

A KEY TO YOUR DREAM



HDFC Bank of Sri Lanka
Annual Report 2021



A KEY TO YOUR DREAM

Pursuing aspirations of sustainable growth, the bank has yet again fulfilled its commitments to all stakeholders. In what was a year of particularly challenging circumstances, we headed in the direction of transformations – relentlessly and responsibly.

As the nation's housing development bank, we continued to stand beside our customers, ensuring meaningful changes in customer services, digital processes and service accessibility. Our drive for digital transformations continued with growing momentum, setting in motion process digitalizations for forward-looking development. Moreover, committed to effective and successful fulfillment of customer aspirations, we continued our focus on employee development – providing the benefits of increased employee capabilities to all our loyal customers.

Leveraging these transformations and our commitment towards the nation's development, we are firmly positioned - to unlock the dreams of our patrons for a safe and stable future.

INSIDE THIS REPORT

About this Report	06
Vision, Mission and Values	07

About HDFC Bank

HDFC Bank	08-09
Milestones of our Journey and Awards	10-11
Financial Performance Summary	12-13
Operational Performance Summary	14-15
Chairperson's Message	16-21
CEO/GM's Review	22-27

Integrated Value Creation - Strategic Framework

Fostering Relationships with Stakeholders (Stakeholder Engagement)	30-32
Matters of Materiality	33-35
Strategy and Resource Allocation	36-37
Value Creation Model	38-39
Focus on Sustainability	40-41

Leadership

Board of Directors	44-45
Board of Directors Profiles	46-54
Corporate Management	55-60
Heads of Divisions	61-62
Regional and Branch Management	63-64

Management Discussion and Analysis

Operating Environment	66-70
Business Segments and Performance	71-75
Capital Management Reports:	
Financial Capital	76-81
Human Capital	82-91
Social and Relationship Capital	92-103
Intellectual Capital	104-109
Manufactured Capital	110-115
Natural Capital	116-118

Corporate Governance and Risk Management

Chairman's Statement on Compliance	120
Corporate Governance	121-130
Assurance Report of the Auditor General on Corporate Governance	131-153
Corporate Governance Section Two and Three	154-166
Risk Management	167-177
The Report of the Directors	178-182
Directors' Statement on Internal Control over Financial Reporting	183-184
Assurance Report of the Auditor General on Internal Controls	185-186
Board Sub committee Reports:	
Board Human Resources & Remuneration Committee	187-188
Board Nomination Committee	189
Board Related Party Transaction Review Committee	190-191
Board Audit Committee Report	192
Board Integrated Risk Management Committee Report	193-194

Financial Statements

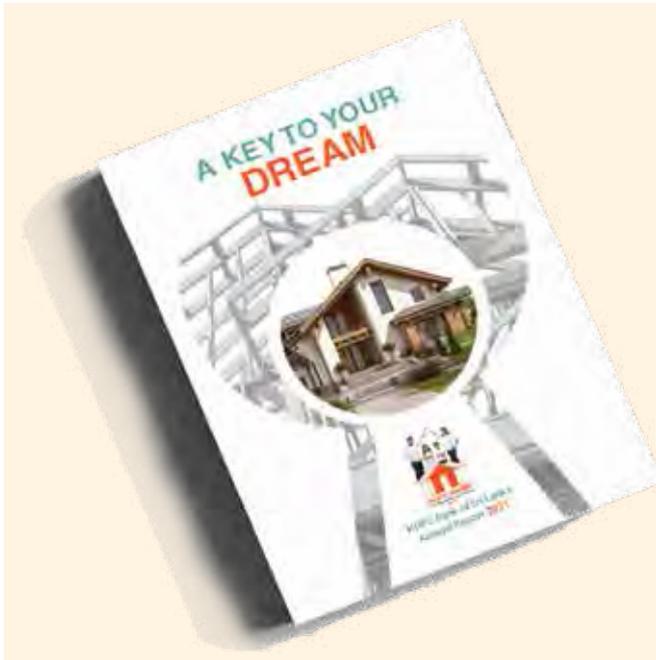
Statement of Directors' Responsibilities for Financial Reporting	196-197
Independent Assurance Report to the Board of Directors of HDFC Bank of Sri Lanka in the Integrated Annual Report- 2021	198-199
Auditor General's Report	200-206
Statement of Profit or Loss and Other Comprehensive Income	207
Statement of Financial Position	208
Statement of Changes in Equity	209
Statement of Cash Flow	210
Accounting Policies	211-220
Notes to the Financial Statements	221-265

