Liability, Credit, Marketing and communication steering committee, IT steering committee, Recovery steering committee, and Information Security. Meetings were conducted and minutes were submitted to IRMC Meeting.

Section	Requirement of Corporate Governance	Level of Compliance
	d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	<p><b>Complied with</b> Bank has a Board approved Risk Appetite Framework and which is needs to be reviewed. It consists of Risk Appetite and Tolerance limits for more than 20 key risk areas.</p> <p>Having implemented a Risk appetite framework, all risks beyond the tolerance limits is being reviewed.</p> <p>Further, Risk Appetite Framework (RAF) has already been scheduled for review by the next Board Meeting aligning with the required modifications.</p>
	e) How many times the committee has met at least quarterly.	<p><b>Complied with</b> The committee meets on quarterly basis and BIRMC has held five (05) meetings during the financial year 2022. Details of meetings and attendance are given in the Annual Report.</p>
	f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	<p><b>Complied with</b> No such situation has arisen</p>
	g) 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.	<p><b>Complied with</b> Detailed minutes of the meetings are submitted to the Board immediately after the Committee Meeting.</p>
	h) 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.	<p><b>Complied with</b> The compliance function has been established to assess the bank's compliance with laws regulations, regulatory guidelines. Compliance function of the bank is headed by the Compliance officer.</p>

### 3(7) RELATED PARTY TRANSACTIONS

3(7)(i)	<p>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:</p> <ul style="list-style-type: none"> <li>a) Any of the bank's subsidiary companies;</li> <li>b) Any of the bank's associate companies;</li> <li>c) Any of the directors of the bank;</li> <li>d) Any of the bank's key management personnel;</li> <li>e) A close relation of any of the bank's directors or key management personnel;</li> <li>f) A shareholder owning a material interest in the bank;</li> </ul> <p>A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.</p>	<p><b>Partially Complied</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. Latest review on Related Party Transaction Policy was conducted in 2019. The Related Party Transaction Policy will be submitted to the next RPT committee meeting scheduled in June 2023.</p>
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Section	Requirement of Corporate Governance	Level of Compliance
3(7)(ii)	<p>There is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction</p> <ol style="list-style-type: none"> <li>The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.</li> <li>The creation of any liabilities of the bank in the form of deposits, borrowings and investments.</li> <li>The provision of any services of a financial or non-financial nature provided to the bank or received from the bank.</li> <li>The creation or maintenance of reporting lines and information flow between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</li> </ol>	<p><b>Complied with</b></p> <p>The Related Party Transaction Policy approved by the Board and covered the (a), (b), (c), (d) transactions.</p>
3(7)(iii)	<p>Does 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?</p> <ol style="list-style-type: none"> <li>Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purposes of this sub-direction: <ol style="list-style-type: none"> <li>"Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</li> <li>The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank's share capital and debt instruments with a maturity of 5 years or more.</li> </ol> </li> <li>Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty.</li> <li>Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</li> <li>Providing services to or receiving services from a related-party without an evaluation procedure;</li> <li>Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</li> </ol>	<p><b>Complied with</b></p> <p>The Related Party Transaction Review Committee was established and are in control if such event arises.</p>

Section	Requirement of Corporate Governance	Level of Compliance
3(7)(iv)	The bank has a process for granting accommodation to any of its directors and key management personnel, and that, such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two thirds of the number of directors other than the director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well.	<b>Complied with</b>
3(7)(v)	<p>a) 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.</p> <p>b) Where such security is not provided by the period as provided in Direction 3(7) (v) (a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.</p> <p>c) There is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public.</p> <p>d) The process in place to ensure clause 3(7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.</p>	<p><b>Complied with</b> Process is available and no accommodation will be given without a security.</p>
3(7)(vi)	There is a process in place to identify when the bank grants any accommodation or "more favorable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.	<b>Complied with</b>
3(7)(vii)	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.	<p><b>Complied with</b> During the year no any favorable treatment was offered to any related party has disclosed of Financial Statements.</p>

Section	Requirement of Corporate Governance	Level of Compliance
<b>3(8)</b>	<b>DISCLOSURES</b>	
3(8)(i)	<p>The board has disclosed,</p> <p>a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p> <p>b) 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> Annual Audited Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable Accounting Standards.</p> <p><b>Complied with</b> Quarterly financial statements have been published in the newspapers in abridged form, in Sinhala, Tamil and English.</p>
<b>3(8)(II)</b>	<b>THE BOARD HAS MADE THE FOLLOWING MINIMUM DISCLOSURES IN THE ANNUAL REPORT:</b>	
	<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.</p>	<p><b>Complied with</b> Disclosure on the compliance with applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made on the Statement of Directors Responsibility for Financial Reporting.</p>
	<p>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.</p>	<p><b>Complied with</b> The Annual Report includes the below-mentioned reports where the Board confirms that the financial system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done accordance with relevant accounting principles and regulatory requirements</p> <ul style="list-style-type: none"> <li>• Report of the Board of Directors</li> <li>• Statement of Director's Responsibility for Financial Reporting</li> <li>• Directors' Statement on Internal Control Over Financial Reporting</li> </ul>
	<p>c) 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.</p>	<p><b>Complied with</b> Auditor General's Assurance Report on Internal Control disclosed in the Annual Report 2022.</p>



Section	Requirement of Corporate Governance	Level of Compliance
	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> Details of Directors, including names, qualifications, age and experience of Board of Directors has been disclosed under Profile of the Board of Directors. As well as Fee / remuneration paid to the Board of Directors has disclosed in the Annual Report 2022.
	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> The net accommodations granted as percentage of bank's regulatory capital are given in Financial Statements in the Annual Report 2022.
	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> Details are given in Financial Statements in the Annual Report 2022.
	g) The board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	<b>Complied with</b> External Auditor's Report on compliance with Corporate Governance Directions is included in the Annual Report 2022.
	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> The Statements' of Directors Responsibility for Financial Reporting clearly sets out the details regarding compliance with prudential requirements regulations laws and internal controls.
	i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns.	No such situation has arisen

## SECTION TWO

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

Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
<b>A. DIRECTORS</b>				
<b>A.1 THE BOARD</b>				
	<b>Complied with</b> The Board comprises only with Non-Executive Directors.  Please refer Director Profiles pages 58 - 60.			
<b>A 1.1</b>				
1. Meeting	<b>Complied with</b> Please refer status of compliance for 3(1)(iii) of CBSL Rules			
<b>A 1.2</b>				
2. Board Responsibilities	<b>Complied with</b> The overall responsibility for the good governance of the Bank is vested with the Board.			
<b>A 1.3</b>				
3. Access to Independent Professional Advice	<b>Complied with</b>			
<b>A 1.4</b>				
4. Board Secretary	<b>Complied with</b> 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.			
<b>A 1.5</b>				
5. Independent Judgment	<b>Complied with</b>			
<b>A 1.6</b>				
6. Dedication of adequate time and effort by the Board and Board Committee	<b>Complied with</b>			
<b>A 1.7</b>				
7. Act in best interest	<b>Complied with</b>			
<b>A 1.8</b>				
8. Every Directors should receive appropriate training on first appointment to the Board and subsequently as necessary training.	<b>Complied with</b>			

Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
<b>A.2 CHAIRMAN &amp; CHIEF EXECUTIVE OFFICER</b>				
<b>A 2.1</b>				
9. Division of Responsibilities of the Chairman & GM/CEO	Complied with			
<b>A.3 CHAIRMAN'S ROLE</b>				
<b>A 3.1</b>				
10. Role of the Chairman in preserving good corporate governance	Complied with			
<b>A.4 FINANCIAL ACUMEN</b>				
11. Availability of sufficient financial acumen and knowledge	Complied with			
<b>A.5 BOARD BALANCE</b>				
<b>A 5.1</b>				
12. Presence of a strong independent element on the Board	Complied with			
<b>A 5.2</b>				
<b>A 5.3</b>				
13. Independent Directors	Complied with			
<b>A 5.4</b>				
14. Signed declaration of independence by the Non-Executive Directors	Complied with			
<b>A 5.5</b>				
15. Determination of independence of the Directors by the Board	Complied with			
	During the period under review, Independent / Non-Independent, Non-Executive Directors.			
	The relevant details of the Directors are given under the Director's Profile and Director's Report of the Annual Report, on Pages 58 to 60 and Pages 191 to 194.			
<b>A 5.6</b>				
16. Alternate Director				N/A
<b>A 5.7</b>				
17. Appointment of a Senior Independent Director when the Chairman is non-independent, etc...				N/A
<b>A 5.8</b>				
18. Confidential discussion with the Senior Independent Director				N/A
<b>A 5.9</b>				
19. Meeting of Non-Executive Directors				N/A
<b>A.5.10</b>				
20. Recording of concerns in Board Minutes	Complied with			

Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
<b>A.6 SUPPLY OF INFORMATION</b>				
<b>A 6.1</b>				
21. Timely and appropriate information to the Board.	<b>Complied with</b>			
<b>A 6.2</b>				
22. Adequate Notice, Agenda and Board papers for Board meeting.	<b>Complied with</b>			
<b>A.7 APPOINTMENT TO THE BOARD</b>				
<b>A 7.1</b>				
23. Nomination Committee	<b>Complied with</b> For further details Please refer the Board Nomination Committee Report on Pages 184 - 185.			
<b>A 7.2</b>				
24. Assessment of Board composition	<b>Complied with</b> The Nomination Committee reviews the composition of the Board and makes necessary recommendations.			
<b>A 7.3</b>				
25. Disclosure of details of new Directors to Shareholders	<b>Complied with</b> All Director Profiles are published in the Annual Report.			
<b>A. 8 RE-ELECTION</b>				
<b>A 8.1</b>				
26. 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).			
<b>A 8.2</b>				
27. Election of Directors by the Shareholders	<b>Complied with</b> As per the HDFC Act, all Shareholder Directors stand for re-election once in 3 years.			
<b>A 8.3 RESIGNATIONS</b>				
28. Directors to inform the Board reasons for resignation.	<b>Complied with</b>			
<b>A.9 APPRAISAL OF BOARD PERFORMANCE</b>				
<b>A 9.1</b>				
29. Appraisal of Board performance	<b>Complied with</b>			
<b>A 9.2</b>				
30. Annual self-evaluation of the Board and its Committees	<b>Complied with</b> Please refer comments mentioned under A 9.1, above.			

Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
<b>A.9.3</b>				
31. 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>			
<b>A 9.4</b>				
32. Disclosure of the performance evaluation of Board and Board Sub Committee Performance.	<b>Complied with</b> The Board conduct performance evaluation at the time of re-election of Directors to the Board.			
<b>A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS</b>				
A 10 Disclosure of information in respect of Directors.	<b>Complied with</b>			
<b>A 10.1</b>				
33. 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.			
<b>A.11 APPRAISAL OF THE GM/CEO</b>				
A.11 Appraisal of the GM/CEO	<b>Complied with</b>			
<b>A 11.1</b>				
34. Financial targets for GM/ CEO	<b>Complied with</b> In line with Corporate Plan of the bank.			
<b>A 11.2</b>				
35. Evaluation of the performance of the GM/CEO	<b>Complied with</b>			
<b>B. DIRECTORS REMUNERATION</b>				
B 1 Remuneration Procedures	<b>Complied with</b> The Directors of the Bank are not entitled for remuneration and they get an allowance as directed by the Ministry of Finance.			
<b>B 1.1</b>				
36. 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>B 1.2</b>				
37. Composition of the Remuneration Committee	<b>Complied with</b> Please refer the Board Human Resource and Remuneration Committee Report on Pages 181 - 183 of the Annual Report for details.			
<b>B 1.3</b>				
38. Disclosed the Chairman / membership of the Remuneration Committee in the Annual Report	<b>Complied with</b>			

Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
<b>B 1.4</b>				
39. Remuneration of Non-Executive Directors				<b>N/A</b> (Directors payment are in accordance with Government Circular.
<b>B 1.5</b>				
40. Remuneration of Executive Directors				<b>N/A</b> According, to the HDFC Act there are no Executive Directors
<b>B.2 LEVEL AND MAKE-UP OF THE REMUNERATION</b>				
<b>B 2.1</b>				
41. Level and make-up of the remuneration of both Executive and Non-Executive Directors				<b>N/A</b> Please refer comments for B 1.
<b>B 2.2</b>				
42. Executive Directors' remuneration should be designed to promote the long-term success of the company				
<b>B 2.3</b>				
43. Comparison of remuneration with other companies				
<b>B 2.4</b>				
44. Comparison of remuneration with other companies in the group				
<b>B 2.5</b>				
45. Performance related payment to Executive and Non-Executive Directors				
<b>B 2.6</b>				
46. Executive share option for Directors				
<b>B 2.7</b>				
47. Designing the Executive Directors remuneration				
<b>B 2.8</b>				
48. Early termination benefits of Directors				
<b>B 2.9</b>				
49. Early termination benefits of Directors (not included in the initial contract)				
<b>B 2.10</b>				
50. Level of remuneration of the Non-Executive Directors.				



Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
B.3 DISCLOSURE OF REMUNERATION				
B 3.1				
51. Disclosure of Remuneration	Complied with Please refer comments for B 1.			
C RELATIONS WITH SHAREHOLDERS				
C 1 Constructive use of the Annual General Meeting and conduct of General Meetings.	Complied with			
C 1.1				
52. Adequate notice of the AGM	Complied with			
C 1.2				
53. Separate resolution for all separate issues	Complied with			
C 1.3				
54. Use of proxy votes	Complied with The bank has a method of recording all proxy votes and proxy votes lodged by the shareholders on each resolution.			
C 1.4				
55. Availability of all Board Sub Committee Chairman at the AGM	Complied with			
C 1.5				
56. Voting at General Meeting	Complied with			
C. 2 COMMUNICATION WITH SHAREHOLDERS				
C 2.1 TO C 2.5				
57. Effective Communication with Shareholders	Complied with Shareholders are requested to contact the Company Secretary (011-2423378) or assistants for them to obtain relevant information			
C.3 MAJOR AND MATERIAL TRANSACTIONS				
C 3 Major transactions	Complied with			
C 3.1				
58. Major transactions	Complied with There were no major transactions as defined by section 185 of Companies Act No. 07 of 2007 which materially affected the HDFC's net asset base.			
C 3.2				
59. Disclosure requirement and shareholder approval	Complied with			

Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
<b>D. ACCOUNTABILITY AND AUDIT</b>				
D 1 Reporting of Financial and Business Model Corporate, Risk Management	<b>Complied with</b>			
<b>D 1.1</b>				
60. Internal Control for Annual Report	<b>Complied with</b>			
<b>D 1.2</b>				
61. Statutory and regulatory reporting	<b>Complied with</b>			
<b>D 1.3</b>				
62. CEO and CFO a declaration that, in their Opinion for Financial Statement	<b>Complied with</b>			
<b>D 1.4</b>				
63. Directors' report in the Annual Report	<b>Complied with</b> The Director's Report is given on Pages 191 to 194 of this Annual Report.			
<b>D 1.5</b>				
64. Statement of Directors' responsibility for the financial statement	<b>Complied with</b> The Statement of Directors' Responsibility for Financial Reporting is given on Page 198 of the Annual Report.			
<b>D 1.6</b>				
65. Management discussions and analysis	<b>Complied with</b> Please refer 72 - 121			
<b>D 1.7</b>				
66. Summoning an EGM to notify serious loss of capital				<b>N/A</b>
<b>D 1.8</b>				
67. Related Party Transactions	<b>Complied with</b>			
<b>D.2 RISK MANAGEMENT AND INTERNAL CONTROL</b>				
D.2 Risk Management and Internal Control	<b>Complied with</b> Please refer pages 177 - 178 for report on Directors' Statement on Internal Control.			
<b>D 2.1</b>				
68. Annual evaluation of the internal control system, Risk Management	<b>Complied with</b> Please refer pages 177 - 178 for report on Directors' Statement on Internal Control.			
<b>D 2.2</b>				
69. Principal Risks facing the company	<b>Complied with</b>			
<b>D 2.3</b>				
70. Need for internal audit function	<b>Complied with</b> Please refer Page 188 for Audit Committee.			
<b>D 2.4</b>				
71. Review of the process and effectiveness of risk Management and Internal Controls.	<b>Complied with</b>			
<b>D 2.5</b>				
72. Responsibilities of Board Directors	<b>Complied with</b>			

Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
<b>D.3 AUDIT COMMITTEE</b>				
D 3 Audit Committee	<b>Complied with</b> Please refer page 188 for Audit Committee Report.			
<b>D 3.1</b>				
73. Audit Committee Composition	<b>Complied with</b> Please refer page 188 for Audit Committee Report			
<b>D 3.2</b>				
74. Terms of Reference and Authority and Duties of the Audit Committee	<b>Complied with</b> Please refer page 188 for Audit Committee Report.			
<b>D 3.3</b>				
75. Disclosures of the Audit Committee	<b>Complied with</b> Please refer the Board Audit Committee Report on Page 188 for membership.			
<b>D.4 RELATED PARTY TRANSACTIONS REVIEW COMMITTEE</b>				
D 4 Related Party	<b>Complied with</b> Please refer pages 186 - 187 for Related Party Transaction Review Committee.			
<b>D 4.1</b>				
76. RPT will be as defined in LKAS 24.	<b>Complied with</b> Please refer pages 186 - 187 for Related Party Transaction Review Committee.			
<b>D 4.2</b>				
77. Related Party Transaction Committee Composition	<b>Complied with</b> Please refer pages 186 - 187 for Related Party Transaction Review Committee.			
<b>D 4.3.</b>				
78. Terms of Reference and Authority and Duties of the Related Party Transaction Committee	<b>Complied with</b> Please refer pages 186 - 187 for Related Party Transaction Review Committee.			
<b>D.5 CODE OF BUSINESS CONDUCT &amp; ETHICS</b>				
<b>D.5 TO D 5.4</b>				
Code of business conduct & ethics	To be adopted			
<b>D 5.1</b>				
79. Code of business conduct and ethics	<b>Complied with</b>			
<b>D.6 CORPORATE GOVERNANCE DISCLOSURE</b>				
<b>D.6 TO D 6.1</b>				
80. Corporate Governance Disclosure	<b>Complied with</b>			

Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
E SHAREHOLDERS				
E INSTITUTIONAL INVESTORS				
E1 TO E 1.1				
81. Shareholding Voting	<b>Complied with</b> Institutional shareholders are encouraged to use their votes.  Further they are encouraged to execute their votes and also seek independent advice on investing or divesting decisions.			
E.2 EVALUATION OF GOVERNANCE DISCLOSURES				
82. Evaluation of Corporate Governance initiatives	<b>Complied with</b>			
F. OTHER INVESTORS				
F1 INVESTING / DIVESTING DECISION				
83. Individual shareholders, investing directly in shares of companies, should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	<b>Complied with</b>			
F 2 Shareholder Voting	<b>Complied with</b> The Bank appreciates participation of individual customers in General Meetings and they are exercising their voting rights.			
F 2.1				
84. Individual Shareholder Voting	<b>Complied with</b>			
G INTERNET OF THINGS AND CYBERSECURITY				
G.1				
85. Cybersecurity Risk	The HDFC Bank has already adopted and working in progress with Information Security Strategy (Baseline Security Standard) mandated by the Central Bank of Sri Lanka.			
G.2				
86. Implement a Cybersecurity risk management Policy				
G.3	It's being operated in areas such as Security Governance, Risk assessment and Risk Management through control implementation and improving user awareness.			
87. Allocate regular and adequate time on the Board Meeting				
G.4				
88. The Board ensure the effectiveness of the Cybersecurity risk management through independent periodic review and assurance	The progress of the process is evaluated at the IT steering committee meeting arranged on every month. So, this is the process that the Bank has currently adopted to manage the cyber security risks.			
G.5				
89. Disclose in the annual report, the process to identify and manage Cybersecurity risk.				

Guideline	Full compliance	Partial compliance	Non-compliance	Not applicable
<b>H. ENVIRONMENT, SOCIETY AND GOVERNANCE (ESG)</b>				
<b>H.1 ESG REPORTING</b>	Improving the current practice			
<b>H 1.1</b>				
90. Companies should provide information				
<b>H 1.2 ENVIRONMENTAL FACTORS</b>	Improving the current practice			
<b>H 1.2.1</b>				
91. Environmental Governance of an Organisation				
<b>H 1.3 SOCIAL FACTORS</b>	Improving the current practice			
<b>H 1.3.1</b>				
92. Organisation's Business Model				
<b>H 1.4 GOVERNANCE</b>	Improving the current practice			
<b>H 1.4.1</b>				
93. Establish a Governance Structure				
<b>H 1.5 BOARD'S ROLE ON ESG FACTORS</b>	Improving the current practice			
<b>H 1.5.1</b>				
94. Board Responsibility				

## SECTION THREE

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

Disclosures regarding the Board of Directors		Partial compliance	Non compliance	Not applicable
Full compliance				
7.10.1 (A) TO (C)				
(i)	Confirmation to the correct number of Non-Executive Directors in the Board	Complied with		
7.10.2 (A)				
(ii)	Confirmation to correct number of Independent Non-Executive Directors in the Board	Complied with		
7.10.2 (B)				
(iii)	Directors Annual Declaration of his / her Independence or Non-Independence to the Board of Directors.	Complied with		
7.10.3 (A)				
(iv)	Annual determination of the Board as to the Independency or Non-Independency of the Directors.	Complied with		
7.10.3 (B)				
(v)	The qualifications not met by the Directors	N/A		
7.10.3 (C)				
(vi)	Brief resume of each Director	Complied with Please refer Directors' Profiles on Pages 58 to 60.		
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 itemised in paragraphs (a), (b) and (c) above.	Complied with		



Disclosures regarding the Board of Directors		Partial compliance	Non compliance	Not applicable
Full compliance				
<b>DISCLOSURES RELATING REMUNERATION &amp; THE REMUNERATION COMMITTEE</b>				
<b>7.10.5 (A)</b>				
(viii) The correct number of Independent Non-Executive Directors in the Remuneration Committee	<b>Complied with</b> Please refer Pages 181 - 183.			
<b>7.10.5 (A)</b>				
(ix) Separate Remuneration Committee	<b>Complied with</b>			
<b>7.10.5.(A)</b>				
(x) Chairman of the Remuneration Committee	<b>Complied with</b> Please refer the Board Human Resource and Remuneration Committee Report on Pages 181 - 183.			
<b>7.10.5 (B)</b>				
(xi) Functions of the Remuneration Committee	<b>Complied with</b> Please refer the Board Human Resource and Remuneration Committee Report on Pages 181 - 183.			
<b>7.10.5 (C)</b>				
(xii) Names of the Directors in the Remuneration Committee	<b>Complied with</b> Please refer Pages 181 - 183.			
<b>7.10.5 (C)</b>				
(xiii) Remuneration Policy	<b>Complied with</b> Please refer the report of the Human Resource and Remuneration Committee on Pages 181 - 183.			
<b>7.10.5 (C)</b>				
(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 11 of the Financial Statement on Page 225			

Disclosures regarding the Board of Directors		Partial compliance	Non compliance	Not applicable
Full compliance				
<b>CONTENTS UNDER THE AUDIT COMMITTEE REPORT</b>				
<b>7.10.6 (A)</b>				
(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).			
<b>7.10.6 (A) AND 7.10.6 (C)</b>				
(xvi) Separate Audit Committee	<b>Complied with</b>			
<b>7.10.6 (B)</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			
<b>7.10.6 (C)</b>				
(xviii) Names of the Directors in the Audit Committee	<b>Complied with</b> Please refer Page 188			
<b>7.10.6.(A) AND 7.10.6 (C)</b>				
(xix) Chairman of the Audit Committee	<b>Complied with</b> Please refer Page 188			
<b>7.10.6 (A) AND 7.10.6 (C)</b>				
(xx) Chairman's qualifications	<b>Complied with</b> Please refer Directors profiles on pages 58 - 60			
<b>7.10.6 (A) AND 7.10.6 (C)</b>				
(xxi) Attendance of CEO and CFO for the Committee Meetings	<b>Complied with</b>			
<b>7.10.6 (C)</b>				
(xxii) External Auditors independency				<b>N/A</b> The External Auditor of the Bank is the Auditor General of Sri Lanka.

# RISK MANAGEMENT

As a financial intermediary, managing the Bank's risks is imperative to sustaining our profit and reaping benefits from business activities and investments. Having clear and relevant approaches to manage each risk is essential to minimise the impacts of one type of risk on the entire Bank. Moreover, having a clear line of authority on risk management ensures the identification of all relevant risks and effective mitigation at all necessary points.

One of the Bank's strategic priorities is to develop a risk-conscious culture increasingly; this requires us to have a well-rounded risk management mechanism, with awareness at all levels of the Bank.

Through risk-related training, standards and procedures, the Bank continues to foster a team that adopts risk-conscious thinking across banking and non-banking functions. The Bank strives to create a pragmatic environment, driven by relevant procedures and controls, where employees clearly understand their responsibilities in securing the Bank against risks.

## RISK ENVIRONMENT

In 2022, the macroeconomic landscape became extremely volatile. The economic crisis, which resulted partially due to distressed serviceable foreign reserves and external debt, flared to an unprecedented level. Moreover, staggering decade-high inflation affected businesses and individuals, as high prices constrained investments and spending; moreover, the Central Bank of Sri Lanka's monetary policy tightening directly impacted banking activities.

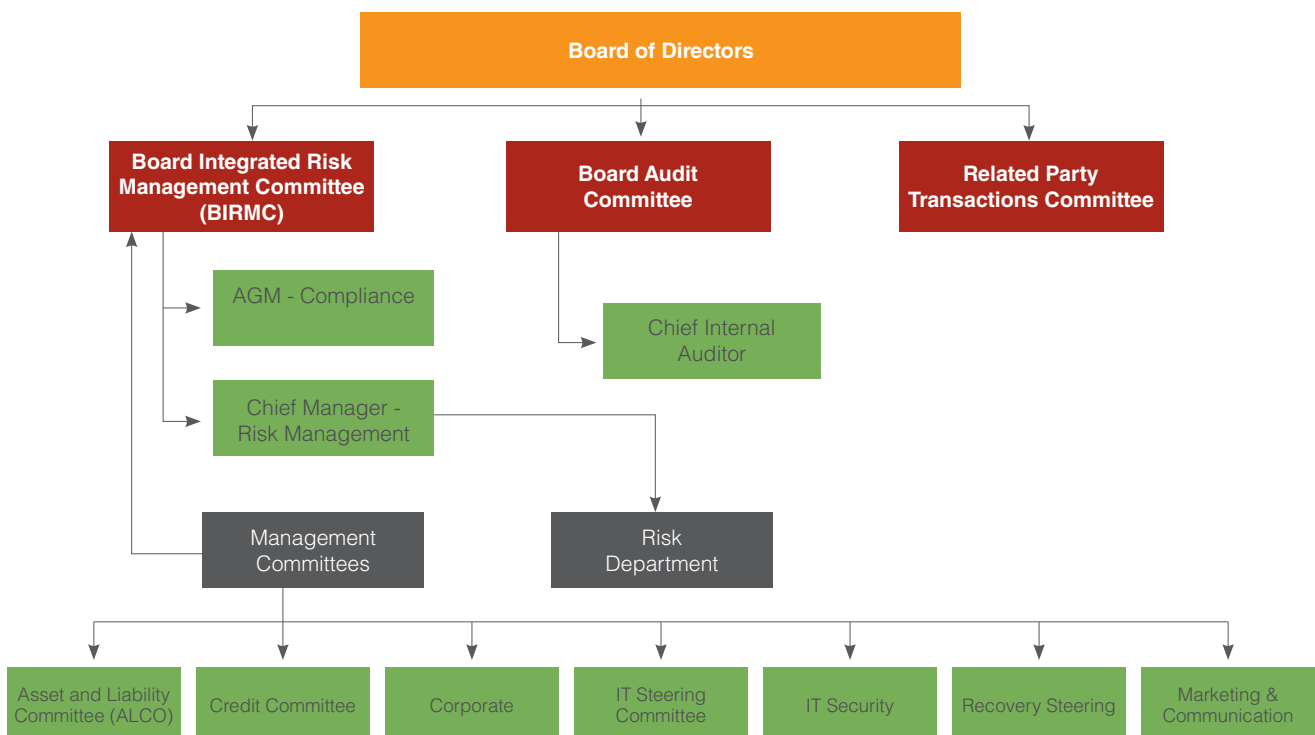
The massive increase in policy rates impacted the amount of approved new loans, as we considered borrowers' shrinking financial capacities when repaying debt. The scenario heightened the risk of defaulted payments for the Bank in 2022. Additionally, we believe that reduced disposable income due to the high cost of living negated the high rates for deposits, making it less likely to see any considerable increases in deposits.

Furthermore, the significant rupee depreciation and lack of foreign currency caused challenges in payment to Foreign Service providers.

## RISK GOVERNANCE

The Board of Directors reserves overall oversight on risk management. The Board ensures that the Bank's exposure to various risks is evaluated and monitored as well as controlled by delegated authorities. They discharge their responsibilities through the board-integrated risk management committee and audit and credit committees.