Supplementary Information

Share Information	268-270
Value added Statements	271
10 Year Summary	272
Notice of Annual General Meeting	273
Form of Proxy	275-276
Corporate Information	Inner Back Cover



ABOUT THIS REPORT



12th Integrated Annual Report

REPORTING PURPOSE

As the Housing Development Finance Corporation of the nation, we have a significant responsibility towards all our stakeholders, including the State. We are accountable for presenting accurate and comprehensive information on our annual financial and operational performances, assuring our stakeholders that we are committed to safeguarding and increasing the value of their investments and our financial capital, over time.

AN INTEGRATED AND HOLISTIC APPROACH

This year's report titled 'The Key to your Dreams' includes principles from the revised Integrated Reporting framework by the International Integrated Reporting Council (IIRC). Information is presented in an integrated and cohesive manner, focusing mainly on capital management and financial performance; depicting how we use capital resources to create sustained value for all our stakeholders.

SCOPE AND BOUNDARY

The report covers the reporting cycle beginning from the 1st of January to the 31st of December (2021). It provides concise and comprehensive information on financial results of the year, and operational developments, which resulted from business activities. The report also provides a comprehensive account of the Bank's corporate governance framework and risk management mechanisms, as well as impacts from the external operating environment.

In presenting aspects that are crucial for stakeholder understanding, the Bank assesses matters of material importance which surrounds stakeholder expects and interests (Refer materiality and stakeholder engagement on pages 30 and 35).



View HDFC Bank 2021 Annual Report online version <https://www.hdfc.lk/>



COMPLIANCE

Financial statements have been prepared in accordance with guidelines as prescribed by regulators, while applying appropriate accounting standards. Moreover, the financial statements have been verified by the Auditor General in ensuring accuracy and reliability, prior to communicating with shareholders and interested parties.

The results mentioned in the report are outcomes of financial and non-financial activities conducted in compliance with several regulatory frameworks

Principal Reporting Frameworks

- The International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)
- Reporting Guidelines issued by The Institute of Chartered Accountants of Sri Lanka.

Financial Reporting Frameworks

- Sri Lanka Accounting Standards
- 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

Compliance, Governance and Risk Guiding Frameworks

- The Housing Development Finance Corporation of Sri Lanka Act No. 07 of 1997 (amendment Act No. 15 of 2003 and Act No. 45 of 2011)
- 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
- Corporate Governance requirements of Central Bank of Sri Lanka
- Banking Act Direction No. 12 of 2007, and subsequent amendments thereto, applicable to Licensed Specialised Banks
- Capital Requirements under Basel III and the amendments pertaining to Banking Act Direction No. 01 of 2016
- Listing Rules of the Colombo Stock Exchange (CSE)
- Companies Act No. 07 of 2007
- Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act No. 36 of 1987.

Sustainability Framework

- United Nations Sustainability Development Goals

GATHERING INFORMATION

Both financial and non-financial information included in the annual report was gathered through both primary and secondary methods, including interviews with the senior and middle management, heads of divisions and relevant personnel. Reports and documentation, which includes quarterly and or periodic information (both qualitative and quantitative) was accessed, while widely recognised, credible information sources were accessed when analysing the external and industry environments.

COMPARABILITY

Information presented within the report includes both qualitative and quantitative commentaries and provides comparative information pertaining to past and present performances. Projections indicate possible futuristic outcomes but are subject to changes in the macro environment, internal changes and strategic decisions.

Furthermore, the Bank is dedicated to elevating the quality of the report with each publication; taking into account feedback from the auditing party and stakeholders.

How we improved our 2021 report

Adoption of 2021 IR revisions

Additional performance metrics

Increased analysis of performance

Further concised reporting

ASSURANCE

We provide internal and external assurances on the information presented within the report.

Reporting and internal controls

The Board
Internal Audit Team
Auditor General
Audit Company

Corporate governance

The Board
Corporate Management
Internal Audit and Audit Company
Auditor General



ABOUT THIS REPORT

Measures were taken to ensure that all information pertaining to the reporting timeline is presented and delivered in a comprehensible and structured manner. Graphical elements are used for clearly conveying information and in taking a highly analytical approach to presenting information.

FORWARD-LOOKING STATEMENTS

The Annual Report comprises forward-looking statements with regard to financial and non-financial information. Any financial projections for the coming years are based on analysis of historical statements of financials and are subjected to changes due to changes in business activities and changes in the operating environment. The five-year roadmap will also be subject to certain changes including improvements and omissions based on unexpected occurrences in both the internal and external environments. Such changes may alter or deviate from expected outcomes and results stated in such statements.

Unexpected macroeconomic developments, regulatory changes and industry developments could at any time impact operations, and cause either positive or negative impacts, either complimenting or contrasting such forward-looking statements. The pandemic and such unforeseen developments are also taken into account for their ability to change future-based expectations and statements.

The Bank Auditor has therefore not reviewed such statements, given the nature of such circumstances, which could impact forward-looking statements and corporate decisions.

MEDIUMS OF REPORTING

The annual report is disseminated in Sinhala, Tamil and English languages. The report is also distributed amongst Government ministries and shareholders. The report can also be downloaded through the corporate website.

COMMENTS AND SUGGESTIONS

HDFC welcomes all feedback in enhancing the comprehensiveness of the report. Feedback can be addressed to:

The Chief Financial Officer
Mr. Anura Hettiarachchi
E-mail : anura.h@hdfc.lk
Phone : +94 11 2356802, 2446241, 2447354



Vision

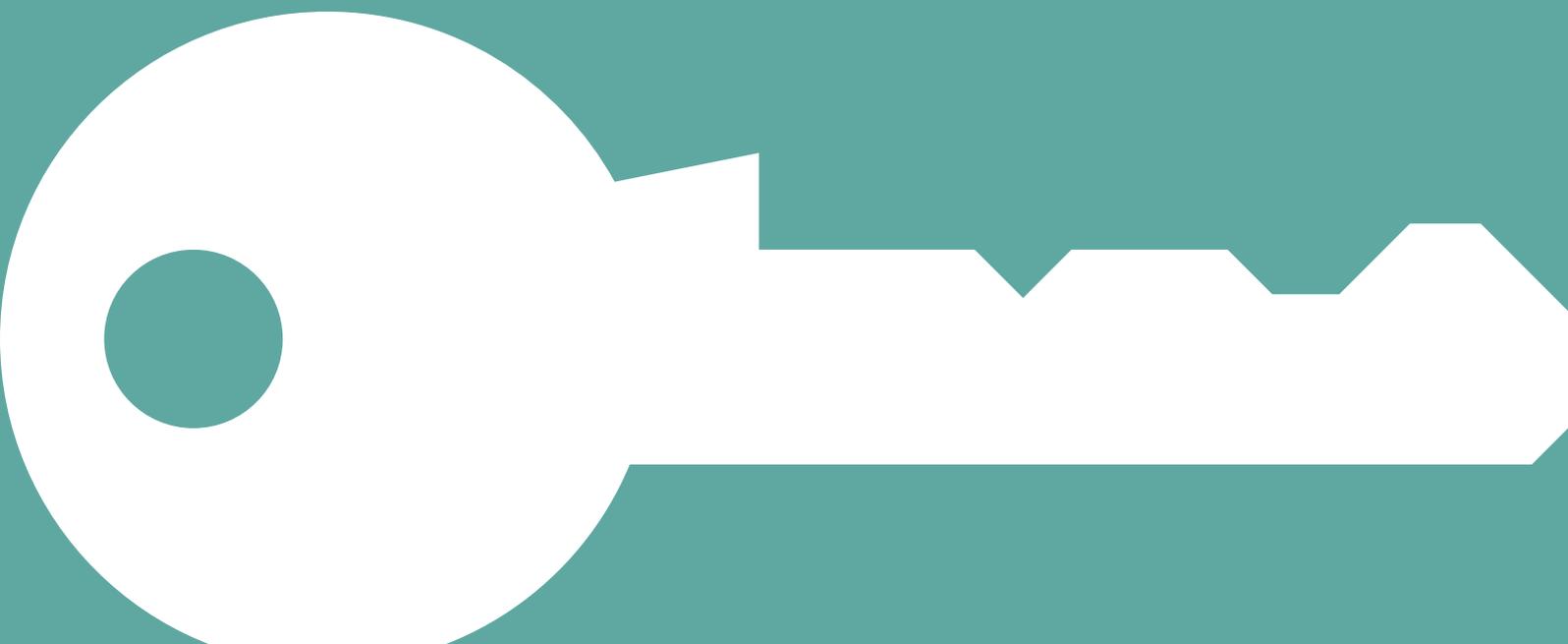
To be the premier financial partner in ensuring sustainable housing and living standards

Mission

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

Values

Ethical
Agile
Resilient
Respect for Diversity
Transparent





HDFC BANK

Our primary focus is in sheltering the housing dreams of Sri Lankans from all corners of the island – irrespective of their economic and social backdrop. This primary purpose is coined with the objective of helping the underserved segments of the country to achieve their goals of finding lasting financial stability.