Furthermore, the CEO and the corporate management set the direction of the risk appetite and reserve responsibility for oversight of risk controls. The Chief Manager of Risk has authority over routine risk management operations of the Bank, setting the relevant risk management policy while ensuring proper monitoring and measurement, as well as reporting to the BIRMC and the Board.



# Risk Management

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)

BIRMC sets the tone for the risk management framework while promoting a culture of risk consciousness. The committee assesses risks monthly alongside the effectiveness of management committees. The BIRMC performs several functions.

- Taking swift remedial measures for risk mitigation before risks escalate to unacceptable levels.
- Taking mitigation measures in line with Bank policies, regulatory requirements, and guidelines for LSBs.
- Ensure the Bank complies with all mandatory regulations and internal policies to mitigate risks.

The committee meets quarterly to evaluate risks and mitigate them; in addition, the committee updates business continuity plans. The Committee comprises non-executive members who regularly report to the Board of Directors.

## AUDIT COMMITTEE AND INTERNAL AUDIT

The Board Audit Committee Monitors Bank's compliance with risk management policies and procedures and receives the assistance of the Internal Audit. The internal audit conducts planned and ad-hoc reviews of the Bank's risk management controls and procedures. The Internal Audit reports to the Board Audit Committee.

## MANAGEMENT COMMITTEES

The Bank has in place several executive management sub-committees to support the Board's Integrated Risk Management Committee and focus on specialised risks.

Management Level Committees as Follows;

- Corporate Management
- Asset & Liability committee
- Credit Committee
- IT Steering Committee
- IT Security Committee
- Recovery Steering Committee
- Marketing & Communication Committee

- Corporate Management Committee sets the bank on the right course by determining the Bank's overall business strategy and monitors the implementation of the strategy to ensure that the Bank's strategic objectives are accomplished within the parameters of its risk management framework.
- Asset and Liability Committee (ALCO) – The committee regularly monitors and manages assets and liabilities to maintain healthy liquidity levels while meeting regulatory requirements.
- Credit Committee – The Credit committee ensures that the loan being reviewed meets regulatory standards, the Bank's lending policies, and fits the credit risk appetite of the bank while assessing factors such as risk mitigates, the borrower's credit score, past payment history, outstanding debts, and current liquidity & determines the actions to be taken on delinquent loans.
- IT Steering Committee–Manages cybersecurity-related risks and oversees the implementation of policies and projects.
- IT Security Committee – The Committee monitors the policies, procedures, regulations and similar documents under its responsibility concerning necessary updates, and takes action to keep them up-to-date, evaluating information security awareness studies and learning programs, Reporting to the Board of Directors at least once a year.
- Recovery Steering Committee- The Committee is responsible for preparing, testing, implementing, and updating the recovery plan of the bank and integration of the recovery plan with Bank's strategy, business decision-making, risk management, stress testing, capital and funding assessments
- Marketing & Communication Committee-To provide guidance and expertise in the development and implementation of effective Marketing and Communications plans for the Bank to achieve the Bank's goals and objectives.

## RISK MANAGEMENT DIVISION (RMD)

The RMD, under the leadership of the Chief Risk Officer (CRO), supports the Board Level Risk Management Committee to perform the role of risk oversight, framework development, policy and methodology formulation, and independent monitoring and reporting of key risk issues. Together they constitute the 2nd line of defence.

The Risk Management Department (RMD) is an independent function that manages the risk management process daily. The RMD is incorporated into the Bank's Risk Management Framework. The risk management process, for which the RMD is responsible, shall be integrated into the Bank's internal control system.

## THREE LINES OF DEFENCE

As the Bank's internal risk defence model, we deploy the three-tiered model of defence for a structured approach to risk management. The model brings prudent, effective and risk-accountable management to the Bank's risks.

First line of defence	Second line of defence	Third line of defence
Management/operations	Risk management and compliance	Internal audit
The 1st Line of Defence is concerned with management controls in the Bank and generally has a real-time focus it is aimed at the review of governance and compliance arrangements to demonstrate 'checks and balances are working effectively.	<p>The 2nd Line of Defence centres on risk oversight and involves some degree of real-time activity, with a mandate to review the 1st Line of Defence activities.</p> <p>This tier entails the work of areas like risk management, technical and regulatory compliance, and safety.</p> <p>This aims to confirm the effectiveness of governance and compliance arrangements, and to identify action improvements.</p>	<p>The 3rd Line of Defence involves independent assurance that evaluates the adequacy and effectiveness of both 1st Line and 2nd Line risk management approaches.</p> <p>This is undertaken by Internal Auditor, to independently confirm governance and compliance effectiveness, and to recommend improvements</p>

## POLICY FRAMEWORK

The Bank has adopted the following risk management related policies.

- Integrated Risk Management Framework
- Risk Appetite Framework
- Credit Risk Management Policy
- Liquidity Risk Management Policy
- Interest Rate Risk policy
- Operational Risk Management Policy
- Stress Testing Policy
- Loan Review Mechanism Policy

These policies are reviewed annually. Risk management policies enable the Bank to focus on identifying and analysing Bank's risks, establish and review proper risk limits. Moreover, they serve the purpose of monitoring risks and ensuring adherence to controls. The Bank regularly reviews policies to adapt them to reflect external changes and changes in products and services.

## RISK APPETITE AND MONITORING

The Bank adopts limits across each type of risk through a board-approved Risk Appetite Framework based on the level of risk the Bank can willingly undertake. The limits have been set after considering the external environment and bank strategy in the best interest of the Bank's stability. The Bank uses appropriate methods to measure risks concerning risk type and best practices. Risks are monitored and controlled based on thresholds defined by the Bank.

The board-integrated risk management committee sets and reviews the Bank's risk appetite by establishing or reviewing Board approved policies and ensures that Bank risk monitoring limits are in line with industry best practices. All risks that cross the tolerance limits are reviewed by the risk department.

## KEY RISKS AND INDICATORS

As a financial service provider, the risks the Bank encounter stem mainly from credit-related exposures due to the considerable number of LIG and MIGs we serve. Moreover, the Bank faces risks that impact liquidity and market investments; therefore, it evaluates and mitigates liquidity and market risks. Moreover, capital-related risks are reviewed and controlled in addition to operational risks the Bank faces from people, technology and legal and compliance-related risks.

Area	Scope
Capital 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 exposure reports on top and emerging strategic and overall business risk analysis</li> </ul>
Credit risk	<ul style="list-style-type: none"> <li>Pre-Credit Risk Management</li> <li>Internal Credit Risk Rating for all loans above Rs.1.5Mn</li> <li>Credit Risk Policies and Delegation of Authority Review of Credit Risk Management Policies</li> <li>Staff training and knowledge-sharing sessions</li> <li>Centralisation of disbursements under the Credit Admin Division</li> <li>Post-Credit Risk Management</li> <li>Loan review mechanism</li> <li>Validation of risk rating models</li> <li>Risk appetite limit monitoring</li> <li>Reviewing of Watch List</li> <li>Implementation of a risk-based pricing mechanism</li> </ul>
Market and liquidity risk (Interest rate risk)	<ul style="list-style-type: none"> <li>Review and update Liquidity &amp; Market Risk Management Policies</li> <li>Reports on liquidity and treasury market risk analysis</li> <li>Treasury Back Office and review of any limits</li> <li>Reviewing of recommendations by ALCO</li> <li>Liquidity risk monitoring on BASEL III requirements</li> </ul>
Operational risks (IT risks, people risks and legal and compliance risks)	<ul style="list-style-type: none"> <li>Reports on Business Continuity Plan and disaster recovery drills undertaken</li> <li>Review and update Operational Risk Management Policies</li> <li>Monitor reporting of KRIs</li> <li>Analysing Internal Loss Events and risk from external events Monitoring of IT system risks, legal risks, and people risk.</li> </ul>

## CAPITAL RISK MANAGEMENT

During the year, we strengthened our internal capital assessment process, which aligns with the review process of the BASEL III capital consortium. We apply relevant and regular monitoring of capital adequacy by assessing the capital adequacy ratio while reporting it to the relevant authority line.

The Bank has a gap of Rs. 456 Mn in meeting its minimum regulatory capital buffer limit. However, due to an increase in profit levels in 2022, the Bank Increased slightly its core capital value by Rs. 25 Mn, when compared to Rs. 6,635 Mn in 2021 – bringing down the gap in reaching the required minimum level. In 2022, we maintained a capital adequacy ratio, well above the regulatory minimum.

## THE BANK'S CAPITAL POSITION

According to regulatory requirements and in protecting stakeholder interests, the Bank complies with regulatory capital requirements. This becomes imperative when providing security to depositors' funds, meeting liabilities and satisfying business expansion objectives.

According to the Banking Act Directions No. 11 of 2019 and based on changes to the BASEL III-based directions on capital requirements, mandate licensed specialised Banks to maintain a 12.50% regulatory minimum, formed by 7% CET 1 including capital conservation buffer and a total tier 1 plus capital conservation buffer of 8.50%.

	Unit	2022	2021	2020
Common Equity Tier 1 Capital Ratio %	%	25.54%	21.51%	19.33%
Common Equity Tier 1 Capital Ratio Rs. Mn	Rs. Mn	6,210	6,185	4973
Tier 1 Capital %	%	26.56%	22.38%	20.20%
Tier 1 capital Rs. Mn	Rs Mn	6,460	6435	5822
Total capital %	%	27.61%	23.02%	20.67%
Total capital Rs. Mn	Rs Mn	6,715	6619	5977

Based on the 2022 capital ratios, CET 1 capital has improved in comparison to 2021, Tier 1 capital improved in comparison to the previous year, and total capital has improved compared to 2021.

## STRESS TESTING

Stress testing enables the Bank to assess its ability to weather unexpected impacts due to adverse conditions from the external environment. The Bank conducts stress testing on all risks that bear any material impact on its ability to operate stably. The stress tests align with the Internal Capital Adequacy Assessment Process (ICAAP) to assess capital adequacy.

Sensitivity analysis measures the level of impact from various factors such as shifts in financial instruments that impact investments. The Bank conducts quarterly stress tests on all its major risk categories alongside portfolio-specific stress tests to assess aspects sensitive to the Bank, such as credit, liquidity, interest-bearing assets and liabilities. Due to regular stress tests, the Bank can regulate thresholds to a stable level and bring risk tolerance levels to fall inside a healthy risk appetite.

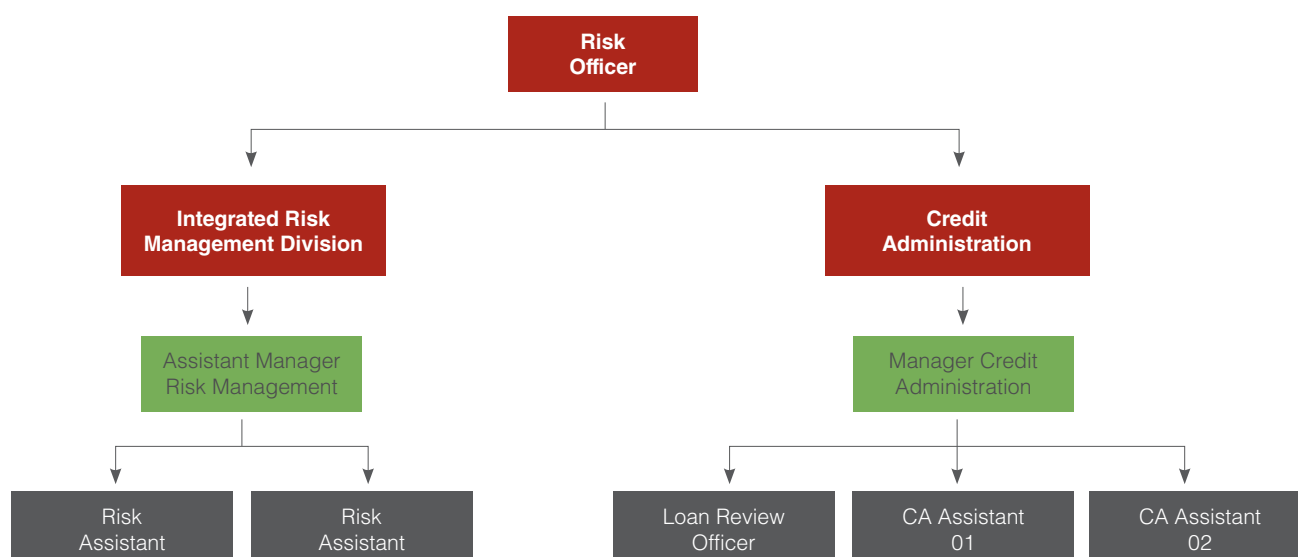
## CREDIT RISK MANAGEMENT

Credit risks entail possible financial losses to the Bank based on the inability of a customer or financial instrument counterparty to meet obligations. The Bank has considerable exposure to credit risk due to a large concentration of low-income and middle-

income customer groups. Risk controls are applied at all critical points of the credit management process, and an integrated framework is adopted to manage and control the level of risk we can absorb with the credit lines we approve. The Risk Officer reserves final oversight of credit approval and assessments of asset quality. The Bank has adopted the following methods to mitigate, control and manage credit risk.

Apart from the above, the Bank maintains a comprehensive and clearly defined risk management framework, which has set the Bank's structure, policies, procedures and infrastructure for risk management, including credit risk. The risk department maintains a dashboard, monthly to assess credit exposures to control and mitigate as required. Other measures include portfolio management, customer repayment patterns that set the basis for approving and granting top-up loans, risk-based pricing and a dispersed network of branch locations that diffuse risks that could emanate from one particular segment of customers.

The integrated framework includes our Risk Officer overseeing integrated risk management and credit administration. With credit risk being the primary area of risk exposure, credit administration and risk management works alongside to mitigate credit-related risks.

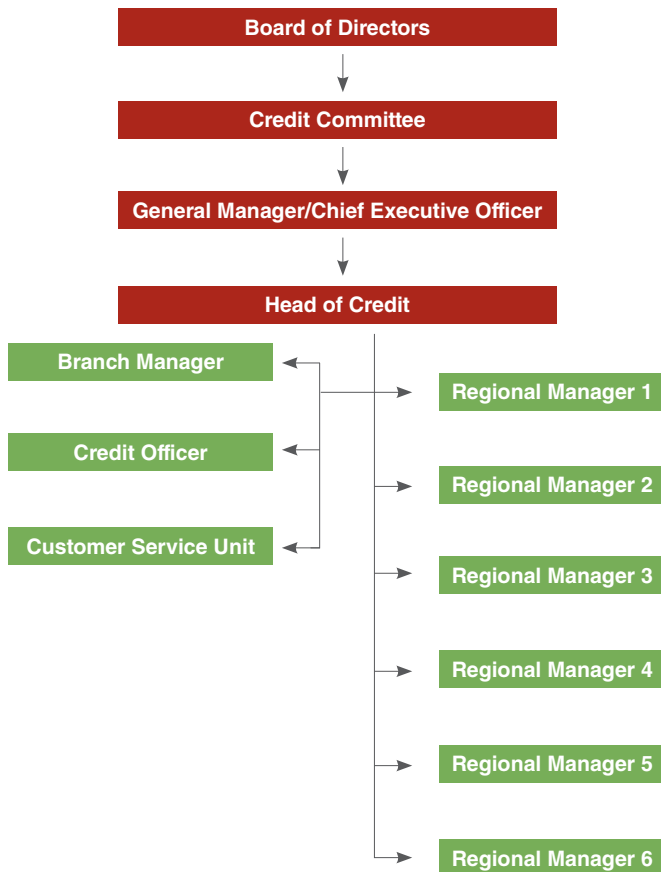




# Risk Management

## APPROVAL LEVELS AND CENTRALISED DISBURSEMENTS

Personnel at various levels along the credit approval process have been assigned limits when approving credit. The board approves credit requests for funds above the approval limit imposed to the credit committee and the significant credit threshold is fixed at Rs. 5 Mn and reviewed at various stages.



Credit disbursements are undertaken by the credit admin division, centralising all disbursements to ensure that the funds are directly secured by the borrower for the purpose the fund was approved for.

## SANCTIONS AND THRESHOLDS

The loan approval and management process has three levels of sanctions (authorisation levels).



## MANAGING COLLATERALS

Collateral valuation and its management play a crucial role in thwarting and managing credit risks to a greater extent. This ensures asset quality while ascertaining that collateral-based assets do not pose any risks or detriments when recovering non-performing loans.

Valuation checkpoints:

- Internal valuation - Collaterals for loans below 0.1% of Tier I equity capital are valued by internal valuation officers
- External valuation - Properties valued over 0.1% of Tier I equity capital of the Bank are assessed by an external valuation officer

## INTERNAL CREDIT RATING MODEL

Credit ratings for borrowers are based on substantial due diligence conducted by the bank and quantified assessment of a borrower's creditworthiness in general terms or concerning a financial obligation. Credit ratings determine whether a borrower is approved for credit and the interest rate that decides repayment.

Based on individual risk profiles, we assign a risk rating to retail (individual) and corporate customers before granting the loan. Once completing the rating assessment, the customer and the corresponding loan will be given codes.

## TWO-WAY RISK RATING MODEL AUTOMATED LOAN APPROVAL PROCESS

The rating model is based on the statistical precepts to forecast losses that could arise from a borrower's repayment ability. It also considers the default probability (PD), the collateral value which should be recovered in the event of a default and loss given default (LGD). There is also a scorecard that combines considerations for PD and LGD, which are not captured by the model.

## CONTROLLING CREDIT RISKS THROUGH PROPER CREDIT ADMINISTRATION

- Integrated risk management framework that brings together the risk department and the credit administration
- Credit Risk Rating Models
- Approval levels and centralised disbursements
- Collateral management
- Loan reviews function with Qualified and experienced loan review officers
- Automated loan approval process
- Sanctions and thresholds
- Portfolio Management

## LOAN REVIEWS

HDFC Bank conducts loan reviews to ensure that credit approval practices are in line with regulatory requirements and internal policies. The bank assesses deteriorations of the loan portfolio quality and gathers feedback on credit sanction effectiveness. Reviews are conducted for significant loan amounts within three months of sanction or when information indicates credit quality deterioration.

## QUALIFIED AND INDEPENDENT LOAN REVIEW OFFICERS

The Bank's loan review officers have sound technical knowledge in appraising credit facilities and lending practices in line with the Bank's loan policies. They have a proper understanding of laws and regulations associated with lending activities and assume responsibility for continued credit analysis and for effectively identifying any red flags.

Moreover, the bank has affirmed the independence of loan officers. To avoid any conflicts of interest, the management usually ensures that the officers involved in loan reviews are not engaged in the credit approval process and are not under undue influence by anyone associated with reviewing process of significant loans.

Loan reviews cover several critical factors of credit:

- Credit quality
- Sufficiency of credit and collateral documentation
- Proper lien perfection
- Approval process
- Adherence to loan covenants
- Compliance with internal policies and procedures and applicable laws and regulations of the Central Bank
- The accuracy and timeliness of credit grades assigned by loan officers
- Portfolio quality and recommendations for improving portfolio quality

Upon completion, the review officers discuss findings with branch managers and suggest measures to remediate deficiencies. If remedial measures are not applied swiftly and effectively, then the top management is informed of the developments.

## ANNUAL CREDIT REVIEWS

We review loans annually and in a manner that aligns with the risk of individual exposure. We approve exemptions through appropriate authority levels.

Annual reviews entail:

- Full review of corporate financial statements
- Full assessment for covenant compliance
- On-site reviews

## RECOVERY MEASURES

The Bank takes several methods to secure loan repayments from customers with defaulted payments. As a first step, the Bank issues reminder letters to borrowers, and the Bank accommodates requests for loan rescheduling, which is undertaken for customers with severe repayment difficulties. Moreover, relevant personnel undertake personal calls to encourage payments without coercion on recovering debt repayments.

## OBLIGOR RISK CONTROL

Furthermore, in controlling the risk exposure that goes with obligors, financial institutions with BBB or higher credit ratings are considered to ensure a low probability of default.

Credit and loan portfolio risk	Threshold	2022	Threshold	2021
NPL ratio (excluding EPF)	12%	20.9%	12%	18.8%
Loss Loan/ NPL Capital (Except)	50%	69.3%	50%	64.7%
Guarantor Loan's Concentration	50%	19.4%	50%	20.6%
Impairment Coverage	30%	34.3%	30%	33.5%

## MARKET RISK

The Bank considers market risk as exposures that stem from changes in interest rates, equity prices, foreign exchange rates and credit spread. The Bank takes precautions and risk mitigation measures to control the effect of such changes to its income and value of financial instruments in line with acceptable parameters. By overseeing market risks and applying controls, the Bank also ensures solvency.

# Risk Management

The Bank's assets subject to market risk includes non-trading portfolios such as cash and cash equivalents, placements with Banks, loans and advances at amortised costs, debt and other instruments at amortised cost and other assets.

Indicators	Threshold	2022	2021
Interest Sensitive Ratio (ISR)	40%	81.1%	-
Fixed Deposits to Loan Ratio	100%	102.90%	101.51%
Interest cost to interest income (%)	70%	67.60%	53.97%
Borrowing to Total Assets	10%	6.20%	7.64%

## INTEREST RATE RISK

The Bank considers interest rate risk as part of its overall market risk. Interest rate risk assumes the impact on net interest income through unexpected and unfavourable changes in interest rates. The Bank assesses the sensitivity of its financial assets and liabilities to changes in interest rates against various scenarios.

In 2022, due to the significant hike in policy interest rates, the interest rate on customer borrowings increased. The increase posed a threat to customers' ability for loan repayments. Moreover, the increase in deposit rates worked favourably in increasing the Bank's interest income through placements with Banks. Moreover, the high rates compelled the Bank's interest expenses to increase during the year, posing a challenging situation.

## LIQUIDITY RISK

Liquidity risk entails Bank's inability to meet its short-term or immediate financial obligations without incurring unexpected losses. Liquidity risks occur when the Bank does not have sufficient funds or a combination of prudent funding sources to meet such obligations. By measuring several critical indicators, the Bank ensures that it operates within healthy liquidity levels and maintains compliance with relevant thresholds.

## LIQUIDITY RISK MANAGEMENT

The Bank constantly reviews and updates relevant liquidity-related policies through the risk department. The department analyses report on liquidity risks to ensure that developments are up-to-date. The Asset and liabilities committee (ALCO) and investment committees review report information to make informed decisions. Furthermore, the Bank monitors liquidity-related risks in line with BASEL III requirements for Liquidity risk ratios. The Bank monitors its liquidity ratios, assesses maturity mismatches and evaluates its assets and liabilities in addition to the extent to which assets are not available as collateral to obtain funding. The Bank conducted a maturity gap analysis during the year under review.

The Bank maintains a diversified funding base which comprises customer deposits, market deposits and contingency facilities. HDFC Bank also carries a highly liquid asset-based portfolio diverse in currency and maturity. The Bank also carries out stress testing of its liquidity position.

## LIQUIDITY RATIOS

There were several differences in the Bank's liquidity ratios over the previous year. The significant variation is in the liquidity coverage ratio. Monitoring liquidity ratios according to regulatory requirements enables the Bank to regularly assess its liquidity gaps.

The regulator sets liquidity coverage ratio (LCR) and promotes short-term liquidity resilience over 30 days; it reflects the amount of high-quality liquid assets the Bank can use to raise liquidity. It is measured against the total net cash outflows from both actual and contingent exposures based on a stressed scenario.

The Bank's LCR exceeded the regulatory minimum, ensuring that it possesses adequate sources of liquidity in meeting short-term obligations.

Indicators	Threshold	2022	2021
FD concentration ratio	40%	7.30%	17.1%
Investments to total assets	35%	27.50%	29.71%
Statutory liquid asset ratio	20%	31.1%	31.0%
Liquidity coverage ratio	100%	334.4%	156%
Net stable funding ratio	90%	199%	122%
Loans to deposits ratio	80%	88.92%	87.37

## LIQUIDITY RESERVES

The Bank's liquid assets (cash and cash equivalents, short-term deposits and liquid debt securities) are stable and can be accessed to meet any immediate funding requirement.

## FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The Bank's non-derivative financial liabilities are demonstrated below in terms of maturity.

	Less than 3 months	3-12 months	1-3 years	3-5 years	Above 5 years
Total non-derivative liabilities (Rs Mn)	17,605	20,836	8,369	5,830	3,967

## CONTINGENT LIABILITIES

The Bank's contingent liabilities stood at Rs 4.60 Mn for on demand liabilities while Rs 645.42 Mn was reported for 3-12 months' liabilities, amounting to a total of Rs. 650 Mn in contingent liabilities.

## OPERATIONAL RISKS

Operational risks focus on exposure to internal and external adverse scenarios, which related to human capital based exposures, information technology and infrastructure related risks and external risks such as legal and regulatory non-compliances.

The Bank focuses on several risks related to operations of its activities.

- People risk
- IT system risks
- Legal and compliance risks

The Bank Operational Risk Committee has responsibility for operational risks and develops and implements controls to address such risks.

## PEOPLE RISK

The Bank considers people risks as exposures associated with human activities. The Bank has adopted several measures to buffer such risks.

## MANAGING PEOPLE RISKS

The Bank's human resource and remuneration committee provides necessary recommendations to ensure a strong team of employees and assesses gaps to attract and retain a competent team. The Bank continues to reinforce training programs to bridge gaps in knowledge and provides remuneration and benefits to encourage better performance. The Board of Directors provides guidance and supports actions to create a highly capable team of professionals.

- Proactive measures are taken to ensure a competent and committed workforce
- Qualified and experienced professionals in Banking and other functional areas
- Succession planning and management trainee program to ensure competent professionals lead the company through future management roles
- Training and development that addresses gaps in Banking, compliance, risk, product and other areas
- Adherence to the code of best practices and regulations to ensure employee compliance with regulations and internal policies in avoiding and minimising risk exposures

- Provide a positive work environment that ensures employee well-being (timely remunerations and benefits for financial growth)
- Programs to reward and recognise hard work to ensure employee contentment and professional growth
- Flexible work times to accommodate work-life balance
- Employee turnover remains low at 4.98%

The Bank's recruitment and succession policies help to sustain the bank's strategic direction and decision-making. The recruitment policy ensures the identification of people with the right fit for effective performance. The succession policy facilitates the identification of critical positions within the Bank and sets the tone for talent development in preparation for the leadership transitions. Further to these, the Bank maintains smooth relations with its union employees.

The Bank also reviews gaps in the cadre and takes necessary steps to fill vacancies (non-managerial and managerial) through internal and external recruitment procedures, as required.

## THREAT OF TURNOVER

Turnover carries some level of exposure to people risks due to sudden exits of employees in critical functions. During the year, the turnover rate increased to 4.98% when compared to the 2.57% reported in 2021.

	2018	2019	2020	2021	2022
Turnover	3.75%	4.22%	2.49%	2.57%	4.98%

Despite this percentage, the Bank has a relatively healthy level of employee retention. Nevertheless, the Bank adopts several measures to reduce possible turnover levels by taking into consideration employee concerns. The Bank provides flexible working hours to encourage work hours based on their needs. Moreover, employees are given equal opportunities in training and receive educational support through loans, membership reimbursements and honorariums for staff members. Employees receive career progression opportunities through promotions.

In reducing any risks from human capital, the Bank also maintains a proper whistle-blowing policy with Chief Internal Auditor nominated as an officer that received whistle-blower information.

Indicators	Threshold	2022	2021
Write off over NII %	10%	1.90%	2.7%
Credit Client Turnover	15%	13.5%	18.1%
Growth in balance sheet%	10%	1.7%	3.5%
Profit per head (Rs.)Mn	1%	0.36	1.13

## IT RISKS

IT risks derive from several perspectives. With more financial technologies and digital solutions in use, exposure to cyber threats has increased. Such risks include loss of data, stealing of data for various purposes and unauthorised access to confidential information. Such risks can occur due to disruptions in hardware, including physical data servers. What ensues is a loss of confidence in the Bank and its reputation. On another facet, risks occur due to delays in adopting the latest and critical technologies, which thwarts the Bank from increasing its efficiencies and meeting competitive dynamics.

Another side of the delayed adoption of ICT infrastructure is the inability to accommodate sudden shifts in demands and the need for increased online transactions. With new digital solutions from competitors, the Bank faces the challenge of rapidly adopting digital technologies to ensure customer retention.

To manage IT risks, the Bank undertakes the following.

- Auditing of tech infrastructure in line with CBSL baseline security standards
- Integrating CBSL recommendations to enhance IT security
- Monthly internal IT reviews
- Remote secure connectivity
- Regular firewall upgrades and the latest security versions
- Periodic IT training on cyber security and the use of the Bank's systems

## CYBER SECURITY

The Bank has adopted the Information Security Strategy (Baseline security standard) by CBSL in minimising security risks. The framework covers security governance, risk assessment and risk management by implementing controls and training employees, creating awareness of cyber security risks. The IT steering committee evaluates the progress of the IT department in adopting guidelines.

During the year, no risk events took place. The Bank also submitted risk-related reports to Sri Lanka Financial Sector Computer Security Incident Response Team (FinCSIRT) for 2022.