HDFC Bank is registered under the Central Bank of Sri Lanka and is one of six licensed specialised banks in the country and one of four banks authorised to provide EPF backed loans to customers in the state and private sectors.

HDFC Bank was formed for the unique purpose of funding property and housing related financial needs, and our loan portfolio reflects this purpose with over 70% of the total loan book formed by Housing Loans.

PAST AT A GLANCE

Established in 1984, the Bank has a 39-year history in the housing development finance sector. Over the years, we have worked with countless and diverse customers, enabling them to move out of low and middle income brackets.

Our strengths lie in funding housing requirements, as well as improving the financial literacy of those encumbered by financial burdens.

In 2005, the Bank was listed in the Colombo stock exchange, and operates with a capital base in excess of Rs. 6 Bn.

Serving Sri Lanka since 1984

70% of Loan portfolio formed by Housing Loans

Majority State-Owned Licensed Specialised Bank

Market Capitalisation of Rs. 2 Bn.

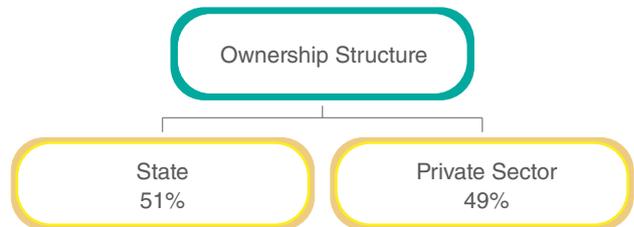
One of four banks specialising in EPF-backed loans

GUIDING PRINCIPLES

HDFC Bank has unfailingly stood by Sri Lankans with varying financial capacities to help achieve their aspirations; this entails providing financial services to rural and grassroots communities and MSMEs primarily in low-to middle income earning demographics.

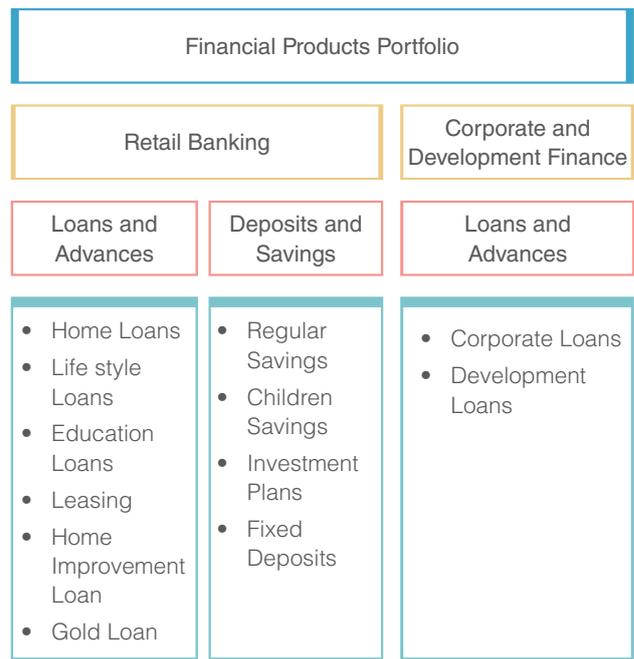
BANK OWNERSHIP

The Bank enjoys an almost equal balance of ownership between the state and private sectors, but the National Housing Development Authority (NHDA) holds a leading stake.



A PORTFOLIO FOR THE MASSES

Providing affordable solutions to individuals (retail), Corporates and SMEs (Development Finance), the Bank's portfolio focus predominantly on housing loans with diversifications in other credit, deposits and savings products for retail and institutional customers. During the recent past, the bank increased its focus on corporate lending and SME development finance expanding solutions to enable the country's social progress.