IT risk-related activities in 2022:

- Baseline Security Standard implementations are in progress
- In the process of developing a fully-functional Disaster Recovery system
- Conducted 03 online sessions and 10 e-mail-based awareness sessions
- Firewall solution implementation at Rs. 8 Mn in 2022

## LEGAL AND COMPLIANCE RISK

Legal risks involve exposures in the event of non-compliance to laws and regulations. Such violations could incur penalties, reputational risks and disruptions to the Bank's revenue. The Bank did not incur any fees or penalties during the year from non-compliances.

## RISK OUTLOOK

The Bank's continued focus is on fulfilling its minimum capital requirement. However, the country's economic volatility will be a concern moving forward.

- Impact on liquidity, solvency and balance sheets of financial institutions due to government debt and new tax regime
- Exposures to increased credit risk through reducing income levels and inflationary pressure
- Higher non-performing loans due to macroeconomic disruptions and repayment capabilities of businesses and individuals
- Concerns with government securities due to debt restructuring and a possibly flattening yield curve
- High volatility of the market interest rates and commodity prices
- Negative economic growth forecast and failures of Small and medium entities
- Adverse macroeconomic landscape due to scarcity of the foreign exchange

# DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

## RESPONSIBILITY

In line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the internal control mechanism in place at Housing Development Finance Corporation Bank of Sri Lanka ('the Bank'). In considering such adequacy and effectiveness of internal controls, the Board recognises that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed to highlighting any deviations from the limits and indicators that comprise the risk appetite of the Bank.

In this light, 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 fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank. The process also includes enhancing the system of internal controls over financial reporting to cater changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board in line with the 'Guidance for Directors of Banks on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking into account principles for the assessment of the internal control system as given in the guidance.

The Board is of the view that the system of internal controls over financial reporting is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies, procedures on risk and internal controls. It is the duty of the management in identifying and assessing the risks faced and designing, operation and monitoring of suitable internal controls to mitigate and control these risks factors.

Key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Board Sub Committees are established by the Board to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and the business directions that have been approved. The board sub-committees are:
  - Board Audit Committee
  - Integrated Risk Management Committee
  - Nomination and Remuneration Committee

- Internal Audit department verify the compliance with policies and procedures and the effectiveness of internal control systems on an ongoing basis during their cause of audits. Audits are carried out on all branches and departments including Information System audits driven by the risk based annual audit plan approved by the Board Audit Committee. The Audit Committee reviews findings of the internal audit assignments and the branch audit issues. The Committee also reviews the scope and the adequacy of coverage of the approved audit plan and necessary improvements thereto. Also detailed discussions on any unsatisfactory audits, reviewing the action plans to address these areas and the implementation status are done with the view of improving all affairs of the bank.
- The Board Audit Committee of the Bank also reviews internal control issues identified by the External Auditor, Regulatory Authorities, Board Sub Committees and the management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The Committee also reviews the internal audit functions with particular emphasis on risk assessment, and quality of internal audits. The minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the 'Board Audit Committee Report' on page 188.
- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounting and disclosures requirements of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. The comments/recommendations made by the External Auditors in connection with the internal control system over financial reporting during the year will be taken into consideration to further strengthen the internal control system over financial reporting process.
- In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure are being made whilst further strengthening of processes will take place pertaining to impairment of loans and advances and financial statement disclosures related to risk management.
- The Board took necessary steps to implement requirements of the Sri Lanka Accounting Standard-SLFRS 9 (Financial Instruments) in 2018. The Board will continuously strengthen the processes and controls around management information systems and reports required for effective management, validation and compliance in line with Accounting Standards.



# Directors' Statement on Internal Control over Financial Reporting

## CONFIRMATION

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

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, the Auditor General has reviewed the above Directors' Statement on internal control over financial reporting included in the Annual Report of the Bank for the year ended 31st December 2022 and has reported to the Board of Directors that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank. Their independent assurance report on the Directors' Statement on Internal Control is given on the pages 179 - 180 of this Annual Report.

By order of the Board,



Senior Prof. A Jayamaha  
*Chairman - Audit Committee*  
18th May 2023



Mr. Nishaman Karunapala  
*CEO/General Manager*  
18th May 2023



# ASSURANCE REPORT OF THE AUDITOR GENERAL ON INTERNAL CONTROLS



## ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல.  
My No.

BAN/ 01/C/HDFC/IC/22/27

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

23 May 2023

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 2022.

#### 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 (Revised)

My responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Housing Development Finance Corporation Bank of Sri Lanka.

I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka. This Standard required that I plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control. For purpose of this engagement, I am not responsible for updating or reissuing any reports, nor have I, in the course of this engagement, performed an audit or review of the financial information.



# Assurance Report of the Auditor General on Internal Controls

## 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 (Revised) 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 (Revised) also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on my judgement, having regard to my understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion

## 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

# BOARD SUB COMMITTEE REPORTS

## BOARD HUMAN RESOURCES & REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee of the Housing Development Finance Corporation Bank (HDFC Bank) was formed in compliance with the Section 3 (6) of Direction No. 12 of 2007 (as amended), "Corporate Governance for Licensed Specialised Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction and Terms of Reference.

### COMPOSITION & MEETINGS

The Human Resources and Remuneration is appointed by the Board of Directors of the HDFC Bank. The Committee comprised the following;



#### CHAIRMAN OF THE COMMITTEE

1. Mr. P.A. Lionel (Non-Executive, Independent Director)
2. Mrs. R.M.R.W. Manchanayake (Non-Executive, Independent Director) (Resigned from Board 27.02.2023)

#### OTHER MEMBERS

3. Se. Prof. A. Jayamaha (Non-Executive, Independent Director)
4. Dr. P.A. Krishantha (Non-Executive, Independent Director)

Brief profiles of the Directors are given on page 58 - 60.

### SECRETARY TO THE COMMITTEE

Mrs. Manori Narangoda- Company Secretary

### THE TERMS OF REFERENCE

The Terms of Reference (TOR) of the Human Resources and Remuneration, adopted by the Board in 2007, was further reviewed and amended subsequently in order to meet the current requirement.

The Human Resources & Remuneration Committee, functions within the agreed terms of reference and is committed to the principles of accountability, transparency and ensuring that remuneration structures are equitable and aligned with the industry, performance of the Bank.

The TOR of the Human Resources and Remuneration Committee is reviewed annually.

### MEETINGS OF THE COMMITTEE

The Committee met Four times (04) during the year in reference. The following Directors serve/ served on the Committee and the attendance at the meetings is given in the table below.

	Eligible to Attend/ Attended
1. Mrs. R.M.R.W. Manchanayake	4/4
2. Se. Prof. A. Jayamaha	4/4
3. Mr. P.A. Lionel	4/4
4. Dr. P.A. Krishantha (Appointed to committee on 24.08.2022)	2/2
5. Mr. P.A.S.A. Kumara (Resigned from the Board 02.03.2022)	1/1
6. Mr. M.P.D.U.K. Mapa Pathirana (Resigned from the Board 28.04.2022)	2/2
7. Mr. R. P. A. Wimalaweera (Appointed on 14.11.2022 and Resigned from Board 28.11.2022)	0/0

### REGULAR ATTENDEES BY INVITATION

The General Manager/ CEO is responsible for the overall management of the Bank, and GM/CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.

### POLICY

The BHRRC is mainly responsible for articulating human resource and remuneration policies and for formulating strategies for effective human resource management of the Bank.

Accordingly, the Human Resources and Remuneration Committee is responsible for the following:

1. Determine the Remuneration Policy (Salaries, Allowances and Other Financial Payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.
2. The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.
3. The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set target and goals periodically and determine the basis for revising remuneration, benefits and other payments performance-based incentives.
4. Change of Designation Titles.
5. All local and foreign training and attending to overseas seminars by the staff members of the Bank.

## Board Human Resources & Remuneration Committee

6. Service extension of staff.
7. To take decisions/ or determine appeals on disciplinary matters (if required under the Bank's disciplinary code)
8. Any appeals on grievances of employees.
9. All employee related matters beyond the Management Authority level (except the specific matters vested under the Board's Authority).
10. To adopt a suitable Terms of Reference for the Committee and to review / revise the same.

### RECOMMENDATIONS TO THE BOARD

To study and make relevant recommendations to the Board pertaining to any matter referred to the Committee and in particular the following;

1. The collective agreement of the Bank with the CBEU.
2. The organisational structure for the Bank.
3. Necessary cadre Recruitments, Scheme of recruitments (SOR) of cadre.
4. Creation of new Posts or Positions, Placements, Cadre and Cadre Budget.
5. Relevant Policies pertaining to all Human Resource matters.
6. To make recommendations to the Board pertaining to the decisions / appeals on disciplinary matters (if required under the Bank's disciplinary code).
7. All employee related matters which are beyond the management and HR committee authority levels.

The Committee during the period under review took necessary measures to carry out the relevant responsibilities assigned to them and accordingly successful in recommending several important policies related to the staff.

### SUMMARY OF ACTIVITIES IN 2022

The Committee recommended the amended Disciplinary Code and Recruitment Policy of the Bank for Board approval.

The Committee was further called upon to consider the qualifications, experience and suitability of several persons to fill some KMP positions that fell vacant during the year and recommended regarding appointments, extensions and role/ designation changes of several KMPs of the Bank in line with and to support the Bank's strategic direction.

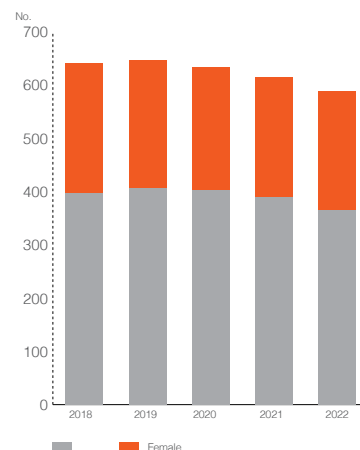
The Committee records its appreciation for the contribution made by Mr. Athula Kumara and Mr. Mapa Pathirana, who guided the Committee till their resignation from the Board.

### EMPLOYMENT REPORT

The table below reflects the employment report of the Bank as at 31st December 2022

Category	Total as at 31st December 2022	
	Male	Female
Corporate Management	05	05
Chief/Senior Managers	08	14
Regional Managers	05	01
Executive Staff	127	151
Non-Executive Staff (Secretaries, Banking Assistants, General purpose workers, Office Assistants, Drivers, Business Promotion Assistants, Junior Business Promotion Assistants, Business Promotion Trainees, Palmtop Assistants)	220	52
<b>Total</b>	<b>365</b>	<b>223</b>

Employees by Gender 2022

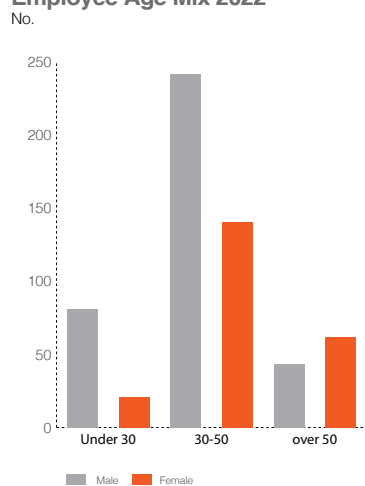


(Women make up 38% and men make up 62% of our workforce.)

## AGE MIX AS AT 31ST DECEMBER 2022

Age	Male	Female
Under 30	81	21
30 - 50	241	140
Over 50	43	62
Total	365	223

Employee Age Mix 2022



## CONCLUSION

The Bank will continue to focus on introducing new HR strategies and strengthening HR Policies.

P.A. Lionel  
*Chairman*  
Human Resources & Remuneration Committee



# BOARD SUB COMMITTEE REPORTS

## BOARD NOMINATION COMMITTEE

The Nominations Committee of the Housing Development Finance Corporation Bank (HDFC Bank) was formed in compliance with the Section 3 (6) of Direction No. 12 of 2007 (as amended), "Corporate Governance for Licensed Specialised Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction and Terms of Reference.

### COMPOSITION & MEETINGS

The Nomination Committee is appointed by the Board of Directors of the HDFC Bank. The Committee comprised the following:



#### CHAIRMAN OF THE COMMITTEE

1. Mr. P.M.K. Hettiarachchi  
(Non-Executive, Independent Director)
2. Mrs. R.M.R.W. Manchanayake  
(Non-Executive, Independent Director)  
(Resigned from Board 27.02.2023)

#### OTHER MEMBERS

3. Mr. W.M. Ananda (Non-Executive, Independent Director)
4. Mr. R. Sooriyaarachchi  
(Non-Executive, Non-Independent Director)

Brief profiles of the Directors are given on pages 58 - 60.

### SECRETARY TO THE COMMITTEE

Mrs. Manori Narangoda - Company Secretary

### THE TERMS OF REFERENCE

The Terms of Reference (TOR) of the Nomination Committee adopted by the Board in 2009, was further reviewed and amended subsequently in order to meet the current requirement.

The Terms of Reference reviewed annually.

### MEETINGS OF THE COMMITTEE

The Following Directors serve/ served on the Nomination Committee. The Committee met Four times (04) during the year and the attendance by the members at the meetings is given in the table below.

	Eligible to Attend/ Attended
1. Mrs. R.M.R.W. Manchanayake	4/4
2. Mr. W.M. Ananda	4/4
3. Mr. P.M.K. Hettiarachchi (Appointed to committee on 24.08.2022)	2/2
4. Mr. R. Sooriyaarachchi (Appointed to committee on 24.08.2022)	1/1
5. Mr. P.A.S.A. Kumara (Resigned from Board 02.03.2022)	1/1
6. Mr. M.P.D.U.K. Mapa Pathirana (Resigned from Board 28.04.2022)	2/2
7. Mr. R. P. A. Wimalaweera (Appointed on 14.11.2022 and Resigned from the Board on 28.11.2022)	0/0

### COMMITTEE RESPONSIBILITIES

The Nomination Committee is mainly responsible for formulating relevant policies for Directors and Key Management Members and responsible for the following;

1. For implementing a procedure to select / appoint new Directors, CEO and Key Management Personnel.
2. 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.
3. 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.
4. 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 as set out in the statutes.
5. 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.

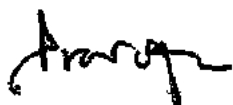
## SUMMARY OF ACTIVITIES IN 2022

During the year, the Committee considered the suitability of several candidates and recommended the appointment of four Directors to the Board of Directors of the Bank and further reviewed and recommended the appointment and continuation of Directors of the Bank. In the process, the Committee assessed the qualifications, experience, skills and competencies of the Directors vis à vis the gaps and needs of the boards in line with any applicable regulatory requirements. The Committee was conscious of the overall composition of the boards and striking the ideal balance in terms of expertise and experience on the boards.

The Committee also assessed the fitness and propriety of the continuing Directors of the Bank and affidavits and declarations submitted by Directors were forwarded to the Regulator for approval as required by the regulations.

The Committee further deliberated and recommended regarding appointments of the key management personnel of the Bank during the year.

The Committee conveys its appreciation to Mr. P.A.S. Athula Kumara, Mr. M.P.D.U.K. Mapa Pathirana, Mr. D.M.A.K. Dassanayake, Dr. S.N. Morais and Mr. R.P.A. Wimalaweera for their valuable contribution until their resignation in the year 2022.



P.M.K. Hettiarachchi  
*Chairman*  
Nomination Committee



# BOARD SUB COMMITTEE REPORTS

## BOARD RELATED PARTY TRANSACTION REVIEW COMMITTEE

The Board of Directors of the Bank constituted a Related Party Transactions Review Committee with effect from June 2014 further to the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE) so as to ensure compliance with the Rules pertaining to Related Party Transactions as set out in the Listing Rules of the CSE, which required mandatory compliance from 01 January 2016. The composition and the scope of work of the Committee are in conformity with the said Rules.

The Terms of Reference (TOR) of the Related Party Transactions Review Committee was approved by the Board of Directors and is reviewed annually.

The primary objective of the Committee is to assess and consider all transactions with related parties of the Bank in line with the Listing Rules on Related Party Transactions of the CSE, in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank.

### COMPOSITION & MEETINGS

The Committee should comprise a combination of non-executive directors and independent non-executive directors. One independent non-executive director shall be appointed as Chairman of the Committee. Criterion for defining 'independence' is the same criteria as set out in Rule 7.10.4 of the Listing Rules. (CSE Listing Rule – 9.2.2)

The Related Party Transaction Committee is appointed by the Board of Directors of the HDFC Bank. The Committee comprised of the following;



### CHAIRMAN OF THE COMMITTEE

1. Mr. W.M. Ananda  
(Non-Executive, Independent Director)
2. Mrs. R.M.R.W. Manchanayake  
(Non-Executive, Independent Director)  
(Resigned from Board 27.02.2023)

### OTHER MEMBERS

3. Se. Prof. A. Jayamaha  
(Non-Executive, Independent Director)
4. Mr. R. Sooriyaarachchi (Non-Executive, Non-Independent Director)

### SECRETARY TO THE COMMITTEE

Mrs. Manori Narangoda- Company Secretary

The Related Party Transactions Monitoring Committee is responsible for monitoring related party transactions as stipulated by the regulators of the Bank (such as Securities and Exchange Commission, (SEC), Colombo Stock Exchange (CSE), and Central Bank (CBSL) from time to time).

### POLICY AND TOR OF THE BANK FOR RELATED PARTY TRANSACTIONS

The Related party committee, with the approval of the Board, adopted a Related Party policy and TOR to streamline related party transactions, and apply arm's length principles on related party transactions to ensure that Bank will not offer any favorable treatment to related parties. Further, it stipulated the procedure that the Bank has to follow in dealing with the Related Party Transactions. Time to time, the committee has to review the existing policy and TOR on need basis and relevant revisions will be done on the need basis.

The TOR of the Related Party Transaction Committee is reviewed annually.

### MEETINGS OF THE COMMITTEE

The Committee met Four times (04) during the year in reference. The following Directors serve/ served on the Committee and the attendance at the meetings is given in the table below.

	Eligible to Attend/ Attended
1. Mrs. R.M.R.W. Manchanayake	4/4
2. Se. Prof. A. Jayamaha	4/4
3. Mr. W.M. Ananda	4/4
4. Mr. R. Sooriyaarachchi (Appointed to committee on 24.08.2022)	1/0
5. Mr. D.M.A.K. Dassanayake (Resigned from Board 13.06.2022)	2/1
6. Mr. L.E. Susantha Silva (Reconstitution of Committee 24.08.2022)	3/3

### REGULAR ATTENDEES BY INVITATION

The General Manager/ CEO is responsible for the overall management of the Bank, and GM/CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.

Brief profiles of the Directors are given on pages 58 - 60.

**Invitees** – CEO/General Manager and Compliance Officer

## SCOPE AND COMMITMENT

- The Committee is responsible to administer any conflicts of interest that may arise from Related Party transactions as stipulated by the statutory provisions and directions of regulators of HDFC.
- To ensure that the banks engagement are conducted in a manner for the best interest of the Bank and to prevent Directors, Chief Executive Officers, Key Management or Substantial Shareholders taking advantage of their position for their benefit.
- Accordingly, the committee is responsible for dealing with RPTs at arms' length and consistent with the provisions of the Securities and Exchange Commission of Sri Lanka (SEC Code) and the Colombo Stock Exchange. (CSE Rules).
- The Committee has adopted a Related Party Policy & it's TOR for defining the RPT transactions of HDFC Bank. When dealing with related party Transactions, the committee ensure there is no favorable treatment to related parties, and avoid 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.



W.M. Ananda

*Chairman*

Related Party Transaction Review Committee

# BOARD SUB COMMITTEE REPORTS

## BOARD AUDIT COMMITTEE REPORT

Audit Committee presents this report for the financial year ended 31 December 2022 to comply with the "Listing Rules" of Colombo Stock Exchange and the Corporate Governance Directions of the Central Bank of Sri Lanka and also to comply with the "Code of Best Practices on Corporate Governance" issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

The Committee comprises five (04) Non-Executive Independent Directors.



### CHAIRMAN OF THE COMMITTEE

1. Senior Prof. A. Jayamaha  
(Non-Executive, Independent Director)
2. Mr. L.E. Susantha Silva  
(Non-Executive, Independent Director)  
(Resigned from the Board 20.02.2023)

### OTHER MEMBERS

3. Mr. P.M.K. Hettiarachchi  
(Non-Executive, Independent Director)
4. Mr. P.A. Lionel (Non-Executive, Independent Director)

### AUDIT COMMITTEE MEETINGS

Four (04) meetings were held during the financial year ended 31 December 2022 and attendance of Committee members at meetings is given in the Corporate Governance section of the Annual Report. The Chief Internal Auditor and Chief Finance Officer attended meetings on a regular basis. The Chief Internal Auditor functioned as the Secretary to the Committee. The General Manager / Chief Executive Officer and Other officials were invited to attend meetings on a need basis.

A representative of the National Audit Office (the External Auditor of the Bank) attends Board Audit Committee (BAC) meetings on invitation of the BAC.

### SUMMARY OF ACTIVITIES PERFORMED DURING THE YEAR

The Committee engaged with the following key activities during the year under review.

- Financial Reporting

The Committee ensured the integrity of the Financial Statements, including the Annual and Interim Statements and any other formal announcements relating to financial performance by

monitoring significant financial reporting issues, changes in accounting policies and practices and any other concerns relevant to Financial Reporting.

- Internal Controls, Risk Management Systems and Compliance Requirements.

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

- Internal Audit Function

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. 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. Appraisal of the Head of Internal Audit was reviewed to comply with the statutory requirements. The fuel crisis has impacted to carryout outstation branch audits as per audit plan in 2022.

- External Audit and Other Statutory Audits

The external audit of the Bank is carried out by the Auditor General in terms of the Constitution of the country. The Committee reviewed findings of external auditors and statutory examinations conducted by the Central Bank of Sri Lanka and liaised with corporate management for taking proactive actions to obviate violations, frauds and errors. The BAC also followed up on corrective measures taken by the management during the year 2022 on matters raised by Central Bank of Sri Lanka in Statutory Examination Report- 2021 and matters raised by National Audit Office in 154 (6) report.

### INTERNAL FINANCIAL CONTROLS, ACCOUNTING PRACTICES AND BANK FINANCIAL STATEMENTS

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

Senior Prof.A.Jayamaha  
Chairman  
Board Audit Committee.  
18th May 2023

# BOARD SUB COMMITTEE REPORTS

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

### COMPOSITION & MEETINGS

The Committee is primarily responsible for risk management initiatives, and delegated the relevant authority to the Integrated Risk Management Committee (BIRMC). The Composition, Scope of the work and Committee proceedings were based on the Terms of Reference (TOR) of Integrated Risk Management Committee adopted by the Board of Directors in line with the CBSL guidelines.

The Board appointed Integrated Risk Management Committee comprised of four Non-Executive, Independent Directors including the Chairman of the Committee. The Committee comprised the following;



#### CHAIRMAN OF THE COMMITTEE

1. Mr. P.A. Lionel (Non-Executive, Independent Director)

#### OTHER MEMBERS

2. Senior Prof. A. Jayamaha (Non-Executive, Independent Director)
3. Mr. P.M.K. Hettiarachchi (Non-Executive, Independent Director)
4. Dr. P.A. Krishantha (Non-Executive, Independent Director)

#### MANAGEMENT PARTICIPANTS

5. Chief Executive Officer
6. Risk Officer
7. Compliance Officer

#### REGULAR ATTENDEES BY INVITATION

8. Chief Operating Officer
9. Chief Financial Officer
10. Chief Internal Auditor
11. DGM Treasury & Marketing

Brief profiles of the Directors are given on pages 58 - 60.

### SECRETARY TO THE COMMITTEE

Mrs. Manori Narangoda- Company Secretary.

### THE TERMS OF REFERENCE

The Terms of Reference (TOR) of the Integrated Risk Management Committee, adopted by the Board in 2008, was further reviewed and amended subsequently in order to meet the current requirement.

The TOR of the Integrated Risk Management Committee is reviewed annually.

### MEETINGS OF THE COMMITTEE

The Committee met Five times (05) during the year in reference. The following Directors serve/ served on the Committee and the attendance at the meetings is given in the table below.

	Eligible to Attend/ Attended
1. Mr. P.A. Lionel (Appointed to committee on 24.08.2022)	2/2
2. Se. Prof. A. Jayamaha	5/5
3. Mr. P.M.K. Hettiarachchi (Appointed to committee on 24.08.2022)	2/2
4. Dr. P.A. Krishantha (Appointed to committee on 24.08.2022)	2/2
5. Mr. L.E. Susantha Silva (Reconstitution of Committee 24.08.2022)	3/3
6. Mr. P.A.S.A. Kumara (Resigned from Board 02.03.2022)	0/0
7. Dr. S.N. Morais (Retired from Board 29.06.2022)	2/2

### THE PRIMARY RESPONSIBILITIES OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Following are the main responsibilities of the committee:

1. The Committee shall work very closely with the key management personnel (KMPs) and necessary decisions to be taken on behalf of the board within the authorised framework of the Committee and in line with the relevant responsibilities assigned to the Committee.
2. The Committee shall assess all risks (such as credit, market, liquidity, operational and strategic risks) of the bank on a monthly basis through appropriate risk indicators and management information.

# Board Integrated Risk Management Committee Report

3. 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.
4. The Committee shall take prompt corrective action to mitigate the effects of specific risks. In the event of such risks are at levels beyond the prudent levels decided by the Committee, based on the bank's policies, regulatory & supervisory requirements, directions, and Circulars issued to Licensed Specialised Banks.
5. The Committee shall meet at least quarterly to assess all aspects of risks for managing and mitigating, including updated business continuity plans.
6. The Committee shall obtain timely reports, through Board packs (as established as a part of e- Meeting system).
7. The Committee shall take appropriate actions making 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 of the Central Bank.
8. The Committee shall advise the Board having submitting a risk assessment report within a week of each meeting giving recommendation to the board seeking the board's views, concurrence and/ or specific directions.
9. 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
10. The BIRMC assists the Board to accomplishing its oversight responsibilities relating to compliance matters. Accordingly, the committee reviews the implementation of compliance programs, policies and procedures which are required to respond to the various compliance and regulatory risks of the Bank.
11. Review and refer back for action to any subcommittee of the Board any matters that are either specifically referred to the attention of the committee or that come to the attention of the committee from Board findings, that impact systemic risks to the Bank, with a clear objective of eliminating repeat findings or managing emerging risks.
12. Give direction to management & board subcommittees with regards to the risk exposure of the Banks related risk mitigating activities.

## ACTIVITIES IN 2022

### INTEGRATED RISK MANAGEMENT

1. Implement the proposed Internal Credit rating system with effect from 01.01.2022 and the Risk appetite limits on each Rating Category.
2. The Committee approved the Integrated Risk Management (IRM) Framework
3. Comprehensive refinements were made to the existing Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.
4. Review the Overall Risk Dash Board incorporating macroeconomic changes monitoring factors.
5. Continuous assessment and monitoring of the macroeconomic changes to minimise the potential negative impacts on the banking interest
6. Review the different risk scenarios through continuous stress testing and other risk models
7. Development of a new Loan Review Module for the loan Review Mechanism
8. Introducing the Online Payment process for the payments division

### SUMMARY OF BIRMC

The BIRMC established a risk management framework which supports relevant risk evaluations, monitoring and management of risk in order to create a strong risk culture of the Bank. Decisions are made in compliance with the Bank's internal risk policy guidelines and regulatory supervisory requirements.

The Committee confirms that, there are no serious lapses on 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.



P.A. Lionel  
Chairman  
Integrated Risk Management Committee

# THE REPORT OF THE DIRECTORS

The Board of Directors of HDFC Bank, with a great pleasure, presenting the Annual Report 2022 to the shareholders, together with the audited financial statements for Financial Year 2022 and the Auditor's Report for the period under review.

## 01. GENERAL

- HDFC is a public quoted licensed specialised bank under the Banking Act No. 30 of 1988. The Bank until 10th December 2019 under the Ministry of Housing and Construction and thereafter attached to the Ministry of Finance, Economy and Policy Development.
- As already stated, the ANNUAL REPORT covers the financial year 2022 (1st January to 31st December, and prepared in accordance with the statutory, regulatory requirements and prevailing best accounting practices.
- Further, Annual Report complies with the requirements of 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.
- All information which are material and for the best interest of the Shareholders and for the Bank were disclosed, and 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 purposes and related activities without any change to the mandate of the Bank. In addition, the Bank engage in business activities as provided in the schedule (iv) of the Banking Act. During the period under review, 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 pages 4 - 5 of the Annual report.
- The Chairman's Message (pages 50 to 51) and GM/CEO's review pages 52 to 55 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 2022 and operational results are given in Income Statement from page 209 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 2022 forms an integral part of the Annual Report of the Board of Directors.

Financial Statements of the Bank are given on pages 209 to 266 of this Annual Report.

## 06. SIGNIFICANT ACCOUNTING POLICIES

- The significant accounting policies adopted in preparation of Financial Statements during the year are given on pages 213 to 221 of the Annual Report. The impact of changes in equity is given on page 211 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 201 to 208 of the Annual Report.

## 08. GOING CONCERN

- Directors after making necessary inquiries have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

## 09. INCOME

- The income of the Bank for the year ended 31st December 2022 was LKR. 8,878 Mn. An analysis of the income is given in Notes 1 to 2 and 5 to 7 to the Financial Statements.