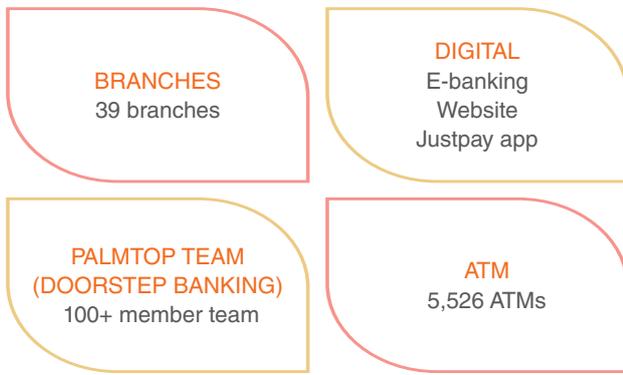




OUR REACH

At present, the Bank's reach includes 39 branches as well as a team of 100 plus mobile banking officers, providing easy and accessible financial services to those who need it the most. The Bank's mobile banking officers or 'Palmtop Banking Officials' provide doorstep banking to all customers, in both rural and urban areas.

OUR TOUCH-POINTS



FINANCIAL STRENGTHS

Our financial position remains stable, driven by an improving asset quality, growing business volumes and improving retail deposit base.

	Credit Rating	Fitch BB+ (Ika) Stable
	Asset Base	Rs. 63 Bn.
	Total Deposit Base	Rs. 50 Bn.
	Loan Portfolio (Gross)	Rs. 44 Bn.
	Annual Income	Rs. 7 Bn.
	Employee Base	614
	Total Customers	472,805

- 01
- 02
- 03
- 04
- 05
- 06
- 07



MILESTONES OF OUR JOURNEY & AWARDS

We have remained the nation's housing development bank for nearly four decades, fulfilling our duty to stakeholders, contributing to the social and economic progress of our motherland.

About HDFC Bank

The Building Society registered under the National Housing Act	The parliament passed the Housing Development Finance Corporation of Sri Lanka Act No. 7 of 1997, establishing a public corporation for fulfilling the services of providing housing-oriented financial services and in accepting public deposits.	Forming the Housing Development Finance Corporation of Sri Lanka, the Housing Development Finance Corporation of Sri Lanka Act No. 07 of 1997 was gazette.	Forming a specialised bank, the Housing Development Finance Corporation of Sri Lanka Act No. 7 of 1997 was amended. The company name was then renamed as "Housing Development Finance Corporation Bank of Sri Lanka" (hereinafter referred to as the "HDFC Bank of Sri Lanka").	HDFC Bank of Sri Lanka was listed in the Colombo Stock Exchange, resulting in investments from the private sector.
⋮	⋮	⋮	⋮	⋮
1984	1997	2000	2003	2005
⋮	⋮	⋮	⋮	⋮
Broadening the scope of business operations, the HDFC Act was further amended. This conferred authority to conduct the forms of business specified in schedule IV to the Banking Act, No. 30 of 1988.	The Bank diversifies products and financial offerings, expanding our reach towards untapped market segments.	HDFC Bank forays into Corporate Finance, establishing a separate division to cater to Corporates – strengthening financial inclusion.	Implementation of Core-banking system – stepping in the direction of digitisation and operational efficiencies.	E-banking initiated
⋮	⋮	⋮	⋮	⋮
2011	2012	2015	2017	2019
⋮	⋮	⋮	⋮	⋮
				2020
				⋮
				Joined the JustPay platform



HDFC BANK RECOGNIZED AT THE 56TH CA AWARDS – 2021

HDFC Bank won the Bronze award in the State Banks category at the prestigious Annual Reports Awards organized by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

This award is an endorsement on the HDFC bank's reporting and communicating capabilities and good governance



HDFC BANK WINS PRESTIGIOUS AWARD FOR BUSINESS EXCELLENCE

HDFC Bank won the Merit Award (Banking Sector) at the National Business Excellence Awards 2021 which was organized by the National Chamber of Commerce of Sri Lanka. It is held annually to recognize business enterprises that have demonstrated excellence under various criteria.

The evaluation criteria for the awards were excellence in the following areas: Strategy & leadership, corporate governance & strategy, capacity building, performance management, local and global market reach, corporate social responsibility & environmental sustainability, and business & financial results.