# THE REPORT OF THE DIRECTORS

## 10. PROFIT AND APPROPRIATION

- The profit before Income Tax and Tax on Financial Services of the Bank for the year ended 31st December 2022 was LKR 612 Mn. and the profit after tax for the year ended 31st December 2022 was LKR 326 Mn.

For the year ended 31st December	2021 Rs. Mn.	2022 Rs. Mn.
Tax on financial services	320	309
Provision for taxation	331	(23)
Profit on ordinary activities after tax	547	326
Retained profit /(accumulated losses) b/f	4,266	4,730
Profit available for appropriation	547	326
Appropriation First & Final Dividend proposed	-	-
Transfer to Reserve Funds	82	49
Retained Profit carried forward	4,730	5,007

## 11. RESERVES

- The total Reserves as at 31st December 2022, is LKR 5,754 Mn. The details are given in the statement of Financial Position, on notes 34 to 36 of the Financial Statement.

## 12. 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.

## 13. PROVISION FOR TAXATION

- Income tax for 2022 has been provided at 24% - for first 6 months & 30% - second six months on the taxable income arising from the operations of the Bank and has been disclosed in Note 13 to the Financial Statements on page 226 of this Annual Report.

## 14. DIVIDEND

- In considering the regulatory requirement of the Bank to increase the minimum capital up to Rupees 7.5 billion, dividends will not be paid for the financial year 2022.

## 15. PROPERTY, PLANT AND EQUIPMENT, FREEHOLD PROPERTY AND SOFTWARES

- Capital expenditure on property, plant and equipment amounts to LKR 386 Mn., the details of which are given in Note 19 & 20 of the Financial Statements on pages 232 to 235.

## 16. MARKET VALUE OF FREEHOLD PROPERTIES

- Details of the market value of freehold properties are given on Note 19.2 & 22 of the Financial Statements on pages 233 - 236

## 17. 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.

## 18. STATED CAPITAL

- The stated capital of the Bank as at 31st of December 2022 was LKR. 962 Mn. consisting of 64,710,520 ordinary shares.

## 19. SHARE INFORMATION AND DEBENTURES

- Information relating to holdings of shares and debentures is given in pages 268 to 270 of this Report.

## 20. EQUITABLE TREATMENT TO ALL STAKEHOLDERS

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

## 21. THE BOARD OF DIRECTORS

Please refer chapter on Board of Directors on pages 56 to 60 for full list of Directors and their qualifications and experience.

Appointments, Resignations and Retirement to the Board during the period under review.

No.	Name	Appointments during the review period DD/MM/YYYY	Resignations during the review period DD/MM/YYYY	Retirement during the review period DD/MM/YYYY
01.	Mr. P.M.K. Hettiarachchi	28/04/2022	-	-
02.	Dr. P.A. Krishantha	30/06/2022	-	-
03.	Mr. R. Sooriyaarachchi	30/06/2022	-	-
04.	Mr. R.P.A. Wimalaweera	14/11/2022	28/11/2022	-
05.	Mr. P.A.S.A. Kumara	-	02/03/2022	-
06.	Mr. M.P.D.U.K. Mapa-Pathirana	-	28/04/2022	-
07.	Mr. D.M.A.K. Dassanayake	-	13.06.2022	-
08.	Dr. S.N. Morais	-	-	29.06.2022



## 22. 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 181 to 190 of the Annual Report.

## 23. DIRECTORS MEETINGS

- Please refer the section on Board and Board Sub Committee attendance at meetings, on pages 181 to 190.

## 24. 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 198 which form an integral part of the Annual Report of the Board of Directors.

## 25. THE DIRECTORS INTEREST

- The Bank made the necessary declarations of the Directors interest given on pages 263 - 264 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 voted 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 they have an interest.

## 26. DIRECTORS' INTEREST IN SHAREHOLDING

- Directors' shareholdings are as follows:

	31/12/2022	01/01/2022
Mrs. R.M.R.W. Manchanayake Resigned from the Board 27.02.2023	Nil	Nil
Mr. L.E. Susantha Silva Resigned from the Board 20.02.2023	1,000	1000
S. Prof. A. Jayamaha	1,000	1000
Mr. W. M. Ananda	Nil	Nil
Mr. P. A. Lionel	2,000	2000
Mr. D. M. M. M. Wijayarathna	Nil	Nil
Mr. P.M.K.Hettiarachchi	Nil	Nil
Dr. P.A. Krishantha	1000	Nil
Mr. R. Sooriyaarachchi	Nil	Nil
Total	5,000	1,000

## 27. DIRECTORS' INTERESTS IN DEBENTURES

- Individual debenture holding of Directors were as follows:

As at December 31, 2022	2022	
	No. of Debentures	Value (Rs.)
Mrs. R. M. R. W. Manchanayake Resigned from the Board 27.02.2023	Nil	Nil
Mr. L.E. Susantha Silva Resigned from the Board 20.02.2023	Nil	Nil
Sr. Prof. A. Jayamaha	Nil	Nil
Mr. W. M. Ananda	Nil	Nil
Mr. P. A. Lionel	Nil	Nil
Mr. D. M. M. M. Wijayarathna	Nil	Nil
Mr. P.M.K. Hettiarachchi	Nil	Nil
Dr. P.A. Krishantha	Nil	Nil
Mr. R. Sooriyaarachchi	Nil	Nil
Total	Nil	Nil

## 28. RELATED PARTY TRANSACTIONS

- Board wish to declare that, Bank during the period under review, complied with the rules of the Colombo Stock Exchange and Directions Issued by CBSL on Related Party Transactions. Details of significant related party transactions are given in pages 263 - 264 of the Annual Report;

## 29. DIRECTORS' REMUNERATION

- Directors' remuneration, for the financial year ended 31st December 2022 is given on Note 11 to the financial statement on page 225.

## 30. 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.

## 31. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

- During the period under review, Bank's Risk Department and Integrated Risk Management Committee (IRMC) and the Board took relevant initiatives pertinent to the area of Risk Management. Please refer Risk Assessment Report on pages 167 to 176.
- Further, during the period under review, the Board Audit Committee (BAC) reviewed the internal control process on a regular basis. Both the IRMC and BAC and directly submit committee minutes to the Board.
- Please refer the Board Audit Committee Report on page 188 and Independent Auditors Report on pages 179 to 180 on Internal Controls.

# THE REPORT OF THE DIRECTORS

## 32. CORPORATE GOVERNANCE

- Please refer Corporate Governance report given on pages 124 to 166 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).

## 33. COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

- The Bank's 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.
- The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank including the HDFC Act NO 07 of 1997 (amendments) Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act No. 58 of 1949, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax Act No. 14 of 2002, Finance Act No. 5 of 2005, Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987, Financial Leasing Act No. 56 of 2000, Payment of Gratuity Act No. 12 of 1983, Employees' Provident Fund Act No. 15 of 1958, Employees' Trust Fund Act No. 46 of 1980 etc. and amendments to such statutes.

## 34. APPOINTMENT OF AUDITORS

- The Auditor General continues to be the Auditor of the bank as stipulated in the HDFC Act No.07 of 1997 and as per the constitution of Sri Lanka.

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

- The Auditors were paid Rs. 2.6 Mn for the year ended 31st of December, 2022 as audit fees by the Bank. The Auditors do not have any other relationship or interest in contracts with the Bank.
- As far as the Directors are aware the Auditors do not have any relationship with or interest in the Bank other than those disclosed above.

## 36. AUDIT COMMITTEE

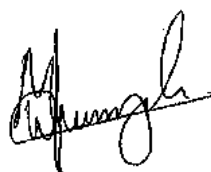
- The composition of the Audit Committee and their report is given on page 188 of this Annual Report.

## 37. NOTICE OF MEETING

The Thirty-Eight (38th) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka ("HDFC Bank") is convened on Wednesday the twenty eight (28th) day of June 2023 at Sri Lanka Foundation (Auditorium New Wing), No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 7 at 10.00 a. The Notice of the Meeting given on page 274 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors

For and on behalf of the Board,



Manori Narangoda  
Company Secretary

24th May 2023

# CEO'S & CFO'S RESPONSIBILITY STATEMENT

The Financial Statements of the HDFC Bank of Sri Lanka (Bank) as at 31 December 2022 are prepared and presented in compliance with the following regulatory requirements:

- I. Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by The Institute of Chartered Accountants of Sri Lanka
- II. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- III. HDFC Bank Act No. 7 Of 1997 and (Amendment) Act No. 15 of 2003 and amended act No 45 of 2011
- IV. Finance Business Act No. 42 of 2011
- V. Directions, circulars and guidelines issued to Licensed Banks by the Central Bank of Sri Lanka
- VI. Listing Rules of the Colombo Stock Exchange
- VII. Statements of Alternative Treatments (SoAT) on Accounting issued by The Institute of Chartered Accountants of SL
- VIII. Companies Act No. 7 of 2007
- IX. Banking Act No. 30 of 1988 and amendments thereto
- X. Directions/Guidelines issued by the Central Bank of Sri Lanka for COVID-19 impact
- XI. The Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (2017)

The Accounting Policies of the Bank comply compliance with Sri Lanka Accounting Standards (SLFRS's and LKAS's) issued by The Institute of Chartered Accountants of Sri Lanka and have been consistently applied by the Bank.

Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Board Audit Committee and the External Auditors. All significant items have been disclosed and explained by way of Notes to the Financial Statements.

We confirm to the best of our knowledge, that the Financial Statements presented herewith give a true and fair view of the financial position, Statement of Profit or Loss and the cash flows of the Bank for the year ended 31 December 2022. We also confirm that the Bank has adequate resources to continue its operations into the foreseeable future and accordingly adopt the going concern basis in preparing these Financial Statements.

We accept responsibility for the integrity and objectivity of the Financial Statements. The estimates and judgments relating to the Financial Statements were made on a reasonable and prudent basis; so that the Financial Statements reflect a true and fair view; the form and the substance of transactions and that the state of affairs of the Bank is reasonably presented. To ensure this, the bank has taken proper and sufficient care in implementing internal control systems, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. The Internal Auditor of the bank has conducted periodic audits to provide reasonable assurance that

the established policies and procedures of the company are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal control and accounting.

The Financial Statements of the Bank were audited by Auditor General. The Report issued by them is available on page 201 to 208 of this Report. The audit and non-audit services provided by Auditor General are approved by the Board Audit Committee, to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka or impair Auditor General's independence.

The Board Audit Committee reviews the adequacy and the effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with Sri Lanka Accounting Standards (SLFRS/ LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on page 188. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.


The Board of Directors and the Management of the Bank accept responsibility for the integrity and the objectivity of the Financial Statements.

We confirm to the best of our knowledge that

- The Bank has complied with all applicable laws, rules, regulations and guidelines;
- There is no material non-compliance;
- There is no material litigation against the Bank other than those disclosed in Note 37 of the Financial Statements.
- All taxes, duties, levies and all statutory payments by the bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the company as at the reporting date have been paid, or where relevant provided for.



Anura Hettiarachchi  
Chief Financial Officer



Nishaman Karunapala  
CEO/General Manager

29th May 2023





A modern interior space featuring a spiral staircase with wooden steps and a metal railing. A red sofa is visible on the left, and a large potted plant in a red pot is on the right. The background includes a glass block wall and a wall-mounted light fixture.

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# STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors' responsibility 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. 07 of 2007 is set forth 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 2022, 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:

- a. The state of affairs of the Bank as at 31st December 2022; and
- b. 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:

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

The Directors are also required to ensure that the Bank has adequate resources to continue in operation and 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, 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 Board of Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing significant risks faced by the Bank throughout the year and it is under regular review of the Board of Directors.

This comprises internal reviews, internal audit and the entire 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 2022 are given on pages 177 to 178 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 179 - 180 of the Annual Report.

The Board of Directors have taken appropriate steps to ensure that the Bank maintains proper books of accounts and review of 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 page 188. The Board of Directors also approves the interim financial statements prior to their release following a review and recommendation by the Board Audit Committee.

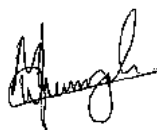
The Board of Directors accepts the relevant responsibility for the integrity and objectivity of the financial statements presented in this Annual Report. Directors are required to prepare the financial statements and provide the Bank's external auditor, the Auditor General of Sri Lanka, with every opportunity 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 CEO/General Manager of the Bank, the officer responsible for the preparation, as required by Sections 150 (1) and 151 of the Companies Act. 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 which were due and payable by the Bank as at the date of 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



Manori Narangoda  
Company Secretary  
24th May 2023  
Colombo.

# INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF HDFC BANK OF SRI LANKA ON THE INTEGRATED ANNUAL REPORT - 2022



Ernst & Young  
Chartered Accountants  
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Sri Lanka

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Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
eysl@lk.ey.com  
ey.com

## INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of HDFC Bank of Sri Lanka ("the Bank") engaged us to provide an independent assurance on the following elements of its Integrated Annual Report for the year ended 31st December 2022 ("the Report").

- Reasonable assurance on the information on financial capital management as specified on pages 83 - 89 of the Report.
- Limited assurance on other information on management of the capitals (other than financial capital), stakeholder engagement, business model, strategy, organizational overview & external environment outlook presented in the Report on pages 83 - 89, prepared in accordance with the Guiding Principles and Content Elements given in the IFRS Foundation/International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).

## BASIS OF OUR WORK AND LEVEL OF ASSURANCE

We perform our procedures to provide reasonable and limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000) (Revised): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'.

The capital management criteria used for this limited assurance engagement are based on the Guiding Principles and Content Elements given in the IFRS Foundation/International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 (Revised) and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

## MANAGEMENT OF THE BANK'S RESPONSIBILITY FOR THE REPORT

The management of the Bank is responsible for the preparation and presentation and self-declaration of the information and statement contained within the Report, and for maintaining adequate records and internal controls that are designed to support the Integrated Reporting process under the Integrated Reporting Framework (<IR> Framework).

## ERNST & YOUNG'S RESPONSIBILITIES

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the Guiding Principles and Content Elements given in the Integrated Reporting Framework (<IR> Framework).

This report is made solely to the Bank in accordance with our engagement letter dated 23 February 2023. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for Professional Accountants issued by CA Sri Lanka,

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited



# Independent Assurance Report to the Board of Directors of HDFC Bank of Sri Lanka on the Integrated Annual Report - 2022

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

## KEY ASSURANCE PROCEDURES

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our assurance conclusions. We performed such other procedures as we considered necessary in the circumstances.

Key assurance procedures included:

- Performed a comparison of the content of the Integrated Annual Report against the Guiding Principles and Content Elements given in the Integrated Reporting Framework (<IR> Framework).
- Checked whether the information contained in the Integrated Annual Report – Financial Capital element information has been properly derived from the audited financial statements.
- Conducted interviews with the selected key management personnel and relevant staff and obtained an understanding of the internal controls, governance structure and reporting process relevant to the Integrated Report.
- Obtained an understanding of the relevant internal policies and procedures developed, including those relevant to determining what matters most to the stakeholders, how the organization creates value, the external environment, strategy, approaches to putting members first, governance and reporting.
- Obtained an understanding of the description of the organization's strategy and how the organization creates value, what matters most to the stakeholders and enquiring the management as to whether the description in the Integrated Report accurately reflects their understanding.
- Checked the Board of Directors meeting minutes during the financial year to ensure consistency with the content of the Integrated Report.
- Tested the relevant supporting evidence related to qualitative & quantitative disclosures within the Integrated Report against identified material aspects.
- Read the Integrated Report in its entirety for consistency with our overall knowledge obtained during the assurance engagement

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

## LIMITATIONS AND CONSIDERATIONS

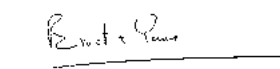
Social, Natural and Intellectual capital management data/information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Report.

## CONCLUSION

Based on our procedures and the evidence obtained, we conclude that:

- The information on financial performance as specified on pages 83 - 89 of the Report are properly derived from the audited financial statements for the year ended 31st December 2022.
- Nothing has come to our attention that causes us to believe that other information on stakeholder engagement, business model, organization overview & external environment and outlook presented in the Report are not fairly presented, in all material respects, in accordance with the Integrated Annual Reporting practices and policies which are derived from the IFRS Foundation/International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).



Colombo

# AUDITOR GENERAL'S REPORT



## ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல.  
My No.

} BAN/01/C/HDFC/1/22/28

ඔබේ අංකය  
உமது இல.  
Your No.

}

දිනය  
திகதி  
Date

} 22 May 2023

The 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 2022 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 (the "Bank") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss and other 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 give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

අංක 306/72, පොල්වැව් පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව



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இல. 306/72, பாலத்தைய வீதி, பத்தரமுல்லை, இலங்கை.



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



ag@auditorgeneral.gov.lk



www.naosl.gov.lk

## 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 Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, are of most significance in my audit of the Financial Statements of the Bank of the current period. These matters were addressed in the context of my audit of the Financial Statements of the Bank as a whole, and in forming my audit opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter	How audit addressed the key audit matter
<p><b>Expected credit loss allowances on financial assets carried at amortised cost – loans and advances</b></p> <p>Expected credit loss allowance on financial assets carried at amortised cost – loans and advances as stated in Notes 17 determined by management in accordance with the accounting policies described in Notes 3.B and 3.C</p> <p>This was a key audit matter due to the materiality of the reported provision for impairment which involved complex calculations; degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cash flows management</p>	<p>In addressing the adequacy of the expected credit loss allowance on financial assets carried at amortized cost – loans and advances, my audit procedures included the following key procedures.</p> <p>I assessed the alignment of the Bank's expected credit loss allowance computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of my report.</p> <ul style="list-style-type: none"> <li>I evaluated the internal controls over estimation of impairment, which included assessing the level of oversight, review and</li> </ul>



Key audit matter	How audit addressed the key audit matter
<p>expects to receive from such financial assets.</p> <p>Key areas of significant judgements estimates and assumptions used by Management in the assessment of the expected credit loss allowance included the following:</p> <ul style="list-style-type: none"> <li>• Management overlays to incorporate the current economic contraction.</li> <li>• The incorporation of forward-looking information such that expected cash flows reflect current and anticipated future external factors, in the multiple economic scenarios and the probability weighting determined for each of these scenarios.</li> </ul>	<p>approval of expected credit allowance policies and procedures by the Board and Management</p> <ul style="list-style-type: none"> <li>• I checked the completeness and accuracy of the underlying data used in the expected credit loss allowance computation by agreeing details to relevant source documents and accounting records of the Bank.</li> <li>• In addition to the above, the following procedures were performed:</li> </ul> <p><b>For loans and advances assessed on an individual basis for expected credit loss:</b></p> <ul style="list-style-type: none"> <li>- I evaluated the reasonableness of credit quality assessments.</li> <li>- I checked the arithmetical accuracy of the underlying individual expected credit loss calculations.</li> <li>- I evaluated the reasonableness of key inputs used in the expected credit loss allowance made with particular focus on current economic contraction. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries, debt moratoriums and status of recovery actions of the collaterals.</li> </ul> <p><b>For financial assets assessed on a collective basis for expected credit loss:</b></p> <ul style="list-style-type: none"> <li>• I tested the key inputs and the calculations</li> </ul>

Key audit matter	How audit addressed the key audit matter
	<p>used in the expected credit loss allowance.</p> <ul style="list-style-type: none"> <li>• I assessed whether judgements, assumptions and estimates used by the Management when estimating future cash flows, in the underlying methodology and the management overlays were reasonable. My testing included evaluating the reasonableness of forward-looking information used based on available market data, economic scenarios considered, and probability weighting assigned to each of those scenarios.</li> <li>• I assessed the adequacy of the related financial statement disclosures set out in notes 3.B, 3.C.vi, 8, and 17.</li> </ul>

### 1.4 Other information included in the Bank's 2022 Annual Report

The other information comprises the information included in the Bank's 2022 Annual Report, but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Bank's 2022 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

### **1.5 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.

### **1.6 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.
- 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**

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

2.1.1 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.

2.1.2 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.

2.1.3 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.

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

2.2.1 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 course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;

2.2.2 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;

2.2.3 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;

2.2.4 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

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31st December 2022 Description	Notes	2022 LKR	2021 LKR
<b>GROSS INCOME</b>	1	<b>8,877,659,343</b>	7,004,064,498
Interest Income	2	<b>8,425,317,129</b>	6,612,492,042
Interest Expenses	3	<b>(5,679,311,145)</b>	(3,555,954,803)
<b>Net Interest Income</b>	4	<b>2,746,005,984</b>	3,056,537,238
Fee and Commission Income	5	<b>352,692,495</b>	342,560,962
<b>Net Fee and Commission Income</b>		<b>352,692,495</b>	342,560,962
Net (loss) from Financial Instruments designated at Fair value through Profit or Loss	6	-	-
Other operating income (net)	7	<b>99,649,720</b>	49,011,494
<b>Total Operating Income</b>		<b>3,198,348,199</b>	3,448,109,695
Less: Impairment Charges	8	<b>320,306,328</b>	296,222,866
<b>Net Operating income</b>		<b>2,878,041,871</b>	3,151,886,829
Less : Operating Expenses			
Personnel Expenses	9	<b>1,544,203,623</b>	1,387,303,919
Depreciation & Amortization expenses	10	<b>185,446,473</b>	161,698,215
Other Expenses	11	<b>536,426,959</b>	404,338,232
<b>Total Operating Expenses</b>		<b>2,266,077,055</b>	1,953,340,366
<b>Operating Profit before Tax on Financial Services</b>		<b>611,964,816</b>	1,198,546,463
Less : Tax on Financial Services	12	<b>309,231,115</b>	320,225,506
<b>Profit before Income tax</b>		<b>302,733,702</b>	878,320,957
Less: Income Tax Expenses/(Reversal)	13	<b>(23,591,698)</b>	331,033,614
<b>Profit for the year</b>		<b>326,325,400</b>	547,287,343
<b>Earnings Per Share on Profits</b>			
Basic Earning per Ordinary Share Rs	14.1	<b>5.04</b>	8.46
Diluted earnings per ordinary share	14.2	<b>5.04</b>	8.46

For the Year Ended 31st December 2022 Description	Notes	2022 LKR	2021 LKR
Profit for the Year		<b>326,325,400</b>	547,287,343
<b>Items that will not be reclassified to income statement</b>			
Re-measurement of post-employment benefit obligations	29.1	<b>42,922,250</b>	62,139,268
Less: Tax expense relating to items that will not be reclassified to income statement	23	<b>(6,356,568)</b>	(21,745,733)
<b>Total</b>		<b>36,565,682</b>	40,393,535
Other comprehensive income for the year, net of tax		<b>36,565,682</b>	40,393,535
<b>Total Comprehensive Income for the Year</b>		<b>362,891,082</b>	587,680,878
<b>Total</b>		<b>362,891,082</b>	587,680,878

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 209 to 266.

# STATEMENT OF FINANCIAL POSITION

As at 31st December 2022 Description	Notes	2022 LKR	2021 LKR
<b>Assets</b>			
Cash and cash equivalents	15	339,730,442	258,595,867
Placements with banks	16	29,572,589	8,138,459,719
<b>Financial assets at amortised cost</b>			
- loans and advances	17	42,629,818,803	41,836,921,951
- debt and other instruments	18	17,150,937,475	10,570,350,749
Property, plant and equipment	19	242,996,260	224,033,796
Intangible Assets	20	143,203,631	125,024,298
Right of Use Assets	21	367,323,891	386,744,906
Investment properties	22	1,164,500,000	1,065,000,000
Deferred tax assets	23	409,230,375	126,047,737
Other assets	24	404,744,337	232,412,031
<b>Total assets</b>		<b>62,882,057,803</b>	<b>62,963,591,055</b>
<b>Liabilities</b>			
Due to banks	25	1,053,087,537	2,103,172,867
Financial liabilities at amortised cost			
- due to depositors	26 (a)	50,245,156,635	49,813,326,205
- due to other borrowers	26 (b)	1,376,777,708	1,282,597,452
Debt securities issued	27	1,423,965,999	1,422,978,101
Lease Liability	28	379,693,095	388,627,838
Retirement benefit obligations	29	846,978,305	771,616,051
Current tax liabilities	30	346,515,000	316,138,779
Other liabilities	31	212,226,449	230,367,762
<b>Total Liabilities</b>		<b>55,884,400,728</b>	<b>56,328,825,053</b>
<b>Debt Capital</b>			
<b>Perpetual Bond</b>	32	<b>281,250,000</b>	<b>281,249,999</b>
<b>Equity</b>			
Stated capital/Assigned capital	33	962,092,936	962,092,936
Statutory reserve fund	34	288,689,120	272,372,850
Retained earnings	35	5,007,867,633	4,730,491,044
Other reserves	36	457,757,386	388,559,169
<b>Total shareholders' equity</b>		<b>6,716,407,076</b>	<b>6,353,515,999</b>
Non-controlling interests		-	-
<b>Total equity</b>		<b>6,716,407,076</b>	<b>6,353,515,999</b>
<b>Total equity and liabilities</b>		<b>62,882,057,803</b>	<b>62,963,591,055</b>
<b>Net Assets Value Per Share Rs</b>		<b>103.79</b>	<b>98.18</b>
Contingent liabilities and commitments	37	204,944,084	650,024,574
<b>Memorandum Information</b>			
Number of Employees		588	614
Number of Branches		39	39

The significant accounting policies and notes on pages 213 to 266 form an integral part of these financial statements. These financial statements have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS).



Anura Hettiarachchi  
Chief Financial Officer



Nishaman Karunapala  
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,



D. Soosaipillai  
Chairman  
17 May 2023  
Colombo



Senior Prof. A. Jayamaha  
Director



Manori Narangoda  
Company Secretary



# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31.12.2022										
Bank Description	Note	Number of voting shares	Stated Capital	Statutory Reserve Fund	OCI Reserve	Retained earnings	Other Reserve	Total	Non-controlling interest	Total equity
Balance as at 01-01-2021		64,710,520	962,092,936	245,008,483	(122,981,558)	4,281,474,429	416,418,461	5,782,012,751	-	5,782,012,751
Profit/(loss) for the year	35	-	-	-	-	547,287,343	-	547,287,343	-	547,287,343
Other comprehensive income (net of tax)	30	-	-	-	40,393,535	-	-	40,393,535	-	40,393,535
<b>Total comprehensive income for the year</b>			-	-	40,393,535	547,287,343	-	587,680,878	-	587,680,878
Transfers to reserves during the period	33-36	-	-	27,364,367	-	(82,093,102)	54,728,734	-	-	-
Dividend paid		-	-	-	-	(16,177,630)	-	(16,177,630)	-	(16,177,630)
<b>Total transactions with equity holders</b>		-	-	27,364,367	-	(98,270,732)	54,728,734	(16,177,630)	-	(16,177,630)
<b>Balance as at 31-12-2021</b>		64,710,520	962,092,936	272,372,850	(82,588,024)	4,730,491,041	471,147,196	6,353,515,999	-	6,353,515,999

Bank Description	Note	Number of voting shares	Stated Capital	Statutory Reserve Fund	OCI Reserve	Retained earnings	Other Reserve	Total	Non-controlling interest	Total equity
Balance as at 01-01-2022	34-36	64,710,520	962,092,936	272,372,850	(82,588,024)	4,730,491,041	471,147,196	6,353,515,999	-	6,353,515,999
Profit/(loss) for the year	35	-	-	-	-	326,325,395	-	326,325,395	-	326,325,395
Other comprehensive income (net of tax)	30	-	-	-	36,565,682	-	-	36,565,682	-	36,565,682
<b>Total comprehensive income for the year</b>		-	-	-	36,565,682	326,325,395	-	362,891,077	-	362,891,077
Transfers to reserves during the period	34-36	-	-	16,316,270	-	(48,948,810)	32,632,540	-	-	-
Dividend paid		-	-	-	-	-	-	-	-	-
<b>Total transactions with equity holders</b>		-	-	16,316,270	-	(48,948,810)	32,632,540	-	-	-
<b>Balance as at 31-12-2022</b>		64,710,520	962,092,936	288,689,120	(46,022,341)	5,007,867,625	503,779,736	6,716,407,076	-	6,716,407,076



# STATEMENT OF CASH FLOW

For the Year Ended 31st December 2022 Description	Notes	Bank	
		2022 LKR	2021 LKR
<b>Cash Flows From Operating Activities</b>			
Interest Receipts	02,16,17,18	8,858,215,441	6,270,222,555
Interest payments	03,26,27,28	(4,866,917,564)	(3,206,698,392)
Net commision Receipts	05	251,023,606	280,116,080
Trading Income		-	-
Payments to Employee	09,30	(1,402,773,233)	(1,181,322,213)
VAT & SSCL on Financial Services	12,30	(406,210,543)	(253,468,106)
Receipt from other operating activities	05	80,603,906	60,887,869
Payments on other operating activities	11,31	(513,252,403)	(378,480,929)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>2,000,689,212</b>	<b>1,591,256,863</b>
<b>(Increase)/Decrease In Operating Assets :</b>			
Balances with Central Bank of Sri Lanka		-	-
Financial Assets at amotised cost - Loans and Advances	17	(408,539,666)	(887,575,175)
Other Assets	24	(172,332,305)	(71,587,777)
		<b>(580,871,971)</b>	<b>(959,162,952)</b>
<b>Increase / ( Decrease ) In Operating Liabilities</b>			
Financial Liabilities at amotised cost - due to Depositors	26	(334,501,291)	1,556,491,601
Financial Liabilities at amotised cost - due to Debt Security Holders	27	-	-
Financial Liabilities at amotised cost - due to Other Borrowers	26	(1,008,735,287)	(537,506,898)
Other Liabilities	31	(17,352,285)	(34,549,268)
		<b>(1,360,588,863)</b>	<b>984,435,435</b>
<b>Net cash generated from operating activities before income tax</b>		<b>59,228,377</b>	<b>1,616,529,346</b>
Income Tax Paid	13,30	(202,702,538)	(504,562,810)
<b>Net cash (used in)/from operating activities</b>		<b>(143,474,160)</b>	<b>1,111,966,535</b>
<b>Cash Flows From Investing Activities</b>			
Purchase of property, plant and equipment /Intangible Assets	19,20	(144,487,463)	(93,978,176)
Proceeds from Sale property, Plant and equipment/Intangible Assets	19,20	503,667	898,678
Net Cashflows from Investments	16,17,19	377,542,551	(1,058,732,442)
Dividends received from investments	05	240,000	240,000
Others		-	-
<b>Net cash (used in)/from Investing activities</b>		<b>233,798,751</b>	<b>(1,151,571,941)</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		-	-
Repayment of Subordinated debt		-	-
Interest paid on subordinated debts		-	-
Dividends paid to non - controlling Interest		-	-
Dividends paid to holders of equity instruments	31	(9,190,015)	(7,687,911)
Dividends paid to shareholders of the parent company		-	-
Others		-	-
<b>Net cash (used in)/from financing activities</b>		<b>(9,190,015)</b>	<b>(7,687,911)</b>
Net increase/(decrease) in cash & cash Equivalents		<b>81,134,576</b>	<b>(47,293,316)</b>
Cash & cash equivalents at beginning of the period		<b>258,595,866</b>	<b>305,889,183</b>
Cash & cash equivalents at the end of the period		<b>339,730,442</b>	<b>258,595,867</b>
<b>Reconciliation Of Cash and Cash Equivalents</b>			
Cash In Hand		<b>170,215,596</b>	<b>149,324,091</b>
Cash at Bank		<b>169,514,847</b>	<b>109,271,776</b>
		<b>339,730,442</b>	<b>258,595,867</b>

# ACCOUNTING POLICIES

## 1. CORPORATE INFORMATION

### REPORTING ENTITY

HDFC Bank of Sri Lanka was incorporated in Sri Lanka as a Building Society in 1984 under section 11 of the National Housing Act of 1956. Subsequently it was 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 as amended by it to carry out the business of all activities of 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.A). 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 issued 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 issued 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 also provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

### 2.B). 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 operates. 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.C). 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.D). 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.E). 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 an order that reflect 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.F). MATERIALITY AND AGGREGATION

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

### 2.G). 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.A).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.

# Accounting Policies

## 3.B). VALUATION OF ASSETS

### 3.B.i) 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.

## PROVISION FOR IMPAIRMENT LOSSES

### Expected Credit Losses on Financial Assets (ECL)

The Company measures loss allowances using both lifetime ECL and 12-month ECL. When estimating ECL the bank 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.

### Provision for Possible Impairment Losses

Provision for possible impairment losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka 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.

## 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 makes the collective impairment provision on the rolling rate method where the individual impairment is not material and adjusted loss given default (LGD) Ratio considering industry variables.

## INDIVIDUAL IMPAIRMENT PROVISIONS

### Acquired Properties for Sale

Properties mortgaged to HDFC Bank are auctioned if the customers are in default for a reasonable period of time and the properties which are not disposed of at such auctions are recognized as acquired properties which are presented under the loans & advances. The valuations of such properties with Cash flow predicted with reasonable assurance are made on individual basis.

### Loans over Rs.8Mns & Guarantor Loans over 36 months in arrears

Individual Impairment is made for the loans excluding pawning, cash and EPF back loans including all guarantee loans over 36 months in arrears, over Rs.8Mn with reasonable assurance for future cash recoveries.

### 3.B.ii). Property, Plant & Equipment

These are recorded initially at cost plus other expenses which are necessary to bring the assets to the 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.

### 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 the cost of the asset can be reliably measured.

### 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.

### Depreciation Policy

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

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

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

### 3.B.iii).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.

#### 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 the end of each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Income Statement in the expense category consistent with the function of the intangible asset.

#### De-recognition

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

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

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

### 3.B.iv).Investment Property

Investment properties are recorded at current market value and the difference between carrying value and the market value is presented under other income.

## 3.C) FINANCIAL ASSETS

### 3.C.i) 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 minus 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.

### 3.C.ii) Classification

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.

### 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.

# Accounting Policies

## 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.

## 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.

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.

## 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.

## 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.

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.C.iii) Reclassification

- 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.
- Policy applicable  
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.
- 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.

### Measurement of reclassification of financial assets

#### 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.

#### 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.

#### 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.C.iv) 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.C.v) 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.C.vi) Identification and Measurement of Impairment

### Policy applicable

### 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.

### 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.

## Modification of Financial Assets.

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

- (a) Any costs or fees incurred and modification fees received
- (b) adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method

## 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.D) FINANCIAL LIABILITIES

### 3.D.I) RECOGNITION AND MEASUREMENT OF FINANCIAL LIABILITIES

#### Policy applicable

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,

#### Classification and Subsequent Measurement of Financial Liabilities

The subsequent measurement of financial liabilities depends on their classification.

- 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.

- 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

# Accounting Policies

## 3.D.II) DERECOGNITION OF FINANCIAL LIABILITIES

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

## 3.D.III) 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.

## 3.D.IV) 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.D.V) 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.E) RETIREMENT BENEFITS

### 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.

## Retirement Benefits – Defined Contribution plans

### 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.

### 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.F) 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.G) REVENUE RECOGNITION

### Interest Income on Loans and Advances

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

### Overdue Interest Income

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

## 3.H) EXPENSES

### 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.

### 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.I) 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

## 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".

## 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.

## 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.J) 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.K) 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.L) 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.M) 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.N) 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.O) 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.P) INTEREST IN OTHER ENTITIES

No material interest in other entities as at the balance sheet date.

## 3.Q) SLFRS 16 LEASES

The right to use assets are reflected the assets which the bank has acquired on operational lease and the discounting rate used is financial cost of fund of the bank in 2019 initially and thereafter, the respective cost of fund used prior to the month of lease agreement signed on cumulative basis during the period.

The useful life of the assets is the period of the lease agreement and the depreciation method is the straight-line method over the useful life of the assets.

The depreciation provided using straight-line method debited to the income statement under depreciation and amortized cost. The finance cost which arose using the discounting rate debited to the income statement and group it under interest cost.

### 3.R). ACCOUNTING STANDARDS/AMENDMENTS ISSUED BUT NOT YET EFFECTIVE AS AT 31ST DECEMBER 2022

The following new Sri Lanka Accounting Standards/amendments which have been issued by the Institute of Chartered Accountants of Sri Lanka is effective for annual periods beginning on or after 1st January 2023/2025.

Accounting Standard	Description	Effective Date	Assessment of the Impact on the Bank
Amendments to LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	<p>The amendments clarify the following.</p> <ul style="list-style-type: none"> <li>i. Distinction between changes in accounting estimates, changes in accounting policies and the correction of errors.</li> <li>ii. How entities use measurement techniques and inputs to develop accounting estimates.</li> <li>iii. A change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors</li> </ul>	1st January 2023	No material impact on the Financial Statements of the Bank
Amendments to LKAS 1 – Presentation of Financial Statements	<ul style="list-style-type: none"> <li>i. Replaces the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose 'material' accounting policies.</li> <li>ii. Provides guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.</li> <li>iii. Specify the requirements for classifying liabilities as current or non-current.</li> </ul>	1st January 2023	No material impact on the Financial Statements of the Bank
Amendments to LKAS 12 - Income Taxes	The amendments introduce an exception to the initial Recognition exemption in LKAS 12. The effect of these Amendments essentially mean that the initial recognition exemption is not available for transactions which involve the recognition of both an asset and liability which in turn lead to equal and opposite temporary differences. Therefore, deferred taxes are calculated and booked for both temporary differences, at initial recognition and subsequently.	1st January 2023	No material impact on the Financial Statements of the Bank
Sri Lanka Accounting Standard – SLFRS 17 (Insurance Contracts)	SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 (Insurance Contracts).	1st January 2025	No material impact on the Financial Statements of the Bank

# NOTES TO THE FINANCIAL STATEMENTS

## 1. GROSS INCOME

Year	“LKR”	
	2022	2021
Interest Income(Note 2)	8,425,317,129	6,612,492,042
Non Interest Income(Note 5-7)	452,342,215	391,572,457
<b>Total</b>	<b>8,877,659,343</b>	<b>7,004,064,498</b>

## 2. INTEREST INCOME

Year	2022	2021
Placements with banks	400,720,819	514,845,604
- loans and advances	6,386,957,311	5,439,514,254
- debt and other instruments - Government Securities (2.1)	1,411,542,817	369,378,683
- Others	226,096,181	288,753,500
<b>Total interest income</b>	<b>8,425,317,129</b>	<b>6,612,492,042</b>

### 2.1 NET INTEREST INCOME FROM SRI LANKA GOVERNMENT SECURITIES

Year	2022	2021
Interest income	1,411,542,817	369,378,683
Less: Interest expenses	-	-
<b>Net interest income</b>	<b>1,411,542,817</b>	<b>369,378,683</b>

## 3. INTEREST EXPENSES

Year	2022	2021
Due to banks	132,651,443	80,564,853
- due to depositors	5,133,779,657	3,124,518,880
- due to debt securities holders	170,040,299	169,054,407
- due to other borrowers	242,839,745	181,816,664
Others	-	-
<b>Total interest expenses</b>	<b>5,679,311,145</b>	<b>3,555,954,803</b>

## 4. NET INTEREST INCOME

Year	2022	2021
Net interest income(Note 02 - 03)	2,746,005,984	3,056,537,238

## 5. NET FEE AND COMMISSION INCOME

Year	2022	2021
Fee and commission income	352,692,495	342,560,962
Fee and commission expenses	-	-
<b>Net fee and commission income</b>	<b>352,692,495</b>	<b>342,560,962</b>
<b>Comprising</b>		
Loans	271,399,379	307,963,153
Others	81,293,116	34,597,809
<b>Net fee and commission income</b>	<b>352,692,495</b>	<b>342,560,962</b>



## Notes to the Financial Statements

### 6. NET FAIR VALUE GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Year	2022	2021
profit or loss	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

### 7. NET OTHER OPERATING INCOME

Year	2022	2021
Change in Fair Value of investment properties	<b>99,500,000</b>	48,500,000
Gain/(Loss) on sale of property, plant and equipment	<b>149,720</b>	511,494
<b>Total</b>	<b>99,649,720</b>	49,011,494

### 8. IMPAIRMENT CHARGES

Year	2022	2021
Financial assets at amortised cost - loans and advances		
Stage 1	<b>87,858,404</b>	50,087,545
Stage 2	<b>146,242,492</b>	(1,857,748)
Stage 3	<b>37,650,989</b>	242,114,918
Financial assets at amortised cost – debt instruments		
Stage 1	<b>42,561,002</b>	(125,969)
Stage 2	-	-
Stage 3	<b>5,993,440</b>	6,004,121
Others	-	-
<b>Total</b>	<b>320,306,328</b>	296,222,867

### 9. PERSONNEL EXPENSES

Year	2022	2021
Salary and bonus(Note 9.1)	<b>980,134,482</b>	944,001,142
Contributions to defined contribution plans	<b>124,200,916</b>	114,342,015
Provision for defined benefit obligations (Note 29.1)	<b>155,926,074</b>	105,065,827
Others	<b>283,942,151</b>	223,894,936
<b>Total</b>	<b>1,544,203,623</b>	1,387,303,919

#### 9.A

Year	2022	2021
Collective agreement gratuity paid but not in the provision	<b>7,822,346</b>	-
Due to collective agreement back dated effect retired employees payable by the bank		

## 9.1 SALARY AND BONUS

Year	2022	2021
Salaries to employees (Other than KMPs)	801,961,714	721,205,010
Bonus to employees (Other than KMPs)	130,280,232	176,669,187
Salaries to Key Management Personnel	41,321,027	39,797,699
Bonus to Key Management Personnel	6,571,509	6,329,246
<b>Total</b>	<b>980,134,482</b>	<b>944,001,142</b>

## 10. DEPRECIATION & AMORTIZATION

Year	2022	2021
Depreciation of Property plant & equipment	59,455,213	55,006,665
Amortization of Right to use Assets	78,741,531	74,873,318
Amortization on Intangible Assets	47,249,729	31,818,232
<b>Total</b>	<b>185,446,473</b>	<b>161,698,215</b>

## 11. OTHER EXPENSES

Year	2022	2021
Directors' emoluments	2,108,000	1,822,000
Auditors' remunerations	2,603,600	2,161,486
Professional and legal expenses	16,192,752	14,063,957
Office administration and establishment expenses	91,370,775	82,155,433
Transport and allied expenses	36,837,449	37,036,815
Printing and Postage	63,302,081	31,362,371
Insurance and Security	80,987,906	55,536,215
Business Development and Advertising	32,061,967	29,280,761
Computer License	84,012,591	57,699,864
Others	126,949,839	93,219,330
<b>Total</b>	<b>536,426,959</b>	<b>404,338,232</b>

## 12. TAXES ON FINANCIAL SERVICES

Year	2022	2021
VAT & SSCL on Financial Services	309,231,115	320,225,506
<b>Total VAT Financial Services</b>	<b>309,231,115</b>	<b>320,225,506</b>

# Notes to the Financial Statements

## 13. INCOME TAX EXPENSES/(REVERSAL)

Year	2022	2021
Current tax expense		
Current year	265,947,513	273,748,620
Deferred tax expense		
Total Differed Tax expense	(289,539,211)	57,284,994
<b>Total</b>	<b>(23,591,698)</b>	<b>331,033,614</b>

Year	2022	2021
<b>13.1</b> Amounts Recognised in Profit or Loss	<b>(23,591,698)</b>	<b>331,033,614</b>
<b>13.2</b> Amounts Recognised in Other Comprehensive Income	<b>6,356,568</b>	<b>21,745,733</b>
	<b>(17,235,130)</b>	<b>352,779,347</b>

### 13.1.1 AMOUNTS RECOGNISED IN PROFIT OR LOSS

Year	2022	2021
<b>Current Tax Expense</b>		
Tax on current year's profits (Note 13.3)	265,947,513	273,748,620
(Over)/ under provision in respect of previous years	-	-
	265,947,513	273,748,620
<b>Deferred Tax Expense</b>		
Charge/ (reversal) on temporary differences (Note A)	(289,539,206)	57,284,994
Impact on changes in tax rates	-	-
	(289,539,206)	57,284,994
<b>Total income tax expense recognised in profit or loss</b>	<b>(23,591,693)</b>	<b>331,033,614</b>

### 13.2.1 AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

Year	2022	2021
<b>Deferred Tax Expense</b>		
Charge/ (reversal) on temporary differences (Note B)	6,356,568	21,745,733
<b>Total income tax expense recognised in other comprehensive income</b>	<b>6,356,568</b>	<b>21,745,733</b>

## B. Change to Deferred tax charge/ (Reversal) recognised on other comprehensive income derived from Deferred tax assets

Year	2022	2021
Deferred tax assets (Note 24.1)	-	-
<b>Deferred tax charge/(reversal) to Other Comprehensive Income</b>	<b>-</b>	<b>-</b>

### 13.3 RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSES

Year	2022	2021
Profit/(loss) before tax	302,733,702	878,320,957
Disallowable expenses for tax Purpose	1,044,339,334	997,385,951
Allowable expenses for tax Purpose	(362,082,246)	(735,087,658)
Income tax for the period (Accounting profit @ applicable tax rate)	81,738,099	210,797,030
Adjustment in respect of current income tax of prior periods	-	-
Deferred Tax	(289,539,211)	57,284,994
Add: Tax effect of expenses that are not deductible for tax purposes	281,971,620	239,372,628
(Less): Tax effect of expenses that are deductible for tax purposes	(97,762,206)	(176,421,038)
<b>Tax on Current Year Profit</b>	<b>265,947,513</b>	<b>273,748,620</b>
<b>Tax expense for the period</b>	<b>(23,591,698)</b>	<b>331,033,614</b>
<b>Effective Tax Rate with Differed Tax</b>	<b>-8%</b>	<b>38%</b>
<b>Effective Tax Rate (on Current Year Tax)</b>	<b>88%</b>	<b>31%</b>

### B. THE DEFERRED TAX (CREDIT)/CHARGE IN THE INCOME STATEMENT COMPRISE OF THE FOLLOWING

Year	2022	2021
Deferred tax assets	374,229,260	10,669,140
Deferred tax liabilities	84,690,055	67,954,134
Other temporary differences	-	-
<b>Deferred tax (credit)/charge to income Statement</b>	<b>(289,539,206)</b>	<b>57,284,994</b>

## 14. EARNINGS PER SHARE

### 14.1 BASIC EARNINGS PER SHARE

Basic Earnings per Share has been calculated by dividing Profit after Tax attributable to Equity Holders of the Bank by the weighted average number of Ordinary Shares in issue (Both Voting and Non-Voting) during the year ended 31 December 2022 and 2021.

For the Year ended 31st December	2022	2021
Profit for the year attributable to ordinary equity holders of the Bank (Rs.)	326,325,400	547,287,343
Weighted average number of ordinary shares in issue (No.)	64,710,520	64,710,520
<b>Basic earnings per ordinary share</b>	<b>5.04</b>	<b>8.46</b>

### 14.2 DILUTED EARNINGS PER SHARE

Diluted Earnings per Share and the Basic Earnings per Share is the same due to non-availability of potentially dilutive Ordinary Shares.

## 15. CASH AND CASH EQUIVALENTS

Year	2022	2021
Cash in hand	170,215,596	149,324,091
Balances with banks	169,514,847	109,271,776
<b>Total cash and cash equivalents</b>	<b>339,730,442</b>	<b>258,595,867</b>

# Notes to the Financial Statements

## 16. PLACEMENTS WITH BANKS

Year	2022	2021
Placements with Commercial Banks	29,699,583	7,080,464,762
Placements with Specialized Banks	-	1,058,472,753
<b>Total Placements with Banks</b>	<b>29,699,583</b>	<b>8,138,937,515</b>
Less: Impairment (Note 16.1)	(126,994)	(477,795)
<b>Total Placements with Banks - Net</b>	<b>29,572,589</b>	<b>8,138,459,719</b>

## 16.1 MOVEMENT IN EXPECTED CREDIT LOSS

Year	2022	2021
Balance as at 01 January	(477,795)	588,655
During the year charge/ (reversal)	(350,801)	(110,860)
<b>Balance as at 31 December</b>	<b>126,994</b>	<b>477,795</b>

## 17. FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES

Year	2022	2021
<b>Gross loans and advances under</b>		
Stage 1	19,240,366,097	24,475,816,580
Stage 2	7,646,577,703	4,131,323,568
Stage 3	17,749,915,064	14,965,069,979
<b>Total</b>	<b>44,636,858,865</b>	<b>43,572,210,128</b>
<b>(Less): Expected credit loss allowance under: (17.3)</b>		
Stage 1	(245,980,955)	(158,122,552)
Stage 2	(197,923,488)	(51,680,996)
Stage 3	(1,563,135,618)	(1,525,484,629)
<b>Total Expected credit loss allowance</b>	<b>(2,007,040,062)</b>	<b>(1,735,288,176)</b>
<b>Net loans and advances</b>	<b>42,629,818,803</b>	<b>41,836,921,951</b>

## 17.1 ANALYSIS OF GROSS LOANS AND ADVANCES

### 17.1.1

Year	2022	2021
<b>By product</b>		
Overdrafts	-	-
Trade finance	-	-
Lease rental receivable	794,861,696	969,342,209
Credit cards	-	-
Pawning	479,000,476	455,556,784
Staff loans	1,752,543,826	1,709,235,863
Term loans	-	-
Short-term	-	-
Long-term	41,610,452,868	40,438,075,272
<b>Gross total</b>	<b>44,636,858,865</b>	<b>43,572,210,128</b>

### 17.1.2

Year	2022	2021
<b>By currency</b>		
Sri Lankan Rupee	44,636,858,865	43,572,210,128
Others	-	-
<b>Total Gross Loans and Advances</b>	<b>44,636,858,865</b>	<b>43,572,210,128</b>

### 17.1.3

Year	2022	2021
<b>By industry</b>		
Agriculture and fishing	4,685,553,357	3,626,945,599
Manufacturing	2,735,092,710	1,402,710,675
Tourism	223,117,923	148,089,634
Transport	1,612,673,947	1,070,963,951
Construction	26,427,596,540	29,673,681,922
Traders	1,014,631,818	440,843,866
New economy	7,419,687,008	6,799,960,667
Others	518,505,562	409,013,813
<b>Total Gross Loans and Advances</b>	<b>44,636,858,865</b>	<b>43,572,210,128</b>

## 17.2

Year	2022	2021
Gross Lease Rentals Receivables	957,729,623	1,207,724,734
Unearned income	(162,867,928)	(238,382,525)
<b>Total</b>	<b>794,861,696</b>	<b>969,342,209</b>

### 17.2.1 LEASE RENTALS RECEIVABLE

Year	2022	2021
Lease rentals receivable within one year	355,100,538	379,149,147
Lease rentals receivable one to five years	438,491,629	581,255,089
Lease rentals receivable more than five years	1,269,529	8,937,973
<b>Total</b>	<b>794,861,696</b>	<b>969,342,209</b>



## Notes to the Financial Statements

### 17.3 STAGE-WISE MOVEMENTS IN EXPECTED CREDIT LOSS ALLOWANCE DURING THE YEAR

Year	2022	2021
<b>Stage 1</b>		
Opening balance as at 01/01	158,122,552	108,035,006
Charge/(Write back) to income statement	87,858,404	50,087,545
<b>Closing balance at 31/12</b>	<b>245,980,955</b>	<b>158,122,552</b>
<b>Stage 2</b>		
Opening balance as at 01/01	51,680,996	53,538,744
Charge/(Write back) to income statement	146,242,492	(1,857,748)
<b>Closing balance at 31/12</b>	<b>197,923,488</b>	<b>51,680,996</b>
<b>Stage 3</b>		
Opening balance as at 01/01	1,525,484,629	1,283,369,711
Charge/(Write back) to income statement	37,650,989	242,114,918
Write-off during the year	-	-
<b>Closing balance at 31/12</b>	<b>1,563,135,618</b>	<b>1,525,484,629</b>
<b>Total Expected Credit Loss Allowance on Loans and Advances</b>	<b>2,007,040,062</b>	<b>1,735,288,176</b>

### 18. FINANCIAL ASSETS AT AMORTISED COST – DEBT AND OTHER INSTRUMENTS

Year	2022	2021
Government Securities (Note 18.1)	15,420,183,164	7,003,968,462
Corporate debt instruments	1,750,295,637	1,744,862,509
Trust certificates	-	349,382,034
Others (Commercial Papers & Non Bank Deposits)	100,112,792	1,542,886,617
<b>Total Expected Credit Loss Allowance</b>	<b>(119,654,117)</b>	<b>(70,748,873)</b>
<b>Total Financial Assets measured at Amortised Cost</b>	<b>17,150,937,475</b>	<b>10,570,350,749</b>

### 18.1 SRI LANKA GOVERNMENT SECURITIES

#### 18.1.1 TREASURY BILLS

Issuer	Reference No	2022	2021
The Government of Sri Lanka	LKA36423E267	916,396,921	
The Government of Sri Lanka	LKA36423F090	1,551,630,813	
The Government of Sri Lanka	LKA36423F306	2,719,017,806	
The Government of Sri Lanka	LKA09123B171	3,359,197,779	
The Government of Sri Lanka	LKA09123B106	241,425,083	-
The Government of Sri Lanka	LKA09123C039	948,311,692	
The Government of Sri Lanka	LKA09123C179	1,171,338,471	
The Government of Sri Lanka	LKA18223F237	216,939,611	
The Government of Sri Lanka	LKA18223F302	345,176,223	
The Government of Sri Lanka	LKA09122B041		2,977,104,962
<b>Sub Total</b>		<b>11,469,434,398</b>	<b>2,977,104,962</b>

## 18.1.2 TREASURY BONDS

Issuer	Reference No	2022	2021
The Government of Sri Lanka	LKB01326B011	1,789,817,282	-
The Government of Sri Lanka	LKB01123I017	2,094,007,893	-
The Government of Sri Lanka	LKB00827J152	66,923,590	4,026,832,900
<b>Sub Total</b>		<b>3,950,748,766</b>	4,026,832,900
<b>Grand Total</b>		<b>15,420,183,164</b>	7,003,937,862

### a. Analysis

Year	2022	2021
<b>By currency</b>		
Sri Lankan Rupee	17,150,937,475	10,570,350,749
<b>Gross total</b>	<b>17,150,937,475</b>	10,570,350,749
<b>By Collateralisation</b>		
Pledged as Collateral	-	-
Unencumbered	17,150,937,475	10,570,350,749
<b>Total Financial Assets measured at Amortised Cost</b>	<b>17,150,937,475</b>	10,570,350,749

### B.Fair Value of Investments

Year	2022	2021
Total Investments	17,270,591,592	10,641,099,622
Less: Impairment Provision	(119,654,117)	(70,748,873)
<b>Carrying Value</b>	<b>17,150,937,475</b>	10,570,350,749

# Notes to the Financial Statements

## 19. PROPERTY, PLANT AND EQUIPMENT (LKR)

### A. PROPERTY, PLANT AND EQUIPMENT -BANK

Description	Freehold Land and Buildings	Leasehold Properties	Computer Hardware	Office Equipment, Furniture and Fittings	Others	Total
<b>2022(Current year)</b>						
<b>Cost/fair value</b>						
Opening balance at 01/01/2022	17,575,000	11,650,000	212,737,211	405,088,330	115,276,438	762,326,979
Additions	-	-	40,578,535	32,737,873	5,741,993	79,058,401
Disposals	-	-	-	6,332,711	-	6,332,711
Adjustments/Tranfer	-	11,650,000	-	-	11,650,000	-
Closing balance at 31/12/2022	17,575,000	-	253,315,746	431,493,492	132,668,431	835,052,669
<b>(Less): Accumulated depreciation/Amortization</b>						
Opening balance at 01/01/2022	5,705,700	11,650,000	129,777,768	283,328,938	107,830,779	538,293,185
Charge for the year	518,700	-	22,566,064	31,945,670	4,424,777	59,455,211
Adjustments/Tranfer	-	11,650,000	-	-	11,650,000	-
Disposals	-	-	-	5,691,986	-	5,691,986
Closing balance at 31/12/2022	6,224,400	-	152,343,832	309,582,622	123,905,555	592,056,410
<b>Net book value at 31/12/2022</b>	<b>11,350,600</b>	<b>-</b>	<b>100,971,914</b>	<b>121,910,870</b>	<b>8,762,876</b>	<b>242,996,260</b>
<b>2021 (Previous year)</b>						
<b>Cost/fair value</b>						
Opening balance at 01/01/2021	17,575,000	11,650,000	179,770,741	373,609,271	126,214,642	708,819,654
Additions	-	-	32,966,470	33,382,425	1,430,299	67,779,194
Disposals	-	-	-	1,903,366	687,834	2,591,200
Adjustments	-	-	-	-	11,680,669	11,680,669
Closing balance at 31/12/2021	17,575,000	11,650,000	212,737,211	405,088,330	115,276,438	762,326,979
<b>(Less): Accumulated depreciation/Amortization</b>						
Opening balance at 01/01/2021	5,187,000	11,650,000	111,759,796	252,224,359	104,669,380	485,490,536
Charge for the year	518,700	-	18,017,972	32,891,695	3,713,764	55,142,130
Disposals	-	-	-	1,787,116	552,367	2,339,483
Closing balance at 31/12/2021	5,705,700	11,650,000	129,777,768	283,328,938	107,830,777	538,293,183
<b>Net book value at 31/12/2021</b>	<b>11,869,300</b>	<b>-</b>	<b>82,959,443</b>	<b>121,759,392</b>	<b>7,445,661</b>	<b>224,033,796</b>

## 19.1 FULLY DEPRECIATED AND DEPRECIABLE PROPERTY, PLANT AND EQUIPMENT INCLUDE AMORTIZATION ON INTANGIBLE ASSETS

	Fully depreciated	Depreciating	Total
<b>in 2022</b>			
<b>Free hold PPE</b>			
Land and Buildings	-	7,780,500	7,780,500
Computer Hardware	88,453,046	164,862,700	253,315,746
Computer Software	96,859,370	293,561,102	390,420,472
Office Equipment, Furniture and Fittings	177,720,018	253,773,474	431,493,492
Plant and Machinery	41,186,561	4,967,499	46,154,059
Tools	49,425	88,306	137,731
Motor Vehicle	68,332,320	15,859,328	84,191,648
<b>Free hold PPE Total</b>	<b>472,600,740</b>	<b>740,892,909</b>	<b>1,213,493,648</b>
<b>Leased hold PPE</b>			
Motor Vehicle	-	-	-
<b>Leased hold PPE Total</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Fully depreciated and depreciable PPE</b>	<b>472,600,740</b>	<b>740,892,909</b>	<b>1,213,493,648</b>
<b>in 2021</b>			
<b>Free hold PPE</b>			
Land and Buildings	-	7,780,500	7,780,500
Computer Hardware	72,771,629	106,999,112	179,770,741
Computer Software	81,816,443	243,174,968	324,991,411
Office Equipment, Furniture and Fittings	138,835,743	234,773,528	373,609,271
Plant and Machinery	41,186,561	-	41,186,561
Tools	49,425	68,506	117,931
Motor Vehicle	56,692,820	16,536,662	73,229,482
<b>Free hold PPE Total</b>	<b>391,352,621</b>	<b>609,333,276</b>	<b>1,000,685,896</b>
<b>Leased hold PPE</b>			
Land and Buildings	-	-	-
Motor Vehicle	-	11,650,000	11,650,000
<b>Leased hold PPE Total</b>	<b>-</b>	<b>11,650,000</b>	<b>11,650,000</b>
<b>Total Fully depreciated and depreciable PPE</b>	<b>391,352,621</b>	<b>620,983,276</b>	<b>1,012,335,896</b>

## 19.2 INFORMATION ON FREE HOLD LAND AND BUILDING OF BANK

Location	Extent	Building - Square feet	Net Book Value	No. of Buildings	Market Value
Kalutara Branch - No. 13, Gnanodaya Mw, Kalutara South, Kalutara.	P 7.535	3,420	17,575,000	1	45,000,000

Date of Valuation: 21st December 2021  
 Name of the Valuer: W.D.Siripala, FIV(SL)  
 Qualification of the Valuer: Incorporated Independent Valuer

# Notes to the Financial Statements

## 19.3

### a) Temporarily Idle Property, Plant and Equipment

There was no idle property, plant and equipment as at 31st December 2022 (2021: NIL).