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- 02
- 03
- 04
- 05
- 06
- 07



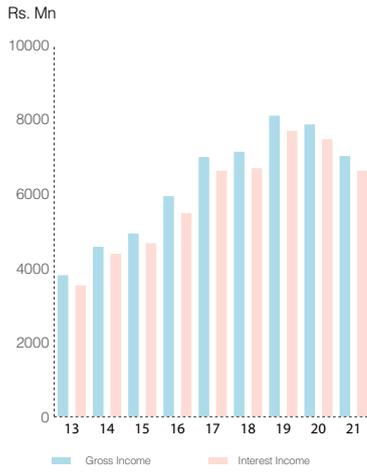
FINANCIAL PERFORMANCE

SUMMARY

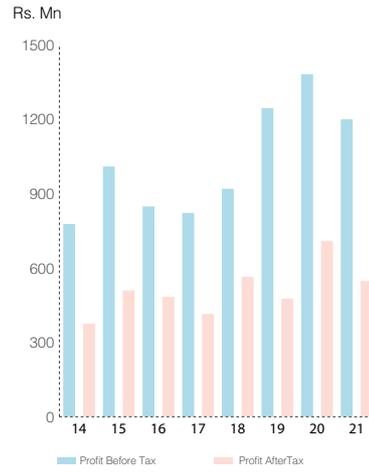
	2021	2020	Change
	Rs.Mn	Rs.Mn	%
Year's Performance			
Total income	7,004	7,856	-11
Interest income	6,612	7,457	-11
Fee income	392	400	-3
Operating profit before tax	1,199	1,381	-13
VAT on financial services	320	313	2
Profit before taxation	878	1,068	-18
Income tax expense	331	360	-8
Profit for the year	547	708	-23
Revenue to government	657	679	-3
Gross dividends	-	16	
Assets and liabilities (as at 31st December)			
Total assets	62,964	61,030	3
Gross loans and advances	43,572	42,659	2
Deposits	49,813	47,947	4
Capital and Reserves	6,635	6,063	10
Ratios			
Return on Average Shareholders' Fund (%)	9.02	12.99	(3.97)
Return on Average Assets (%)	0.88	1.21	-0.33
Shareholders Equity to Total Assets (%)	10.09	9.47	0.62
Gross loans to deposits ratio (%)	87	89	-2
Gross loans to fixed deposits (%)	106	105	1
Net stable funding ratio (%)	122	151	-29
Leverage ratio (%)	9.27	9.09	0.18
Statutory ratios			
Liquid Assets (%)*	26.6	26.07	0.53
Common Equity Tier 1 Capital - Minimum Required 7.00%	21.51	19.34	2.18
Total Tier I Capital Ratio - Minimum Required - 8.50%	22.38	20.20	2.18
Total Capital Ratio - Minimum Required - 12.50%	23.02	20.67	2.35
Share information			
Earnings per share (Rs.)	8.46	10.94	-23
Net assets per share (Rs.)	98.18	89.35	-22
Other information			
Credit rating	BB+ (Ika)	BB+ (Ika)	-
Branches	39	39	-
Employees	614	633	-4



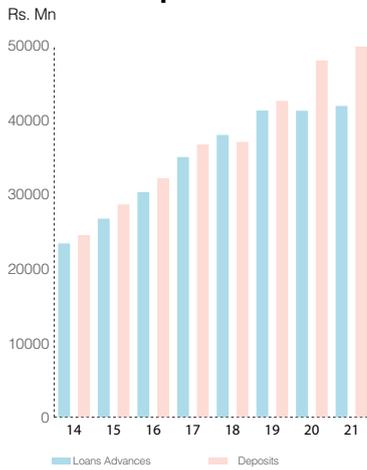
Income



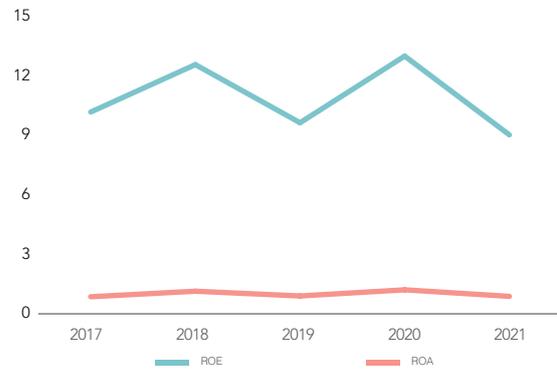
Profit Before Tax & Profit After Tax



Loans Advances & Deposits



ROA & ROE



- 01
- 02
- 03
- 04
- 05
- 06
- 07



OPERATIONAL PERFORMANCE SUMMARY



Customer Base

720,000+
No. of Deposit
Accounts



Deposit
mobilisation

3%
growth



Retail fixed
deposits

6%
growth



Total Deposit Base

Rs. 49.8 Bn.
in total deposits



Loans and
Advances (Net)