### b) Property, Plant and Equipment Retired from Active Use

There was no Retired from Active Use property, plant and equipment as at 31st December 2022 (2021: NIL).

### c) Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of property, plant and equipment as at 31st December 2022 (2021: NIL).

### d) Property, Plant and Equipment Pledged as Security against Liabilities

There were no items of property, plant and equipment pledged as securities against liabilities as at 31st December 2022 (2021: NIL).

### e) Compensation from Third Parties for Items of Property, Plant and Equipment

There were no compensations received during the year from third parties for items of property, plant and equipment that were impaired, lost or given up as at 31st December 2022 (2021: NIL).

### f) All fully depreciated assets are used for the bank's operations.

## 20. INTANGIBLE ASSETS(IN LKR)

Year	Computer Software Local	Computer Software Foreign	Core Banking & Core Banking Realated Software	Total
<b>2022</b>				
<b>Cost</b>				
Opening balance at 01/01/2022	38,309,388	87,340,164	199,341,858	324,991,411
Additions	873,600	17,274,131	47,281,331	65,429,062
<b>Closing balance at 31/12/2022</b>	<b>39,182,988</b>	<b>104,614,295</b>	<b>246,623,189</b>	<b>390,420,472</b>
<b>(Less): Accumulated Amortization</b>				
Opening balance at 01/01/2022	21,815,843	78,480,341	99,670,929	199,967,113
Charge for the year	6,960,014	8,535,196	31,754,519	47,249,729
<b>Closing balance at 31/12/2022</b>	<b>28,775,857</b>	<b>87,015,537</b>	<b>131,425,448</b>	<b>247,216,842</b>
(Less): Impairment	-	-	-	-
<b>Net book value at 31/12/2022</b>	<b>10,407,131</b>	<b>17,598,758</b>	<b>115,197,741</b>	<b>143,203,631</b>
<b>2021</b>				
<b>Cost</b>				
Opening balance at 01/01/2021	18,805,526	78,053,844	199,341,858	296,201,228
Additions	19,503,863	9,286,320	-	28,790,183
<b>Closing balance at 31/12/2021</b>	<b>38,309,388</b>	<b>87,340,164</b>	<b>199,341,858</b>	<b>324,991,411</b>
<b>(Less): Accumulated Amortization</b>				
Opening balance at 01/01/2021	15,016,628	73,878,338	79,736,743	168,631,709
Charge for the year	6,799,214	4,602,004	19,934,186	31,335,404
<b>Closing balance at 31/12/2021</b>	<b>21,815,843</b>	<b>78,480,341</b>	<b>99,670,929</b>	<b>199,967,113</b>
<b>Net book value at 31/12/2021</b>	<b>16,493,546</b>	<b>8,859,823</b>	<b>99,670,929</b>	<b>125,024,298</b>

## 20.1 FULLY AMORTIZED AND AMORTIZABLE INTANGIBLE ASSETS

Intangible assets	Fully Amortized	Amortizable	Total
Computer Software Local	18,805,526	20,377,463	39,182,988
Computer Software Foreign	78,053,844	26,560,451	104,614,295
Core Banking Software	-	246,623,189	246,623,189
<b>Total</b>	<b>96,859,370</b>	<b>293,561,102</b>	<b>390,420,472</b>

**20.2** There were no restriction on the title of the intangible assets of the Bank as at the reporting date. Further, there were no items pledged as securities for liabilities.

## 21. LEASES (IN LKR)

	2022	2021
ROUA net of Depreciation	<b>367,323,891</b>	386,744,906
<b>Total</b>	<b>367,323,891</b>	<b>386,744,906</b>

SLFRS 16 - "Leases", requires lessee to recognise all leases on their Statement of Financial Position as lease liabilities with the corresponding right-of-use assets w.e.f. 01.01.2019.

## LEASES AS LESSEE

The Bank has obtained certain branches and office premises under Lease. The leases generally run for a period of 10 years, with an option to renew the lease after that date.

### 21.1 RIGHT OF USE ASSETS

Year	2022	2021
<b>Cost</b>		
Balance as at 01/01	<b>386,744,906</b>	369,641,853
Additions during the year with opening adjustments	<b>54,540,517</b>	91,976,371
Prepayments	<b>4,780,000</b>	-
Less: Amortisation charge for the year	<b>78,741,531</b>	74,873,318
Balance as at 31/12	<b>367,323,891</b>	<b>386,744,906</b>

## 22. INVESTMENT PROPERTIES(LKR)

### INVESTMENT PROPERTIES AT FAIR VALUE

The Bank has subsequent measured its Investment Properties at fair value. The reconciliation shows the carrying amount of the investment properties as of the reporting date.

Year	2022	2021
Balance as at 01/01	<b>1,065,000,000</b>	1,016,500,000
Changes in fair value	<b>99,500,000</b>	48,500,000
Balance as at 31/12	<b>1,164,500,000</b>	<b>1,065,000,000</b>

There were no direct expenses incurred for the properties in the financial year.



# Notes to the Financial Statements

Year	2022	2021
<b>Cost/fair value</b>		
Opening balance at 01/01/	<b>1,065,000,000</b>	1,016,500,000
Additions(Valuation Gain)	<b>99,500,000</b>	48,500,000
Net book value at 31/12	<b>1,164,500,000</b>	1,065,000,000
Market value at 31/12	<b>1,164,500,000</b>	1,065,000,000

## 22.1 INVESTMENT PROPERTIES VALUATION DETAILS(LKR)

Location	Extent (Perches)	Deed No.	Bank	
			2022	2021
No; 441 Sangarajah Mw,Kotahena,Aluthkade East	59.20	1127	<b>250,000,000</b>	248,000,000
No.192 Srimath Bandaranayake Mw,,Kotahena Colombo 13.	123.20	1124	<b>800,000,000</b>	714,000,000
No.192 (Part) Sri Sangarajah Mawatha,Kotahena Colombo 13.	15.00	1126	<b>97,500,000</b>	87,000,000
Awissawella -Housing Project*	106.00		<b>17,000,000</b>	16,000,000
<b>Total</b>			<b>1,164,500,000</b>	1,065,000,000

## 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 Valuer	W.D. Siripala,FIV(SL)
Qualification of the Valuer	Incorporated Independent Valuer
Valuation Date	30th November 2022

Revaluation of Awissawella	Housing Project
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Name of the Valuer	W.D. Siripala,FIV(SL)
Qualification of the Valuer	Incorporated Independent Valuer
Valuation Date	29th November 2022

## BASIS OF VALUATION

This valuation of property is undertaken by using sale comparison approach. This approach generally provides the best value estimate for vacant land or land where the highest and best used would be to raze the existing improvements. This approach is evaluate other land sale and compares them to the property being valued. One of the first consideration is to compare market condition between each of the comparable sales and the subject which may include any change in unit price since the date of the comparable properties.

The second consideration is to compare the location which all else being equal, superior property location tend to result in higher unit price.

The third consideration is to compare the size all else being equal, smaller size generally command a higher unit price in the market place then larger sites. But within Colombo city limits and other congested area for commercial uses are higher unit price for larger sites.

The fourth consideration is to compare the permitted uses of the sites, including its zoning and other legal limitations may have positive or negative impact on it unit value relative to other properties.

The fifth consideration is to compare layout all else being equal, properties that have uniform dimensions that are more conducive to efficient development tend to sell for higher unit price than properties having less regular shaped.

The sixth consideration is to compare the utilities all else being equal properties that have utilities in place, tend to sell for more on a unit basis than those that do not. Similarly, properties that have access to municipal utilities can be worth more on a unit basis than those having private well and septic system.

The seventh consideration is to compare the condition of sales. Unless specifically noted, the sale price of comparable are not known to reflect any special financing unusual buyer or seller motivations, special concessions or the inclusions of significant personal property. The valuer has analyzed any conditions of sale known to have affected the sale price.

#### The Subject Property

The property to be valued has very old building which currently abundant due to Legal restriction. Hence all the buildings are decayed or dilapidated. The land is located little bit interior to the Sangaraja Mawatha. The area is highly congested with comparable properties as a popular, well-located urban office, park etc. The buildings are not considered in the valuation. Land, Extent 0A-3R-18.20P land in an almost regular shaped,

#### Market Trends

The supply of new office space is gradually increasing in respond to demand, and there are no signs of overbuilding or under building. The value of land suitable for commercial development was increased in the year passed and the rate of increase was appeared to be approximately equal to the inflation rate. Commercial rental rates and property values were also increased. But the rate of increase appeared to be slightly less than the inflation rate.

In view of all forgoing factors especially considering the average demand and prevailing current land values in the area concerned the subject valuation would proceed as under as fair and reasonable for purchase the land.

The range of adjusted prices of the comparable properties identified is between Rs. 6,000,000/- to Rs. 12,000,000/- per perch with an average price point of Rs. 8,000,000/= per perch. Based on this analysis it is my opinion that a value of Rs. 6,500,000/= per perch is considered to reasonably represent the Current Market Value of the Subject Properties real estate products positioned in the marketplace as a bare land with a relatively main road front location

## 23. NET DEFERRED TAX ASSETS/(LIABILITIES)

Year	2022	2021
Opening balance 01/01/	126,047,737	205,078,464
Recognize in,		
- profit and loss	289,539,206	(57,284,994)
- other comprehensive income/Retained Earnings	(6,356,568)	(21,745,733)
<b>Closing balance 31/12/</b>	<b>409,230,375</b>	<b>126,047,737</b>
Deferred Tax Assets (23.1)	563,952,314	199,079,621
Deferred Tax Liabilities (23.2)	157,721,940	73,031,885
<b>Net Differed Tax Assets/(Liabilities)</b>	<b>409,230,375</b>	<b>126,047,737</b>

### 23.1 DEFERRED TAX ASSET

Year	2022	2021
Balance as at 01/01	199,079,622	288,779,489
Reversed/ (Originated) during the year - recognised in profit or loss	330,979,462	(33,532,230)
Impact due to change in tax rate - recognised in profit or loss	43,249,798	(34,421,904)
Reversed/ (Originated) during the year - recognised in other comprehensive income	(12,876,675)	(14,913,424)
Impact due to change in tax rate - recognised in other comprehensive income	6,520,107	(6,832,309)
Balance as at 31/12	566,952,314	199,079,622

# Notes to the Financial Statements

## 23.2 DEFERRED TAX LIABILITY

Year	2022	2021
Balance as at 01/01	(73,031,885)	(83,701,025)
Reversed/ (Originated) during the year - recognised in profit or loss	(72,747,849)	1,628,003
Impact due to change in tax rate - recognised in profit or loss	(11,942,205)	9,041,137
Reversed/ (Originated) during the year - recognised in other comprehensive income	-	-
Impact due to change in tax rate - recognised in other comprehensive income	-	-
Balance as at 31/12	(157,721,940)	(73,031,885)
<b>Net deferred tax asset/ (liability)</b>	<b>409,230,375</b>	<b>126,047,737</b>

## 23.3 AMOUNTS RECOGNIZED IN THE INCOME STATEMENT

Year	2022	2021
Recognized in profit or loss	289,539,206	(57,284,994)
Recognized in other comprehensive income	(6,356,568)	(21,745,733)
	<b>283,182,638</b>	<b>(79,030,727)</b>

**23.4** Deferred tax assets / (liabilities) are originated due to the temporary difference on following assets and liabilities.

Composition of Net deferred tax asset/ (liability)	2022		2021	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	LKR	LKR	LKR	LKR
<b>Deferred tax asset</b>				
Accelerated depreciation for tax purposes – Property, plant and equipment	4,775,724	1,695,717	-	-
Expected credit loss – loans to and receivable from other customers	855,023,864	258,430,176	(206,107,661)	(58,992,157)
Expected credit loss – Debt and other instruments	119,781,111	35,934,333		
Post employment benefit obligation	118,284,506	75,262,208	55,955,109	(10,850,474)
Right-of-use assets	(4,600,332)	(93,174)	7,821,652	1,332,112
Actuarial Loss - OCI	(42,922,250)	(6,356,568)	(62,139,267)	(21,745,733)
	<b>1,060,342,624</b>	<b>367,872,693</b>	<b>(204,470,168)</b>	<b>(90,256,251)</b>
<b>Deferred tax liability</b>				
Accelerated depreciation for tax purposes – Property, plant and equipment	24,919,094	(4,466,477)	26,991,678	15,519,140
Revaluation Gain on Investment Properties	(98,991,500)	(80,223,577)	(48,500,000)	(4,850,000)
	<b>(74,072,406)</b>	<b>(84,690,055)</b>	<b>(21,508,322)</b>	<b>10,669,140</b>
<b>Net deferred tax asset/ (liability)</b>	<b>986,270,218</b>	<b>283,182,638</b>	<b>(225,978,490)</b>	<b>(79,587,111)</b>

## 24. OTHER ASSETS

Year	2022	2021
Receivables	342,821,969	173,606,336
Deposits and prepayments	509,562	350,000
Sundry debtors	36,475,151	29,116,762
Others	24,937,654	29,338,933
<b>Total Other Assets</b>	<b>404,744,336</b>	<b>232,412,031</b>

## 25. DUE TO BANKS

Year	2022	2021
Borrowings	1,053,087,537	2,103,172,867
<b>Total due to Banks</b>	<b>1,053,087,537</b>	<b>2,103,172,867</b>

## 26. FINANCIAL LIABILITIES AT AMORTISED COST

Year	2022	2021
(a) Due to depositors	50,245,156,635	49,813,326,205
(b) Others Borrowers	1,376,777,708	1,282,597,452
<b>Total Financial liabilities at amortised cost due to depositors and other borrowers</b>	<b>51,621,934,343</b>	<b>51,095,923,657</b>

### 26.1 A. ANALYSIS OF AMOUNT DUE TO DEPOSITORS

Year	2022	2021
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#### 26.1.1 By product

Demand deposits (current accounts)	-	-
Savings deposits	7,942,921,561	8,541,830,491
Fixed deposits	42,302,235,074	41,271,495,713
<b>Total</b>	<b>50,245,156,635</b>	<b>49,813,326,205</b>

#### 26.1.2 By currency

Sri Lanka Rupee	50,245,156,635	49,813,326,205
<b>Total</b>	<b>50,245,156,635</b>	<b>49,813,326,205</b>

#### 26.1.3 By Customer Category

Banks	-	1,846,626,602
Finance Companies	-	12,684,915
Other Customers	50,245,156,635	47,954,014,689
<b>Total Due to Depositors by Customer Category</b>	<b>50,245,156,635</b>	<b>49,813,326,205</b>

#### 26.1.4 By Maturity

Due within One Year	40,843,917,744	37,502,406,186
Due after One Year	9,401,238,891	12,310,920,019
<b>Total Due to Depositors by Maturity</b>	<b>50,245,156,635</b>	<b>49,813,326,205</b>

## 27. DEBT SECURITIES ISSUED

Year	2022	2021
Issued by the bank (27.1)	1,423,965,999	1,422,978,101
<b>Total</b>	<b>1,423,965,999</b>	<b>1,422,978,101</b>

# Notes to the Financial Statements

## 27.1 ISSUED BY THE BANK

Year	2022	2021
Balance as at 01/01	1,422,978,101	1,422,976,094
Debenture Redeemed	-	-
Interest Payable	170,040,299	169,054,407
Interest Paid	(169,052,400)	(169,052,400)
<b>Balance as at 31/12</b>	<b>1,423,965,999</b>	<b>1,422,978,101</b>

## 27.2 DEBENTURES DUE

Year	2022	2021
Due within 1 year	-	-
Due after 1 year	1,423,965,999	1,422,978,101
<b>Total</b>	<b>1,423,965,999</b>	<b>1,422,978,101</b>

## 27.3 DETAILS OF DEBT SECURITIES ISSUED(IN LKR)

Type	Face Value In Rupees	Interest Rate and Repayment Terms	Issue Date	Maturity Date	Balance	
					2022	2021
Issued by the bank						
Listed, secured, Redeemable & Rated 10 Year Debenture (Fixed Annual)						
	1,408,770,000	12%	20th November 2015	20th Nov. 2025	1,423,965,999	1,422,978,101
Sub total					1,423,965,999	1,422,978,101

## INTEREST RATE OF COMPARABLE GOVERNMENT SECURITIES

Debenture Type	Interest rate %		Gov. security Interest rate %	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Debenture - 10 Years - 2015 (Fixed Annu. 2025)	12.00	12.00	28.50	9.96

## INTEREST COVER

Debenture Type	Interest Cover Ratio (Times)	
	31.12.2022	31.12.2021
Debenture - 10 Years - 2015(Fixed Annu. 2025)	7.57	10.80

## DEBT/EQUITY

Debenture Type	Debt/Equity Ratio	
	31.12.2022	31.12.2021
Debenture - 10 Years- 2015 (Fixed Annu. 2025)	21%	22%

## MARKET PRICE OF DEBENTURES DURING THE YEAR

Type of Debentures	2022			2021		
	Highest Price	Lowest Price	Last Trading Price	Highest Price	Lowest Price	Last Trading Price
Debenture - 10Years- 2015 (Fixed Annu. 2025)	N/T	N/T	N/T	100	100	100
N/T=Not Traded						

## 28. LEASE LIABILITY

Year	2022	2021
Opening Balance	388,627,838	349,436,509
Additions & Opening Adjustment	52,958,368	85,106,923
Amortization interest	37,563,660	38,393,774
Payments	(99,456,771)	(84,309,368)
<b>Closing Balance</b>	<b>379,693,095</b>	<b>388,627,838</b>

### 28.1 MATURITY ANALYSIS OF LEASE LIABILITY

Year	2022	2021
Less than one year	45,860,754	46,939,926
One to five years	154,956,197	158,602,547
More than five years	178,876,144	183,085,366
	<b>379,693,095</b>	<b>388,627,838</b>

### 28.2 AMOUNTS RECOGNISED IN PROFIT OR LOSS

Year	2022	2021
Interest on lease liability	37,563,660	38,393,774
Amortisation charge for the year (Refer to Note 21)	78,741,531	74,873,318
	<b>116,305,192</b>	<b>113,267,092</b>

### 28.3 AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

Year	2022	2021
Lease rental payments	99,456,771	84,309,368
	<b>99,456,771</b>	<b>84,309,368</b>

## 29. RETIREMENT BENEFIT OBLIGATIONS

Year	2022	2021
Normal Gratuity Provision	485,819,419	458,141,916
Special Gratuity Provision	361,158,887	313,474,134
<b>Total</b>	<b>846,978,305</b>	<b>771,616,051</b>



# Notes to the Financial Statements

## 29.1 CONTRIBUTIONS TO DEFINED BENEFIT PLANS

Actuarial Valuation of Gratuity Liabilities as at 31 December 2022	Normal Gratuity	Special Gratuity	2022 Total	2021 Total
Accounting Disclosures :	Rs.	Rs.	Rs.	Rs.

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

Provision for PV-DBO as at 01 January 2022	458,141,917	313,474,136	771,616,052	777,800,209
Interest Cost for the period	50,395,611	34,482,155	84,877,766	62,224,017
Current Service Cost for the period	38,153,696	25,072,267	63,225,962	42,841,810
Gratuity paid for those who left during the period	(18,304,708)	(9,171,376)	(27,476,084)	(49,110,717)
Gratuity payable for those who left during the period	(2,343,140)	-	(2,343,140)	-
Actuarial (Gain)/Loss on PV-DBO	(40,223,957)	(2,698,293)	(42,922,250)	(62,139,268)
Provision for PV-DBO as at 31 December 2022	485,819,419	361,158,888	846,978,307	771,616,052

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

#### Liability recognised in the balance sheet

Provision for Gratuity as at 31 December 2022	485,819,419	361,158,888	846,978,307	771,616,052
Unrecognized actuarial Gains/(Losses) as at 31 December 2022	-	-	-	-
Liability recognized in the balance sheet as at 31 December 2022	485,819,419	361,158,888	846,978,307	771,616,052

#### Expenses recognized in the income statement

Interest Cost	50,395,611	34,482,155	84,877,766	62,224,017
Current Service Cost	38,153,696	25,072,267	63,225,962	42,841,810
Expenses recognized in the Income Statement	88,549,306	59,554,422	148,103,728	105,065,827

#### Expenses recognized in Other Comprehensive Income statement

Net Actuarial (Gain)/Loss recognized immediately	(40,223,957)	(2,698,293)	(42,922,250)	(62,139,268)
Expenses recognized in Other Comprehensive Income statement	(40,223,957)	(2,698,293)	(42,922,250)	(62,139,268)

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

Opening Net Liability as at 01 January 2022	458,141,917	313,474,136	771,616,052	777,800,209
Expences recognized in the Income Statement	88,549,306	59,554,422	148,103,728	105,065,827
Expenses recognized in Other Comprehensive Income statement	(40,223,957)	(2,698,293)	(42,922,250)	(62,139,268)
Gratuity paid/payable for those who left during the period	(20,647,847)	(9,171,376)	(29,819,224)	(49,110,717)
Closing Net Liability as at 31 December 2022	485,819,419	361,158,888	846,978,305	771,616,052

## 29.2 ACTUARY DETAILS

Name of the Actuary	M Poopalanathan
Date of the Actuarial Computation	12th January 2023
Method of Valuation	Projected Unit Credit Method

### Valuation Assumptions:

Mortality : A 1967/70 Mortality Table  
 Disability : 10% of the Mortality  
 Staff Turnover Rates : 3.0% across the board up to 54 & thereafter zero.

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 : 18.0% p.a.

Salary Escalation Rates : Basic Salary plus allowances : Permanent & Others: 8.0% p.a. with next increment due in July every year

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.)	Normal Gratuity Provision (Rs.)	Special Gratuity Provision (Rs.)	Total PV-DBO (Rs.) (Normal + Special Gratuity)	AFWLT (Years)
Permanent	522	92,292,389	484,973,053	360,887,897	845,860,950	13.3
Trainee	9	151,500	150,075	60,500	210,575	19.6
Contract	57	1,390,000	696,291	210,491	906,782	19.7
TOTAL	588	93,833,889	485,819,419	361,158,888	846,978,307	14.0

**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	807,447,172
1% decrease in discount rate	890,588,867
1% increase in Salary Escalation rate	894,034,549
1% decrease in Salary Escalation rate	803,930,217

# Notes to the Financial Statements

## Detailed Accounting Disclosures :

		Normal Gratuity + Special Gratuity
<b>Break up of actuarial (gain)/loss on the defined benefit obligation (Rs.)</b>		
Experience adjustment (Financial and Demographic)	=	323,884,636.79
Due to changes in financial assumptions	=	(380,203,932.42)
Due to changes in demographic assumptions	=	13,397,045.88
Total	=	(42,922,249.75)
<b>Distribution of Present Value of Defined Benefit Obligation In Future Years (Rs.)</b>		
During fiscal year ending December 31, 2023	=	96,419,517.99
During fiscal year ending December 31, 2024	=	117,066,930.06
During fiscal year ending December 31, 2025	=	87,951,078.26
During fiscal year ending December 31, 2026	=	87,840,094.47
During fiscal year ending December 31, 2027	=	106,596,323.45
Beyond next 5 years	=	351,104,362.93
	=	846,978,307.16
Weighted Average Duration of Defined Benefit Obligation (Years)	=	5.72

## 30. CURRENT TAX LIABILITIES

Year	2022	2021
<b>Income Tax</b>		
Opening balance 01/01/	196,292,993	427,107,183
Charge for the year - Income Tax	265,947,513	273,748,620
<b>Total</b>	<b>462,240,506</b>	<b>700,855,803</b>
Tax Payments for the Year	(202,702,538)	(504,562,810)
<b>Closing balance 31/12/</b>	<b>259,537,961</b>	<b>196,292,993</b>
<b>Other Taxes</b>		
Opening balance 01/01/	119,845,785	14,665,881
Charge for the year - Income Tax	373,341,789	358,648,010
<b>Total</b>	<b>493,187,574</b>	<b>373,313,891</b>
Tax Payments for the Year	(406,210,543)	(253,468,106)
<b>Closing balance 31/12/</b>	<b>86,977,039</b>	<b>119,845,785</b>

## 31. OTHER LIABILITIES

Year	2022	2021
Sundry creditors	106,780,771	51,253,893
Other payables	105,445,678	179,113,869
<b>Total</b>	<b>212,226,449</b>	<b>230,367,762</b>

## 32. PERPETUAL BOND

Year	2022	2021
Capital	250,000,000	250,000,000
Interest	31,250,000	31,249,999
<b>Total</b>	<b>281,250,000</b>	<b>281,249,999</b>

### 33. STATED CAPITAL/ASSIGNED CAPITAL

Year	2022	2021	2022	2021
Ordinary shares	No of Shares	No of Shares	LKR	LKR
Capital	64,710,520	64,710,520	962,092,936	962,092,936
<b>Total</b>	<b>64,710,520</b>	<b>64,710,520</b>	<b>962,092,936</b>	<b>962,092,936</b>

### 34. STATUTORY RESERVE FUND

Year	2022	2021
Opening balance at 01/01/	272,372,850	245,008,483
Transfers during the period	16,316,270	27,364,367
<b>Closing balance at 31/12/</b>	<b>288,689,120</b>	<b>272,372,850</b>

### 35. RETAINED EARNINGS

Year	2022	2021
Opening balance at 01/01/	4,730,491,044	4,281,474,432
Profit for the year	326,325,400	547,287,343
Transfers to other reserves and adjustments	(48,948,810)	(82,093,102)
Dividend	-	(16,177,630)
<b>Closing balance at 31/12/</b>	<b>5,007,867,633</b>	<b>4,730,491,044</b>

### 36. OTHER RESERVES

#### A. BANK - CURRENT YEAR (2022)

Description	Opening balance at 01/01/2022	Movement/ transfers and IFRS 9 Adjustments	Closing Balance 31/12/2022
General reserve	471,147,193	32,632,535	503,779,728
OCI reserve	(82,588,024)	36,565,682	(46,022,342)
Others	-	-	-
<b>Total</b>	<b>388,559,169</b>	<b>69,198,217</b>	<b>457,757,386</b>

#### B. BANK – PREVIOUS YEAR (2021)

Year	Opening balance at 01/01/2021	Movement/ transfers and IFRS 9 Adjustments	Closing Balance 31/12/2021
General reserve	416,418,464	54,728,729	471,147,193
OCI reserve	(122,981,558)	40,393,535	(82,588,024)
<b>Total</b>	<b>293,436,905</b>	<b>95,122,264</b>	<b>388,559,169</b>

# Notes to the Financial Statements

## 37. CONTINGENT LIABILITIES AND COMMITMENTS

Year	2022	2021
Guarantees	5,570,000	4,599,018
Undrawn loan commitments	199,374,084	645,425,556
Others	-	-
Total	204,944,084	650,024,574

## PENDING COURT CASES

1. There aren't any important legal cases other than the case filed by the Bank and against the Bank in respect of loans.
2. The Bank guarantee of Rs.9,493,658 has been executed on the Appeal of Financial Service Vat and Financial Service NBT.