Rs. 41.8 Bn.
in total loans



Loans and
Advances

Rs. 340 Mn.
in corporate and
development loans
granted in 2021



Development
Loans

Rs. 3.4 Bn.
in total corporate and
development loans
(including MSMEs)



Working capital
loans

Rs. 56 Mn.
granted since 2020



Branches

39



Employees base

614

employees with high
gender equality in
decision making roles



Human Capital
growth

Rs. 1,387 Mn.

in staff remuneration
and benefits
Rs. 30 Mn. investment
in training
New collective
agreement with the
Union for 3 years



Technology

Rs. 51.3 Mn.

in technological
investments and
expenditures



ECONOMIC VALUE STATEMENT

		Indicator	2021	2020
Value to Stakeholders	Shareholders	Dividends (Rs. Mn.)	-	16
		Taxes to Government (Rs. Mn.)	657	679
	Customers	No. of Deposit Accounts	720,859	695,707
		No. of Loans	90,591	93,463
		Deposits (Rs. Bn.)	49.8	47.9
		Loans and advances (Net) (Rs. Bn.)	41.8	41.2
		Interests to depositors (Rs. Mn.)	3,125	3,824
		E-banking customers	1,322	1,050
		Customers linked with mobile payment app	1,254	-
		Branch reach	39	39
	Employees	Total team	614	633
		Retention %	96.85	97.4
		New recruits	18	17
		Gender parity ratio	57.44	57.07
		Training (Rs. Mn.)	5.4	5.2
		Training hours	20,000+	5000+
		Promotions	116	367
		Total staff remuneration and benefits (Rs. Bn.)	1.3	1.2
	Community	Corporate and Development finance (Rs. Bn.)	3.4	4.2
Value to the Bank	Shareholders	Stated capital	962	962
	Customers	Interest income from loans and advances (Rs. Mn.)	5,440	6,207
	Employees	Revenue per employee (Rs. Mn.)	11.4	12.4
	Banking partners	Interest income from investment instruments (Rs. Mn.)	1,173	1,250
Other Operational Performance Indicators	Investments in assets (Rs. Mn.)	97	55	
	NPL ratio%	18.8	20.2	