## 38. FINANCIAL RISK MANAGEMENT

### 38.1 INTRODUCTION AND OVERVIEW

The Bank has exposure to the following risks from financial instruments:

- Credit Risk
- Liquidity risk
- Market risk
- Operational risk

#### 38.1.1 RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Banks' risk management framework. The Board discharges its governance responsibility through the Board Integrated Risk Management Committee, the Board Audit Committee and the Board Credit Committee. Board Integrated Risk Management Committee consists of non-executive members who report regularly to the Board of Directors on their activities. There are several executive management sub committees such as Asset and Liability Committee (ALCO), Executive Credit Management Committee and IT Steering Committee, which focus on specialised risk areas that support the Board Integrated Risk Management Committee.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures. The Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

#### 38.1.2 ASSET AND LIABILITY COMMITTEE (ALCO)

ALCO is chaired by the General Manager and has representatives from Finance Department, Credit Department, Operation Department and Risk Department. The Committee meets regularly to monitor and manage the assets & liabilities of the Bank and also overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying regulatory requirements.

#### 38.1.3 RISK MEASUREMENT & REPORTING

The Bank's risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Bank also carries out Stress Testing to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to Integrated Risk Management Committee on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (Risk Appetite).

### 38.1.4 RISK MITIGATION

As part of its overall risk management, the Bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

## 38.2 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets (FVTPL) is managed independently and information thereon is disclosed below. The market risk in respect of changes in fair value in trading assets (FVTPL) arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in market risk section.

## MANAGEMENT OF CREDIT RISK

The Board of Directors has delegated responsibility for the oversight of credit risk to its Board Credit Committee. Bank Credit Risk Monitoring Unit reporting to the Executive Credit Management Committee through the Chief Risk Officer is responsible for management of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Heads of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Regular audits of business units and Bank credit processes are undertaken by Internal Audit.

## EXPOSURE TO CREDIT RISK

The table below set out information about credit quality of financial assets and allowance for impairment/ expected credit losses held by the Bank against those assets.



# Notes to the Financial Statements

## CREDIT QUALITY ANALYSIS

### The Bank's Delinquency status

Delinquency status	Description
<b>Stage 1</b>	
Regular	Performing
1 - 30 days	Performing
<b>Stage 2</b>	
31-60 days	Under Performing
61-90 days	Under Performing
<b>Stage 3</b>	
Above 90 days	Non- performing

As at December	2022			
	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.

#### Financial assets at amortised cost - Loans and advances

Grade 0 - 2 Performing Loans	19,240,366,097	7,646,577,703	-	26,886,943,801
Grade 3: NPA Special Mention	-	-	1,860,953,870	1,860,953,870
Grade 4: NPA Substandard	-	-	1,737,102,490	1,737,102,490
Grade 5: NPA Doubtful	-	-	3,039,230,562	3,039,230,562
Grade 6: NPA Loss	-	-	11,112,628,143	11,112,628,143
<b>Total loans and receivables from other customers</b>	<b>19,240,366,097</b>	<b>7,646,577,703</b>	<b>17,749,915,064</b>	<b>44,636,858,865</b>
Expected credit loss allowance	(235,980,955)	(197,923,488)	(1,563,135,618)	(1,997,040,062)
<b>Net loans and receivables from other customers</b>	<b>19,004,385,142</b>	<b>7,448,654,215</b>	<b>16,186,779,446</b>	<b>42,639,818,804</b>

#### Financial assets at amortised cost - Debt & other instruments

Quoted debentures	1,673,807,744	-	76,487,893	1,750,295,637
Government debt securities-treasury bills & bonds	15,520,265,356	-	-	15,520,265,356
Investment in fixed deposits	29,699,583	-	-	29,699,583
<b>Total debt and other instruments</b>	<b>17,223,772,683</b>	<b>-</b>	<b>76,487,893</b>	<b>17,300,260,576</b>
Expected credit loss allowance	(196,269,004)	-	(76,487,893)	(119,781,111)
<b>Net debt and other instruments</b>	<b>17,027,503,679</b>	<b>-</b>	<b>-</b>	<b>17,180,479,465</b>

#### Placements with banks

Money market placements	-	-	-	-
<b>Total placements with banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Expected credit loss allowance	-	-	-	-
<b>Net placements with banks</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Commitments and Contingencies \*

Bank Guarantee	5,570,000	-	-	5,570,000
Bills Sent for Collection	183,368,915	11,989,000	4,016,169	199,374,084
<b>Total commitments and contingencies</b>	<b>188,938,915</b>	<b>11,989,000</b>	<b>4,016,169</b>	<b>204,944,084</b>
Expected credit loss allowance	(2,950,487)	(285,297)	(126,875)	(3,362,659)
<b>Net commitments and contingencies</b>	<b>185,988,428</b>	<b>11,703,703</b>	<b>3,889,295</b>	<b>201,581,426</b>

As at December	2021			
	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.
<b>Financial assets at amortised cost - Loans and advances</b>				
Grade 0 - 2 Performing Loans	24,896,368,933	3,852,849,895	687,671,118	29,436,889,946
Grade 3: NPA Special Mention	-	-	1,204,823,524	1,204,823,524
Grade 4: NPA Substandard	-	-	3,025,898,248	3,025,898,248
Grade 5: NPA Doubtful	-	-	5,045,662,418	5,045,662,418
Grade 6: NPA Loss	-	-	4,858,935,992	4,858,935,992
<b>Total loans and receivables from other customers</b>	24,896,368,933	3,852,849,895	14,822,991,300	43,572,210,128
Expected credit loss allowance	(158,122,552)	(51,680,996)	(1,525,484,629)	(1,735,288,176)
<b>Net loans and receivables from other customers</b>	24,738,246,381	3,801,168,899	13,297,506,671	41,836,921,951
<b>Financial assets at amortised cost - Debt &amp; other instruments</b>				
Quoted debentures	1,674,368,051	-	70,494,458	1,744,862,509
Government debt securities-treasury bills & bonds	7,003,937,862	-	-	7,003,937,862
Investment in fixed deposits	8,910,399,712	-	-	8,910,399,712
<b>Total debt and other instruments</b>	17,588,705,624	-	70,494,458	17,659,200,083
Expected credit loss allowance	(669,817)	-	(70,494,458)	(71,164,275)
<b>Net debt and other instruments</b>	17,588,035,808	-	-	17,588,035,808
<b>Placements with banks</b>				
Money market placements	-	-	-	-
<b>Total placements with banks</b>	-	-	-	-
Expected credit loss allowance	-	-	-	-
<b>Net placements with banks</b>	-	-	-	-
<b>Commitments and Contingencies *</b>				
Bank Guarantee	4,599,018	-	-	4,599,018
Bills Sent for Collection	621,279,343	6,764,920	17,381,293	645,425,556
<b>Total commitments and contingencies</b>	625,878,360	6,764,920	17,381,293	650,024,574
Expected credit loss allowance	(3,190,836)	(147,197)	(256,477)	(3,594,510)
<b>Net commitments and contingencies</b>	622,687,524	6,617,723	17,124,816	646,430,063

\* To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are, therefore, part of the overall risk of the Bank.

### 38.2.1 MEASUREMENT OF EXPECTED CREDIT LOSSES (ECL)

Inputs, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under Accounting Policies Note 3.B

#### Significant increase in Credit Risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. Bank determines significantly increase credit risk when customers exceed 30 days past due.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne.

# Notes to the Financial Statements

## Incorporation of Forward-Looking Information

The Bank incorporates forward looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk are GDP growth, unemployment rates, inflation, exchange rates and interest rates.

The Bank formulates multiple economic scenarios to reflect base case, best case and worst case.

## Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions

An overview of the approach to estimating ECLs is set out in Note 3.B. Summary of significant accounting policies and in Note 3.B. Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (CBSL) and a team of economists within its Risk Department verifies the accuracy of inputs to the Bank's ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2021.

## Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

For corporate and investment banking financial instruments, LGD values are required to be assessed and reviewed at least every three months and approved by the head of credit department of the bank. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

## Sector classification of loans

The loan classification of the bank for reporting purpose has been incorporated as per the sectorial classification of Central Bank of Sri Lanka.

Of the total sector classification, this report categorised them in top major sectors, in accordance to the size of the portfolios.

The highest sector under this classification as per the banks closing books, 2021 is the Housing Loan followed by Refinance, Commercial, Agriculture, Pawning, Industrial, and Other Loans, Loans against deposits, Staff loans, Leasing, SME, Liya Isura Loans.

## Sector wise portfolios

1. Housing Loan: Housing loan carries the highest sectorial loan concentration with 23.6% as of 31 December 2022. Housing Loan consists of Term Loan
2. Term Loan Commercial : Loans provided for business purposes; retail, wholesale and others.
3. Term Loan Agriculture : Agriculture, agro equipments, cultivation, fisheries, livestock and pledge loans falls under this category.
4. Refinance / Interest Subsidy : Refinance and Interest subsidy loans has 2nd highest credit concentration. These loan schemes are operated through refinance and interest subsidy facilities provided by government institutions.
5. Term Loan - Industrial : Loans against transport, tourism, and loans to service sectors fall under this category.
6. Term Loan - Others : All those sectors (comprising of consumption, pension loans and other specialised loans schemes)

## Corporate loans (Services, Manufacturing and Industry loans)

For corporate loans, the borrowers are assessed by specialized credit employees of the Bank. The credit risk assessment is based on the behaviour of the customer and credit quality based on the past due status. Further, the bank considers following aspects while assessing the risk of a customer :

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties are captured, which includes information provided by Credit Information Bureau. This includes external rating grades issued by rating agencies, independent analyst reports, press releases and articles, which contains relevant information of clients/industry and applicable to the credit analysis and decision making processes.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

## Consumer lending and retail loans

Consumer lending comprises Housing Loans, Consumer loans and Personal Loan. These products along with retail mortgages and some of the less complex small business lending are rated by (Corporate and retail credit scoring models) primarily driven by days past due (Credit Information Bureau reports). Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, economic condition, changes in personal income/salary levels based on records of repayment capacity, repayment sources, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

# Notes to the Financial Statements

## Grouping financial assets measured on a collective basis

Asset classes where the Bank calculates ECL on an individual basis includes all customers above the individually significant threshold of LKR 2mn of the total exposure.

Asset classes where the Bank calculates ECL on a collective basis include:

- Customers above the Individually Significant threshold of LKR 8mn.

The Bank groups these exposures into smaller homogeneous portfolios as described below:

- Product Type
- Collateral Type
- Nature of Business
- Utilisation/Revolving Amount
- Income/Repayment source
- Loan Amount
- LTV
- LTI
- Repayment history

## 38.3 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Hence the bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

### MANAGEMENT OF LIQUIDITY RISK

The Bank sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Bank's liquidity policies and procedures. Central Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquid ratios, maturity mismatches, behavioral characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Bank's liquidity position.

The most important of these is to maintain the minimum 20% liquid assets ratio to meet the regulatory requirement. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale.

### 38.3.1 EXPOSURE TO LIQUIDITY RISK

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. A similar calculation is used to measure the Bank's compliance with the liquidity limit established by the, Central Bank of Sri Lanka. Details of the reported Bank ratio of net liquid assets to liabilities from customers at the reporting date and during the year were as follows:

	2022	2021
At 31 December	%	%
Domestic Banking Unit (DBU)	31.52	26.60

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020, due to the COVID- 19 pandemic situation licensed banks are permitted to consider the following assets as liquid assets in the computation of the Statutory Liquid Assets Ratio until 30 June 2021.

- Interest subsidiary receive on Senior Citizens special deposit scheme.
- Exposures to State Owned Entities guaranteed by the Government of Sri Lanka and classified in Stage 1 under SLFRS 9 Financial Instruments for financial reporting purposes with maturity not exceeding one year with hair-cut of 10%.
- Fixed Deposits held by licensed banks in other licensed banks;
  - (a) where remaining period to maturity exceeds 1 year but is less than or equal to 2 years, with hair-cut of 20%,
  - (b) if the remaining period to maturity exceeds 2 years but is less than or equal to 3 years, with hair-cut of 30%.
- Loans secured by deposits under lien equivalent to 20% of the deposits.
- Receivables from Employees Provident Fund (EPF) in settlement of loans.

However, due to the strong liquidity position of the Bank, there was no much impact to the Bank.

### 38.3.2 ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the Bank's financial & other liabilities as at 31 December 2022. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

As at 31 December 2022	Carrying Value	Total	Less than 3 months	3 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Non-Derivative Liabilities</b>							
Due to Banks	1,053,087,537	1,053,087,537	245,452,384	299,385,000	315,380,000	192,870,153	-
Deposits	50,245,156,635	50,245,156,635	16,956,153,155	23,887,764,589	5,118,770,559	3,078,641,332	1,203,827,001
Other Borrowings	1,376,777,708	1,376,777,708	124,515,950	140,475,955	280,057,842	266,244,378	565,483,583
Debt Security Issued	1,423,965,999	1,423,965,999	-	18,942,537	1,405,023,462	-	-
Lease Liability	379,693,095	379,693,095	10,093,954	37,272,340	98,977,650	61,065,525	172,283,627
Retirement Benefits obligations	846,978,306	846,978,306	-	96,419,518	205,018,008	194,436,417	351,104,363
Current Tax Liabilities	346,515,000	346,515,000	86,977,034	259,537,961	-	-	-
Other Liabilities	212,226,449	212,226,449	140,415,967	71,810,481	-	-	-
Debt Capital	281,250,000	281,250,000	-	31,250,000	-	-	250,000,000
<b>Total Non-Derivative Liabilities</b>	<b>56,165,650,729</b>	<b>56,165,650,729</b>	<b>17,563,608,449</b>	<b>24,842,858,382</b>	<b>7,423,227,520</b>	<b>3,793,257,804</b>	<b>2,542,698,574</b>



## Notes to the Financial Statements

### 38.3.3 CONTRACTUAL MATURITIES OF COMMITMENTS AND CONTINGENCIES

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31 December 2022						
Contingent Liabilities	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank guarantee (without impairment)	-	1,300,000	4,270,000	-	-	5,570,000
Other Contingent items - Bills sent for collection	199,374,084	-	-	-	-	199,374,084
Total Contingent Liabilities	199,374,084	1,300,000	4,270,000	-	-	204,944,084

As at 31 December 2021						
Contingent Liabilities	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank guarantee (without impairment)	-	-	4,599,018	-	-	4,599,018
Other Contingent items - Bills sent for collection	645,425,556	-	-	-	-	645,425,556
Total Contingent Liabilities	645,425,556	-	4,599,018	-	-	650,024,574

### 38.3.4 LIQUIDITY RESERVE

The table below sets out the components of Bank's liquid assets that are held for the liquidity purpose.

	2022	
	Carrying Amount	Fair Value
Cash and Cash equivalents	339,730,442	339,730,442
T Bill/ Bonds	15,420,183,164	15,420,183,164
ReverseRepo	100,082,192	100,082,192
Fixed Deposits	29,699,583	29,699,583
	15,889,695,382	15,889,695,382

\* The carrying amounts approximate their fair values as they are short term in nature (less than twelve months).

### 38.3.5 LIQUIDITY COVERAGE RATIO

The Bank has a Liquidity Coverage Ratio (LCR) as defined by the regulator. The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30 day period. The ratio is defined as the amount of High Quality Liquid Assets (HQLA) that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures, in a stressed scenario.

The LCR complements the Bank's stress testing framework. By maintaining a ratio in excess of minimum regulatory requirements, the LCR seeks to ensure that the Bank holds adequate liquidity resources to mitigate a short-term liquidity stress.

Commencing from 1 April 2015, all licensed specialised banks maintained Liquidity Coverage Ratios (LCR) as prescribed by CBSL in respect of Rupee Liquidity Minimum Requirement for local currency operations and All Currency Liquidity Minimum Requirement for the overall operations effective from 1 January 2019 onwards 100%.

The Monetary Board, considering the extraordinary circumstances caused by the current macroeconomic conditions, issued a direction to Licensed Banks to permitting to maintain LCR at a level not less than 90% up to 31.12.2022.

#### Minimum Requirement (%) - effective from

From November 2022 to 31.12.2022	Effective from 1 July 2021 to November 2022
90	100

The following were the Liquidity Coverage Ratios (%) of the Bank as at 31 December:

Rupee Liquidity Requirement for Local Currency Operations	334	156
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### 38.3.6 Statutory Liquid Assets Ratio

For the month of December 2022 (%)	31.52
For the month of December 2021 (%)	26.60

### 38.3.7 DUE TO BANKS & DUE TO OTHER CUSTOMERS (DEPOSITS) TO LOANS AND RECEIVABLES FROM BANKS & OTHER CUSTOMERS (ADVANCES) RATIO

The Bank is aware of the importance of due to banks & other customers as a source of funds for its lending operations.

This is monitored using the following ratio, which compares loans and receivables to customers as a percentage of due to banks & Due to other customers (Deposits).

Due to banks & due to other customers to Loans and receivables from banks & other customers Ratio.

As at 31st December 2022	120.33%
As at 31st December 2021	124.09%

## Notes to the Financial Statements

The table below sets out the availability of financial and non-financial assets held by the Bank on the basis of being encumbered or unencumbered as of 31.12.2022 and 31.12.2021.

	2022				2021			
	Encumbered		Unencumbered		Encumbered		Unencumbered	
	Pledged as collateral	Other	Other	Total	Pledged as collateral	Other	Other	Total
Cash and cash equivalent	-	-	339,730,442	339,730,442	-	-	258,595,867	258,595,867
Placements with banks	-	-	29,572,589	29,572,589	-	-	8,138,459,719	8,138,459,719
Equity Instruments at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets at amortised cost-Loans and receivables from other customers	-	-	42,629,818,803	42,629,818,803	-	-	41,836,921,951	41,836,921,951
Financial assets at amortised cost-Debt & other instruments	-	-	17,150,937,475	17,150,937,475	-	-	10,570,350,749	10,570,350,749
Equity Instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	-
Other assets	-	-	2,731,998,493	2,731,998,493	-	-	2,159,262,768	2,159,262,768
Total	-	-	62,882,057,804	62,882,057,804	-	-	62,963,591,055	62,963,591,055

### 38.4 MARKET RISK

Market risk' is the risk that changes in market prices - such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to the changes in the obligator's/ issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the bank's solvency while optimizing the return on risk.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

As at 31st December 2022	Market risk measure		
	Carrying amount	Trading portfolios	Non-trading portfolios
<b>Assets subject to Market risk</b>			
Cash and cash equivalent	339,730,442	-	339,730,442
Placements with banks	29,572,589	-	29,572,589
Financial assets at amortised cost - Loans and advances	42,629,818,803	-	42,629,818,803
Financial assets at amortised cost - Debt & other instruments	17,150,937,475	-	17,150,937,475
Other assets	2,731,998,493	-	2,731,998,493
<b>Liabilities subject to Market risk</b>			
Due to banks	1,053,087,537	-	1,053,087,537
Due to depositors	50,245,156,635	-	50,245,156,635
Due to other borrowers	1,376,777,708	-	1,376,777,708
Debt securities issued	1,423,965,999	-	1,423,965,999
Current tax liabilities	346,515,000	-	346,515,000
Other liabilities	1,438,897,849	-	1,438,897,849

		Market risk measure	
As at 31st December 2021	Carrying amount	Trading portfolios	Non-trading portfolios
<b>Assets subject to Market risk</b>			
Cash and cash equivalent	258,595,867	-	258,595,867
Placements with banks	8,138,459,719	-	8,138,459,719
Financial assets at amortised cost - Loans and advances	41,836,921,951	-	41,836,921,951
Financial assets at amortised cost - Debt & other instruments	10,570,350,749	-	10,570,350,749
Other assets	2,159,262,768	-	2,159,262,768
<b>Liabilities subject to Market risk</b>			
Due to banks	2,103,172,867	-	2,103,172,867
Due to depositors	49,813,326,205	-	49,813,326,205
Due to other borrowers	1,282,597,452	-	1,282,597,452
Debt securities issued	1,422,978,101	-	1,422,978,101
Current tax liabilities	316,138,779	-	316,138,779
Other liabilities	1,390,611,650	-	1,390,611,650

As at 31st December 2022 (LKR.000')	Up to 12 Months		More than 12 Months			Total
	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	
Assets						
Cash & Cash Equivalent	339,730	-	-	-	-	339,730
Placement with Banks		29,573	-			29,573
Loans & Advances	2,188,371	11,040,878	10,565,248	7,463,061	11,372,260	42,629,819
Debts & Other Instruments	6,000,134	7,829,541		3,321,232	31	17,150,937
Property Plant & Equipments	-	-	-	-	242,996	242,996
Intangible Assets	-	-	-	-	143,204	143,204
Lease ROUA	-	-	-	-	367,324	367,324
Investment Properties	-	-	-	-	1,164,500	1,164,500
Differed Tax Assets	-	-	-	-	409,230	409,230
Other Assets	54,115	341,224	-	-	9,405	404,744
Total Assets	8,582,350	19,241,216	10,565,248	10,784,293	13,708,950	62,882,058
Percentage 31st Dec 2022	13.65	30.60	16.80	17.15	21.80	100.00
Percentage 31st Dec 2021	15.77	24.86	20.83	17.50	21.04	100.00
Liabilities						
Due to Banks	245,452	299,385	315,380	192,870		1,053,088
Deposits	16,956,153	23,887,765	5,118,771	3,078,641	1,203,827	50,245,157
Other Borrowings	124,516	140,476	280,058	266,244	565,484	1,376,778
Debt Security Issued	-	18,943	1,405,023			1,423,966
Lease Liability	10,094	37,272	98,978	61,066	172,284	379,693
Retirement Benefits obligations	-	96,420	205,018	194,436	351,104	846,978
Current Tax Liabilities	86,977	259,538	-	-	-	346,515
Other Liabilities	140,416	71,810	-	-	-	212,226
Debt Capital	-	31,250	-	-	250,000	281,250
Equity Capital	-		-	-	6,716,407	6,716,407
Total Liabilities	17,563,608	24,842,858	7,423,228	3,793,258	9,259,106	62,882,058
Percentage 31st Dec 2022	27.93	39.51	11.81	6.03	14.72	100.00
Percentage 31st Dec 2021	27.96	33.09	13.29	9.26	16.39	100.00

# Notes to the Financial Statements

## 38.6 OPERATIONAL RISK

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The board of directors has delegated responsibility for operational risk to its Bank Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

## 39 CAPITAL MANAGEMENT

### 39.1 REGULATORY CAPITAL

The Bank's lead regulator the Central Bank of Sri Lanka sets and monitors capital requirements for the Bank as a whole. The individual banking operations are directly supervised by the lead regulators. The Group capital management goals are as follows;

- a. Ensure regulatory minimum capital adequacy of 12.5% requirements are not compromised.
- b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
- c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.
- d. Ensure maintaining of quality capital.
- e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
- f. Ensure capital consumption by business actions are adequately priced.
- g. Ensure Bank's average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on solo basis. The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital.

### 39.2 CAPITAL MANAGEMENT

Capital Adequacy is a measure of a commercial bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) is measured under Basel II till 30 June 2017 and thereafter Basel-III and takes into account the Credit, Market and Operations risks. Keeping with the international standards of Basel Committee on Banking Regulations and Supervisory Practices, Sri Lanka has been following Basel III CAR calculation from 1 July 2017.

## 39.3 CAPITAL ADEQUACY

### CAPITAL ALLOCATION

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk and Bank Credit, and is subject to review by the Bank Asset and Liability Management Committee (ALCO).

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

### AVAILABLE CAPITAL

Basel III accord recognises three capital elements, namely CET 1 Capital, Additional Tier1 Capital and Tier 2 capital.

CET 1 capital includes equity capital, reserve fund, published retained earnings (accumulated retained losses), general and other reserves, and unpublished current year's profit/ (losses) and gains reflected in OCI. Goodwill (net), other intangible assets, revaluation losses of PPE, deferred tax assets, cash flow hedge reserve, shortfall of the cumulative impairment to specific provisions, defined benefit pension fund assets, investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at CET 1 capital.

Additional Tier 1 capital includes qualifying instruments as per the regulatory directions. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Additional Tier I capital.

Tier 2 capital includes qualifying tier 2 capital instruments, revaluation gains, and general provisions etc. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Tier 2 capital.

As per the Banking Act Direction No 01 of 2016 dated 29 December 2016 on Capital Requirements under BASEL III which was effective from 1 July 2017 and the amendments thereto under Directions No. 11 of 2019 dated 20 December 2019, the minimum required capital ratios to be maintained by the Bank are as follows.

- Every licensed specialised bank shall maintain, at all times, the minimum capital ratios prescribed in the table below and shall ensure compliance with Schedule I to the Banking Act Directions No 01 of 2016 on Capital Requirements under Basel III for licensed banks.
- Licensed specialised banks which are determined as Domestic Systemically Important Banks (D-SIBs) from time to time shall maintain Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1(CET1), as given in the table below.

Components of Capital	Capital Adequacy Ratio to be maintained by Licensed Banks	Capital Adequacy Ratio to be maintained by Licensed Banks determined as DSIBs
Common Equity Tier 1 including Capital Conservation Buffer	7.50%	8.50%
Total Tier 1 including Capital Conservation Buffer	8.50%	10.00%
Total Capital Ratio including Capital Conservation Buffer	12.50%	14.00%

## Notes to the Financial Statements

<b>CAPITAL BASE</b>	<b>2022</b>	<b>2021</b>
<b>As at 31st December</b>	<b>(Rs.000')</b>	<b>(Rs.000')</b>
<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
Reserve Fund	288,689	272,373
Published Retained Profits/(Accumulated Losses)	5,007,868	4,730,491
Accumulated other comprehensive income (OCI)		
General and Other Reserves	503,780	471,147
Sub Total	6,762,429	6,436,104
<b>Total Adjustments to CET1 Capital</b>		
Deferred tax assets (net)	409,230	126,048
Other intangible assets (net)	143,204	125,024
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		
<b>Common Equity Tier I (CETI) Capital after Adjustments</b>	<b>6,209,995</b>	<b>6,185,032</b>
<b>Additional Tier 1 (AT1) Capital after Adjustments</b>		
Qualifying Additional Tier 1 Capital Instruments	250,000	250,000
<b>Total Tier 01</b>	<b>6,459,995</b>	<b>6,435,032</b>
<b>Tier 2 Capital after Adjustments</b>		
<b>Additions</b>		
General Provisions(Stage 1&2 Impairment)	254,683	183,963
<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		
<b>Tier II Capital</b>	<b>254,683</b>	<b>183,963</b>
<b>Capital Base</b>	<b>6,714,678</b>	<b>6,618,995</b>
<b>Total risk adjusted balances (credit risk, market risk, operational risk)</b>	<b>24,319,467</b>	<b>28,751,720</b>
<b>Risk Adjusted Capital Ratios</b>		
Common Equity Tier 1 Capital Ratio *	25.54%	21.51%
Tier 1 (Total Tier 1 capital / Total risk adjusted balances) **	26.56%	22.38%
Tier 11(Capital base / Total risk adjusted balances) ***	27.61%	23.02%

\* Minimum 7.00 \*\* Minimum 8.50% \*\*\*Minimum 12.50%



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

	Balance		Risk Weights	Risk Adjusted Balance	
As at 31st December	2022	2021	(%)	2022	2021
Exposures					
Cash- Local Currency	170,216	149,324	0%	-	-
Sri Lanka Govt Treasury Bills & Bonds	15,420,183	7,003,938	0%	-	-
Central Bank of Sri Lanka	-	-	0%	-	-
Claims on Public Sector Entities (PSEs) (AAA to AA-)	425,573	426,369	20%	85,115	85,274
Loan & Advances					
Claims Secured by Residential Property					
Claims that qualify for regulatory capital purposes	8,941,107	9,587,542	35%	3,129,387	3,355,640
Claims that not qualify for regulatory capital purposes	1,196,363	1,702,141	100%	1,196,363	1,702,141
Housing loans against EPF.	13,844,163	12,611,416	0%	-	-
Cash Margin Loans	2,676,952	1,706,492	0%	-	-
Gold Loans	-	-	0%	-	-
Loan to Value Ratio equal to or less than 70%	481,445	24,502	0%	-	-
Loan to Value Ratio over 70% and less than 100%	-	182,446	20%	-	36,489
Loan to Value Ratio equal to or over 100%	-	243,463	100%	-	243,463
TradingInvestment					
Retail claims that qualify for regulatory capital purposes			75%		
SME exposures secured on Immovable Property	1,640,973	724,609	60%	984,584	434,765
Other SEM exposures	743,287	1,063,295	75%	557,465	797,471
Individual exposures	6,384,850	7,885,161	75%	4,788,638	5,913,871
Retail claims that do not qualify for regulatory capital purposes			100%		
Claims Secured by Real State			100%		
Non Performing Assets					
Past Due Residential Mortgage Loans					
Specific provisions are more than 20%	151,294	4,735	50%	75,647	2,367
Specific provisions are less than 20%	4,235,826	2,803,624	100%	4,235,826	2,803,624
Housing loans on Guarantors & others,Lease					
Specific provisions are more than 20%	492,632	66,742	100%	492,632	66,742
Specific provisions are less than 20%	1,104,186	1,937,975	150%	1,656,279	2,906,962
Due From local Commercial Banks Less Than Three Months ( AAA to BBB- )	269,597	4,209,691	20%	53,919	841,938
Due From local Commercial Banks Less Than Three Months ( BB+ to B- )	-	-	50%	-	-
Due From local Commercial Banks More than Three Months( AAA to AA- )	-	1,035,325	20%	-	207,065
Due From local Commercial Banks More than Three Months( A+ to BBB- )	384,360	3,358,119	50%	192,180	1,679,059
Due From local Commercial Banks More than Three Months( BB+ to B- )	-	-	100%	-	-
Claims on Financial Institutions/Primary Dealers/ Finance Companies (AAA to AA-)	214,874	214,823	20%	42,975	42,965

## Notes to the Financial Statements

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2022	2021		2022	2021
Claims on Financial Institutions/Primary Dealers/ Finance Companies (A+ to BBB- and unrated )	246,350	1,734,495	50%	123,175	867,247
Claims on Financial Institutions/Primary Dealers/ Finance Companies (BB+ to B-) & unrated	63,373	353,936	100%	63,373	353,936
Claims on Other Financial Institutions (A+ to A-)	-	-	50%	-	-
Claims on Corporate (AAA+ to AA-)	-	971,424	20%	-	194,285
Claims on Corporate (A+ to A-)	543,093	-	50%	271,546	-
Claims on Corporate (below BB-)	-	70,494	150%	-	105,742
Claims on Corporate (Unrated)	240,400	157,376	100%	240,400	157,376
Fixed Assets	242,996	257,598	100%	242,996	257,598
Other Assets	1,936,568	1,684,157	100%	1,936,568	1,684,157
<b>Retail claims that qualify for regulatory capital purposes - Off Balance Sheet</b>					
Total Risk Weighted Assets On Balance Sheet	62,050,660	62,171,211		20,369,068	24,740,179
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet	5,570	4,599	100%	5,570	4,599
Total Risk Weighted Assets	62,056,230	62,175,810		20,374,638	24,744,778
Total risk adjusted balance for operational risk				3,944,828	4,006,942
<b>Total risk adjusted balance for Market risk</b>					
<b>Total risk adjusted balances (credit risk, market risk, operational risk)</b>				<b>24,319,467</b>	<b>28,751,720</b>

## 40.0 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

Fair value hierarchy		2022		2021	
		Carrying amount	Fair value	Carrying amount	Fair value
		Rs.	Rs.	Rs.	Rs.
<b>Financial assets</b>					
Cash and cash equivalent	Level 2	339,730,442	339,730,442	258,595,867	258,595,867
Placements with Banks	Level 2	29,572,589	29,572,589	8,138,459,719	8,138,459,719
Financial assets at amortised cost - Debt & other instruments	Level 2	17,150,937,475	17,150,937,475	10,570,350,749	10,570,350,749
Financial assets at amortised cost - Loans and advances	Level 2	42,629,818,803	42,629,818,803	41,836,921,951	41,836,921,951
		60,150,059,311	60,150,059,311	60,804,328,287	60,804,328,287
<b>Financial liabilities</b>					
Due to banks	Level 2	1,053,087,537	1,053,087,537	2,103,172,867	2,103,172,867
Due to depositors	Level 2	50,245,156,635	50,245,156,635	49,813,326,205	49,813,326,205
Due to other borrowers	Level 2	1,376,777,708	1,376,777,708	1,282,597,452	1,282,597,452
Debt securities issued	Level 2	1,423,965,999	1,423,965,999	1,422,978,101	1,422,978,101
Other liabilities	Level 2	1,785,412,849	1,785,412,849	1,706,750,429	1,706,750,429
		55,884,400,729	55,884,400,729	56,328,825,053	56,328,825,053

## RELATED PARTY TRANSACTIONS

### 41.DIRECTORS INTEREST IN CONTRACTS WITH THE BANK

Name	Related Party	Office Holding	Transactions (Rs.Mn)	Nature of Transactions	Recurrent/ Non-Recurrent	% Regulatory Capital	Amounts
Rajiv Sooriyaarachchi	National Housing Development Authority	Wise Chairman	24.72	Rent	Recurrent	0.37%	24,722,800.78
Mrs.R.M.R. WASANTHA MANCHANAYAKE	Director HDFC	Chairman	33.34	Savings/ Fixed Deposit	Recurrent	0.50%	33,341,639.51
Mr.J.M.D.Ariyaratna	Director HDFC	Director	4.70	Savings/ Fixed Deposit	Recurrent	0.07%	4,703,312.37
Mr.L.E. SUSANTHA SILVA	Director HDFC	Director	0.62	Savings	Recurrent	0.01%	616,048.68
Mr.P.A.Lionel	Director HDFC	Director	0.38	Savings	Recurrent	0.01%	381,390.09
Mr.S NEAVIS MORAIS	Director HDFC	Director	0.05	Savings	Recurrent	0.00%	50,222.69
Mr.W.M.Ananda	Director HDFC / Spouse	Director	1.37	EPF Loan/ Fixed Deposit	Recurrent	0.02%	1,373,983.62
Total			65.19			0.90%	60,126,113.30

### 41.1 TRANSACTIONS WITH KMPS

The transactions made with KMP s as follows(Balance as at 31.12....)

	2022 Rs.000'	% of Regulatory Capital
Loans and Advance	43,883	0.65%
Deposits	35,421	0.53%
Total	79,304	1.18%

### 41.2 TRANSACTIONS WITH THE GOVERNMENT OF SRI LANKA AND ITS RELATED ENTITIES

The Bank enter into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities.

(a) The transactions entered with the Government of Sri Lanka and its related entities on a collective basis is as follows.

	Outstanding Balance	
	2022 (‘000)	2021 (‘000)

#### Items in the Statement of Financial Position

##### Assets

Placements with banks	-	1,008,248
Financial assets at amortised cost - debt and other instruments	-	1,081,311
Financial assets at amortised cost - loans and receivables to other customers	103,113	91,482
	103,113	2,181,041

##### Liabilities

##### Financial liabilities at amortised cost

Due to depositors	9,515,606	11,181,064
Due to other borrowers	1,496,267	1,500,988
Debt Capital	281,250	281,250
	11,293,123	12,963,302

## Notes to the Financial Statements

	During the year	
	2022 (‘000)	2021 (‘000)
<b>Items in the Statement of Profit or Loss</b>		
Interest income	1,411,543	202,959
Interest expenses	104,854	95,305
Cash dividends paid during the year	-	8,330

(b) Further transactions detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities;

- Investments in Treasury Bills, Treasury Bond, Sovereign and Development Bonds and money market placements.
- Payment of statutory rates, taxes and deposit insurance premium
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - ETF

(c) Individually significant transactions The Bank uses an internal assessment methodology in order to identify significant transactions with the Government of Sri Lanka and Government related entities in accordance with the disclosure requirements of LKAS 24. Accordingly, there are no individually significant transactions that require disclosure during the year.

## 42. 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.

## 43. MINIMUM SHARE HOLDERS FOR COMPLIANCE

OPTION - 5	MINIMUM SHARE HOLDERS FOR COMPLIANCE		
	Float-adjusted Market Capitalization	Public Holding Percentage	Number of public Shareholders
Minimum	Less Than 2.5 Bn	20%	500
Available	0.65	36.08	2,158

## 44. ASSETS PLEDGE

Type of Facility	Amount of facility Rs Mn	Nature of Security	Value of security Rs Mn	Balance as at 31-12-2022 Rs Mn
(1) Overdraft (Sampath Bank)	300	Unsecured	-	132
(2) Borrowing (Term Loan) (Sampath Bank)	1,000	Unsecured	-	500
(3) Money Market Loan (Sampath Bank)	300	Unsecured	-	-
(4) Borrowing (Term Loan) (BOC)	500	Unsecured	-	119
(5) Borrowing (Term Loan) (PABC)	500	Part of the Loan Portfolio	625	301
(6) Overdraft (BOC)	500	Unsecured	-	-

Type of Facility	Amount of facility Rs Mn	Nature of Security	Value of security Rs Mn	Balance as at 31-12-2022 Rs Mn
(1) Listed, Secured, Redeemable Debenture	1,409	Unsecured	-	1,424

## A. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS –AS AT 31.12.2022

In LKR					
Description	AC	FVPL	FVOCI	OTHER	Total
<b>ASSETS</b>					
Cash and cash equivalents	339,730,442	-	-	-	339,730,442
Balances with central banks	-	-	-	-	-
Placements with banks	29,572,589	-	-	-	29,572,589
Derivative financial instruments	-	-	-	-	-
Loans and advances	42,629,818,803	-	-	-	42,629,818,803
Debt instruments	17,150,937,475	-	-	-	17,150,937,475
Equity instruments	-	-	-	-	-
Total financial assets	60,150,059,311	-	-	-	60,150,059,311
Other Assets	-	-	-	2,731,998,492	2,731,998,492
Total assets	60,150,059,311	-	-	2,731,998,492	62,882,057,803

Description	AC	FVPL	OTHER	Total
<b>LIABILITIES</b>				
Due to banks	1,053,087,537	-	-	1,053,087,537
Derivative financial instruments	-	-	-	-
Financial liabilities to Amortise cost	-	-	-	-
- due to depositors	50,245,156,635	-	-	50,245,156,635
- due to debt security holders	1,423,965,999	-	-	1,423,965,999
- due to other borrowers	1,658,027,708	-	-	1,658,027,708
Total financial liabilities	54,380,237,880	-	-	54,380,237,880
Other Liabilities	379,693,095	-	1,405,719,754	1,785,412,849
Equity	-	-	6,716,407,076	6,716,407,076
Total liabilities & Equities	54,759,930,975	-	8,122,126,829	62,882,057,803

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

# Notes to the Financial Statements

## B. BANK - PREVIOUS YEAR AS AT 31.12.2021

In LKR					
Description	AC	FVPL	FVOCI	OTHER	Total
<b>ASSETS</b>					
Cash and cash equivalents	258,595,867	-	-	-	258,595,867
Balances with central banks	-	-	-	-	-
Placements with banks	8,138,459,719	-	-	-	8,138,459,719
Derivative financial instruments	-	-	-	-	-
Loans and advances	41,836,921,951	-	-	-	41,836,921,951
Debt instruments	10,570,350,749	-	-	-	10,570,350,749
Equity instruments	-	-	-	-	-
Total financial assets	60,804,328,287	-	-	-	60,804,328,287
Other Assets	-	-	-	2,159,262,768	2,159,262,768
Total assets	60,804,328,287	-	-	2,159,262,768	62,963,591,055

Description	AC	FVPL	OTHER	Total
<b>LIABILITIES</b>				
Due to banks	2,103,172,867	-	-	2,103,172,867
Derivative financial instruments	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-
- due to depositors	49,813,326,205	-	-	49,813,326,205
- due to debt security holders	1,422,978,101	-	-	1,422,978,101
- due to other borrowers	1,563,847,452	-	-	1,563,847,452
Total financial liabilities	54,903,324,624	-	-	54,903,324,624
Other Liabilities	388,627,838	-	1,318,122,591	1,706,750,429
Equity	-	-	6,353,515,999	6,353,515,999
Total liabilities & Equity	55,291,952,462	-	7,671,638,590	62,963,591,055



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# SHARE INFORMATION

As at 31-12-2022

## DISTRIBUTION AND COMPOSITION OF SHAREHOLDERS (AS PER RULE NO. 7.6(X) OF THE COLOMBO STOCK EXCHANGE)

Shareholdings	December 31, 2022								
	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	1,601	841,170	1.31	5	2,303	0.00	1,606	843,473	1.31
1,001 - 10,000	429	1,554,598	2.4	5	20,207	0.03	434	1,574,805	2.43
10,001 - 100,000	103	2,882,554	4.45	2	124,647	0.19	105	3,007,201	4.64
100,001 - 1,000,000	16	3,215,743	4.97	1	133,180	0.21	17	3,348,923	5.18
Over 1,000,000	3	46,781,118	72.29	1	9,155,000	14.15	4	55,936,118	86.44
Total	2,152	55,275,183	85.42	14	9,435,337	14.58	2,166	64,710,520	100.00

Shareholdings	December 31, 2021								
	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	1,611	858,256	1.33	6	2,309	0.00	1,617	860,565	1.33
1,001 - 10,000	472	1,673,763	2.59	4	13,000	0.02	476	1,686,763	2.61
10,001 - 100,000	111	3,127,562	4.83	2	61,208	0.09	113	3,188,770	4.92
100,001 - 1,000,000	16	2,905,124	4.49	1	133,180	0.21	17	3,038,304	4.70
Over 1,000,000	3	46,781,118	72.29	1	9,155,000	14.15	4	55,936,118	86.44
Total	2,213	55,345,823	85.53	14	9,364,697	14.47	2,227	64,710,520	100.00

## COMPOSITION OF SHAREHOLDERS (AS PER RULE NO. 7.6(X) OF THE COLOMBO STOCK EXCHANGE)

	December 31, 2022				December 31, 2021			
	No. of Share holders	%	No. of Shares	%	No. of Share holders	%	No. of Shares	%
Individuals	2,062	95.20	6,016,689	9.30	2,119	95.15	6,110,895	9.44
Institution	104	4.80	58,693,831	90.70	108	4.85	58,599,625	90.56
Total	2,166	100.00	64,710,520	100.00	2,227	100.00	64,710,520	100.00

## TWENTY LARGEST SHAREHOLDERS (AS PER RULE NO. 7.6(III) OF THE COLOMBO STOCK EXCHANGE)

	Name of Shareholder	No. of Shares	Percentage (%)	No. of Shares	Percentage (%)
		2022	2022	2021	2021
1	National Housing Development Authority	32,180,000	49.73	32,180,000	49.73
2	LOLC Holding 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	4,893,378	7.56
5	Miss. S. N. C. W. M. T. R. Kandegedara	335,822	0.52	-	-
6	Condominium Management Authority	300,000	0.46	300,000	0.46
7	Urban Development Authority	300,000	0.46	300,000	0.46
8	Dr. R.R. De Silva	295,126	0.46	295,126	0.46
9	Seylan Bank PLC/Senthilverl Holdings (Pvt.) Ltd.	267,047	0.41	-	-
10	Sampath Bank PLC/Mr. A. Sithampalam	258,054	0.40	258,054	0.40
11	Finco Holdings (Pvt.) Ltd.	185,000	0.29	185,000	0.29
12	Ravi Exports (Pvt.) Ltd.	182,500	0.28	-	-
13	The Associated Newspapers of Ceylon Ltd.	180,000	0.28	180,000	0.28
14	Mr. D. A. De Soysa	170,000	0.26	170,000	0.26
15	Mr. S.N.C.W.M.B.C. Kandegedara	139,568	0.22	139,568	0.22
16	Dr. S. Yaddhegige	133,180	0.21	133,180	0.21
17	Mr. S. Abishek	128,709	0.20	128,709	0.20
18	National Water Supply & Drainage Board	120,000	0.19	120,000	0.19
19	Road Development Authority	120,000	0.19	120,000	0.19
20	State Engineering Corporation	120,000	0.19	120,000	0.19
	Total	59,171,124	91.46	58,385,755	90.25

## MARKET PRICES (AS PER RULE NO. 7.6(XI) OF THE COLOMBO STOCK EXCHANGE)

	2022	2021
	Rs.	Rs.
Highest	42.50	49.80
Lowest	22.00	28.60
Year end	27.80	30.50

## INFORMATION ON RATIOS (AS PER RULE NO. 7.6(XI) OF THE COLOMBO STOCK EXCHANGE)

	2022	2021
Dividend per share (Rs.)	-	-
Dividend payout ratio (%)	-	-
Net Assets value per share (Rs.)	103.79	98.18
Earnings per Share (Rs.)	5.04	8.46

## Share Information

### DIRECTORS AND GENERAL MANAGER /CEO SHAREHOLDING (AS AT 31ST OF DECEMBER 2022)

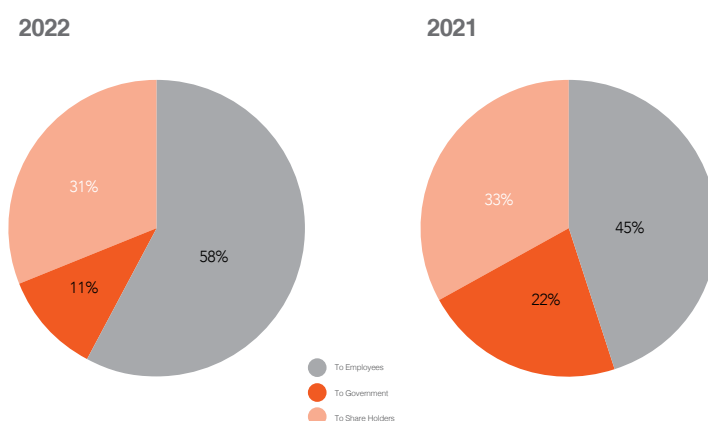
Name	2022	2021
Mrs. R.M.R.W. Manchanayake	Nil	Nil
Mr. L.E.S. Silva	1,000	1,000
S.Prof. A. Jayamaha	1,000	1,000
Mr. W.M. Ananda	Nil	Nil
Mr. P.A. Lionel	2,000	2000
Mr. D.M.M.M. Wijayarathna	Nil	Nil
Mr. P. M. K. Hettiarachchi	Nil	-
Dr. P. A. Krishantha	1000	-
Mr. R. Sooriyaarachchi	Nil	-
Mr. A. J. Atukorala (Act. GM/CEO)	Nil	Nil

### PUBLIC HOLDING (AS PER RULE NO. 7.13.1 OF THE COLOMBO STOCK EXCHANGE)

Name	2022	2021
Number of Public Shareholders	2,158	2,217
Public shareholding	23,345,637	23,167,560
Percentage of public holding	36.077%	35.801%

# VALUE ADDED STATEMENTS

For the period ended 31st December		Bank		
LKR “000”	%	2022	%	2021
Interest Income		8,425,317		6,612,492
Other Income		452,342		391,572
Gross Income		8,877,659		7,004,064
Cost of Service		6,212,547		3,954,263
<b>Total Value Additions</b>		<b>2,665,112</b>		<b>3,049,802</b>
<b>Value Distributed</b>				
<b>To Employees</b>				
(Remuneration & Benefits)	57.9	1,544,204	45.5	1,387,304
<b>To Government</b>				
Income Tax	10.8	288,830	21.6	657,289
Value Added Tax , NBT & DRL Fs	(0.9)	(23,592)	10.9	331,034
Nation Building Tax	11.6	309,231	10.5	320,226
Crop insurance Levey	(0.0)	(0)	-	-
Stamp Duty	0.1	3,091	0.2	5,978
	0.0	100	0.0	52
	10.8		21.6	
<b>To Share Holders (Dividend)</b>				
	-	-	-	-
<b>Retained in the Business</b>				
	31.2	832,078	33.0	1,005,208
Retained Income	12.2	326,325	17.9	547,287
Depreciation	7.0	185,446	5.3	161,698
Loan Loss Provision	12.0	320,306	9.7	296,223
<b>Total Value Distributions</b>	<b>100.0</b>	<b>2,665,112</b>	<b>100.0</b>	<b>3,049,802</b>



# 10 YEAR SUMMARY

Year ended 31st December (LKR. Mn)	2012	2013	2014	2015
<b>OPERATING RESULTS</b>				
Income	2,744	3,803	4,566	4,925
Interest Income	2,635	3,528	4,378	4,660
Interest Expense	1,805	2,469	2,535	2,539
Other Income	110	275	188	265
Operating Expenses	762	938	1,123	1,288
Provision for Loss	1	87	131	89
Profit Before Tax	176	309	777	1,009
Income Tax & Finance VAT	120	151	402	500
Profit After Taxation	56	158	375	509
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>				
Customer Deposits	14,695	18,902	24,479	28,593
Borrowings	3,214	5,257	6,213	9,037
Other Liabilities	500	834	840	920
Shareholders' Funds	2,391	2,575	2,886	3,364
Total	20,801	27,567	34,418	41,913
<b>ASSETS</b>				
Loans and Advances	15,966	19,701	23,357	26,685
Cash, short term funds and statutory	3,679	6,601	8,997	11,852
HTC & Sell, FVTPL Investments			850	2,043
Property, plant and equipment	288	290	296	435
Other assets	868	975	918	898
Total	20,801	27,567	34,418	41,913
<b>RATIOS</b>				
Return on Average Shareholders Funds (%)	2.35	6.36	13.72	16.30
Income Growth (%)	15.0	38.6	20.1	7.9
Return on Average Assets(%)	0.27	0.65	1.21	1.33
Deposits and Borrowings to Advance (%)	112.2	122.6	131.4	141.0
PPE on Shareholders Funds (%)	12.0	11.2	10.3	12.9
Total Assets to shareholders funds (times)	8.70	10.70	11.93	12.46
<b>SHARE INFORMATION</b>				
Market Value per Share (Rs)	For Rs 10/= Shares			
High (Rs)	119.0	52.5	52.5	76.5
Lower (Rs)	44.0	48.2	48.2	58.5
Close (Rs)	50.6	49.6	49.6	67.1
Earnings per Share (Rs)	0.86	2.44	5.79	7.87
Price Earnings Ratio	58.84	20.31	8.57	8.53
Net Assets per Share(Rs)	36.95	39.80	44.60	51.98
<b>PROFILE</b>				
Ownership - Government %	51	51	51	51
- Private %	49	49	49	49
No of employees*	488	488	477	561
No of branches	32	33	36	38
No of ATM (Access)	360	652	775	854

\*- from 2020, consider contract employees also

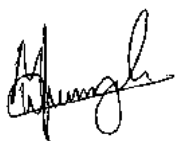
2016	2017	2018	2019	2020	2021	2022
5,928	6,978	7,120	8,090	7,856	7,004	<b>8,878</b>
5,473	6,614	6,679	7,683	7,457	6,612	<b>8,425</b>
3,509	4,742	4,441	4,783	4,475	3,556	<b>5,679</b>
455	365	442	407	400	392	<b>452</b>
1,409	1,472	1,668	1,740	1,674	1,953	<b>2,266</b>
160	-57	93	323	327	296	<b>320</b>
848	821	919	1,244	1,381	1,199	<b>612</b>
365	407	354	769	673	651	<b>286</b>
483	414	564	476	708	547	<b>326</b>
32,123	36,655	37,016	42,504	47,947	49,813	<b>50,245</b>
8,863	7,917	6,653	6,866	5,542	5,090	<b>4,135</b>
872	920	860	1,465	1,759	1,707	<b>1,785</b>
3,821	4,232	4,757	5,119	5,782	6,354	<b>6,716</b>
45,679	49,724	49,285	55,955	61,030	62,964	<b>62,882</b>
30,260	34,968	37,949	41,216	41,215	41,837	<b>42,630</b>
11,807	11,027	7,592	11,984	17,186	17,293	<b>15,890</b>
2,053	2,115	2,014	877	526	1,674	<b>1,631</b>
478	513	466	380	351	349	<b>386</b>
1,080	1,101	1,264	1,498	1,752	1,810	<b>2,346</b>
45,679	49,724	49,285	55,955	61,030	62,964	<b>62,882</b>
13.46	10.29	12.56	9.63	12.99	9.02	<b>4.99</b>
20.3	17.7	2.0	13.6	-2.9	-10.8	<b>26.8</b>
1.10	0.87	1.14	0.90	1.21	0.88	<b>0.52</b>
135.4	127.5	115.1	119.8	129.8	131.2	<b>127.6</b>
12.5	12.1	9.8	7.4	6.1	5.5	<b>5.8</b>
11.95	11.75	10.36	10.93	10.56	9.91	<b>9.36</b>
70.0	44.5	30.0	35.0	41.5	49.8	<b>37.5</b>
46.5	31.7	23.0	20.0	14.0	28.6	<b>24.0</b>
47.2	32.7	26.0	32.0	36.2	30.5	<b>27.8</b>
7.47	6.40	8.72	7.35	10.94	8.46	<b>5.04</b>
6.32	5.11	2.98	3.54	3.31	3.61	<b>5.51</b>
59.05	65.39	73.51	79.11	89.35	98.18	<b>103.79</b>
51	51	51	51	51	51	<b>51</b>
49	49	49	49	49	49	<b>49</b>
570	567	561	558	633	614	<b>588</b>
38	39	39	39	39	39	<b>39</b>
3000+	4350	4850	5132	5075	5526	<b>5,845</b>

# NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Thirty-eighth (38th) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka ("HDFC Bank") will be held on Wednesday, Twenty-eight (28th) day of June 2023 at 10.00 a. m. at the Sri Lanka Foundation (Auditorium New Wing), No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo-07 and the following Ordinary Business will be transacted.

1. To read the notice convening the meeting.
2. To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the Bank for the year ended 31st December 2022 and the Auditor's Report thereon
3. To re-elect Senior Prof. Ariyaratna Jayamaha as a Non- Executive, Independent Director of the Bank in terms of Section.3 (4) (e), of HDFC Act No. 7 of 1997 (and subsequent amendments)
4. To re-appoint the Auditor General of Sri Lanka, as the Auditor of the HDFC Bank for the financial year ending December 31, 2023 and authorise the Board of Directors to determine and approve their remuneration for the financial year ending December 31, 2023.
5. To authorise the Board of Directors to determine donations for the year 2023.
6. To transact any other business of which due notice shall be given.

By order of the Board of HDFC Bank of Sri Lanka,



Manori Narangoda  
*Company Secretary*  
HDFC Bank  
Colombo.

24th May 2023



# FORM OF PROXY

I / We..... of .....  
..... Being a Shareholder / Shareholders of Housing  
Development Finance Corporation Bank of Sri Lanka hereby appoint. ....  
of ..... NIC No.: .....or  
failing him/her\*

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 2023 at 10.00 a.m. and at any adjournment thereof, and at every poll which any be taken in consequence thereof.

Signed this ..... 2023.

.....  
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

1. To be valid, this form must be filled, signed and deposited with the Company 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.
2. The form of proxy must be signed by the appointer or by an Attorney duly authorized in writing.
3. 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 an Attorney duly authorized.
4. In the case of joint holder, only one needs sign. The Votes of the senior holder who renders a vote will only be counted.
5. If you wish to appoint any person other than the Chairman as your proxy, please insert the relevant details at 1 to 5.

# CORPORATE INFORMATION

## NAME AND ADDRESS:

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

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

## REGISTERED HEAD OFFICE:

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

## STOCK MARKET LISTING:

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

## BOARD OF DIRECTORS:

Mr. E.D.P. Soosaipillai (Chairman)  
Senior Professor A. Jayamaha (Director)  
Mr. W.M. Ananda (Director)  
Mr. P.A. Lionel (Director)  
Mr. D.M.M.M. Wijayarathna (Director)  
Mr. P.M.K. Hettiarachchi (Director)  
Dr. P.A. Krishantha (Director)  
Mr. R. Sooriyaarachchi (Director)  
Mr. B.K. Prabath Chandrakeerthi (Director)

## COMPANY SECRETARY:

Mrs. Manori Narangoda,  
Attorney - at - Law & Notary Public.  
Telephone : 2423378  
E-mail : manori.n@hdfc.lk

## REGISTRARS:

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

## YEAR OF INCORPORATION AS A BUILDING SOCIETY:

1984

## AS A LICENSED SPECIALIZED BANK:

2003

## AUDITOR:

Auditor General

## CREDIT RATING:

The Bank has been assigned BB + (lka) watch negative by Fitch Rating Lanka (Pvt) Ltd

## BANKERS:

Bank of Ceylon  
Corporate Branch, Echelon Square, Colombo 01.  
Sampath Bank  
No.110, Sir James Pieris Mawatha, Colombo 02.  
People's Bank  
No. 75, Sir Chittampalam A Gardiner Mawatha, Colombo 02.  
Commercial Bank of Ceylon Limited  
Commercial House, Union Place Branch, Colombo 02.  
Nations Trust Bank  
No 242, Union Place, branch, Colombo 02.  
MCB Bank Limited  
Main Branch, No. 8, Leyden Bastian Road, Colombo 01.  
Pan Asia Banking Corporation PLC  
No. 450, Galle Road, Colombo 03.  
DFCC Bank  
No. 73, W A D Ramanayake Mawatha, Colombo 02.

## CORPORATE MANAGEMENT

Mr. Nishaman Karunapala - CEO/GM  
Mr. C.R.P. Balasuriya - DGM - Treasury & Marketing  
Mrs. W.W.D.S.C. Perera - DGM - Legal & Recoveries  
Mrs. K.T.D.D. De Silva - AGM - HRM  
Mr. H.A. Anura - Chief Financial Officer  
Mrs. W.N.D. Botejue - AGM – Admin  
Mr. I. Nishantha - Chief Manager - Risk Management / Compliance Officer (Acting)  
Mr. A.M. Neelachandra - Chief Manager – IT  
Mrs. G.P. Priyadarshani - Chief Internal Auditor  
Mrs. Manori Narangoda – Company Secretary.

## INVESTOR INFORMATION

Mr. Anura Hettiarachchi  
Chief Financial Officer  
Telephone : 2356800, 244624, 2446239 D/L 4717864  
Fax : 2356829  
E-mail : anura.h@hdfc.lk

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