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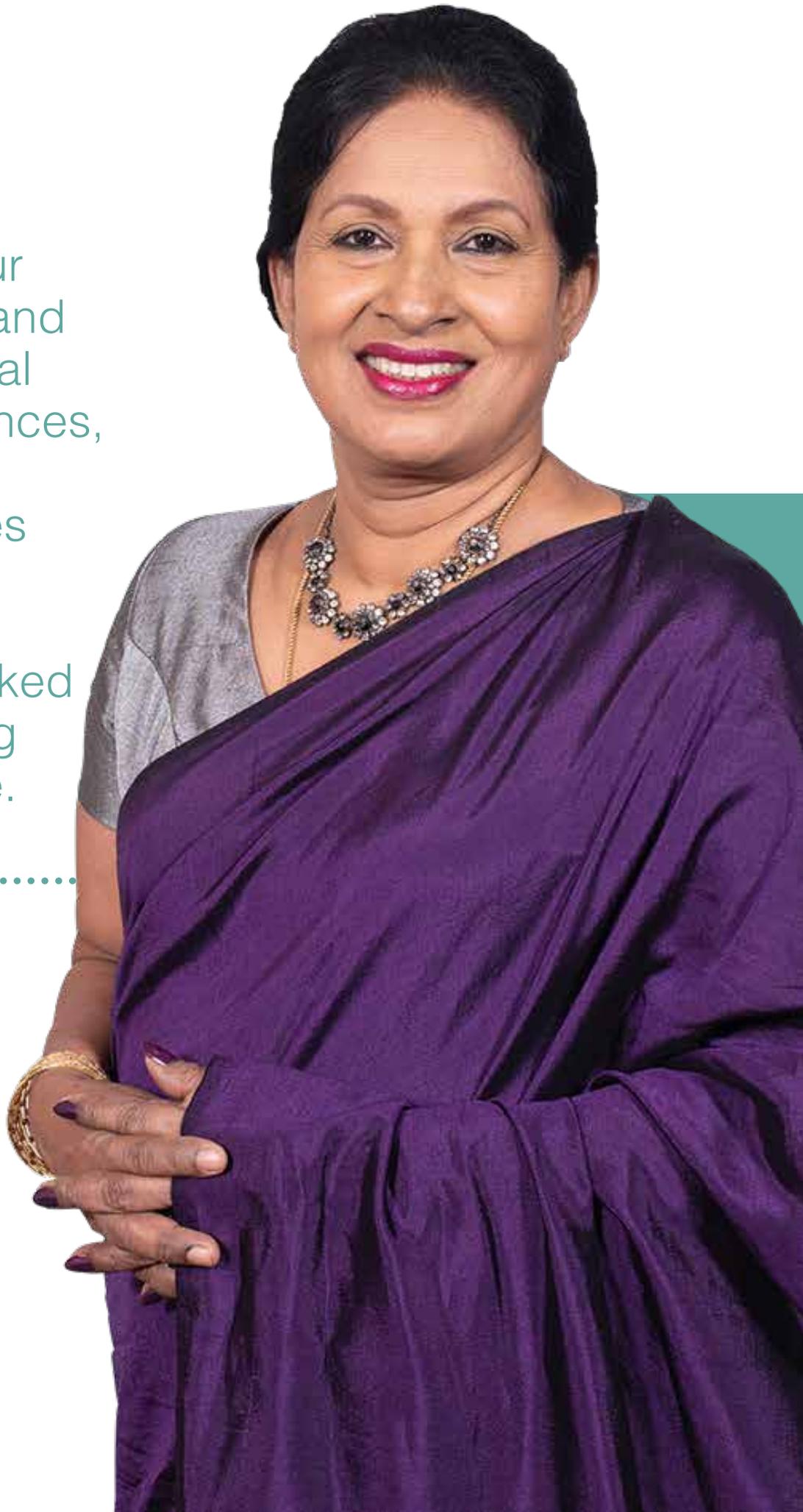
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Across our financial and operational performances, our employees remained the key, which locked everything into place.





Dear Stakeholders,

In 2021, as we stepped into the second year of the pandemic, we were awakened to the full aftershocks of a global crisis and to the economic chaos caused by the outbreak. As a nation, we continue to undergo significant economic ramifications, while continuing to stabilise the spread of the virus to a greater extent.

As a state-owned bank and a stakeholder in the country's financial system, the Bank has a dual responsibility of assisting the Government and the Central Bank of Sri Lanka in their endeavours, while managing our financial position. Having successfully navigated the uncertainties of both 2020 and 2021, we have now achieved a commendable balance in our operational approaches, making this year's annual report a documented testimony of our resilience, therefore, I am pleased to present you with the Integrated Annual Report and audited financial statements for the financial year 2021.

CHAIRPERSON'S MESSAGE

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02

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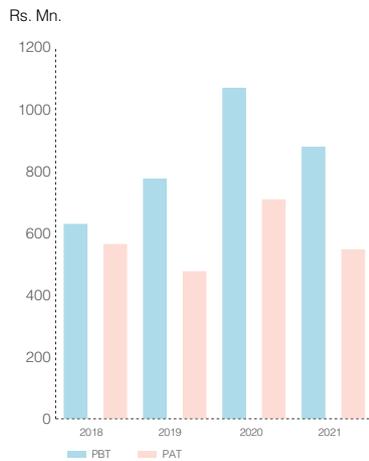
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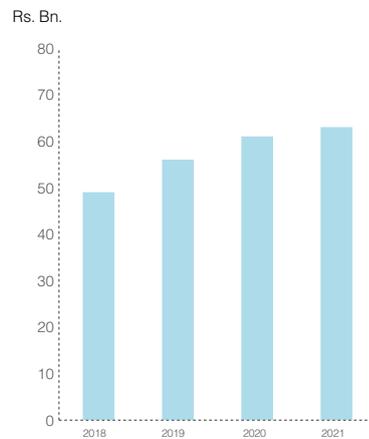
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Bottom Line Indicators - PBT and PAT



Total Assets





CHAIRPERSON’S MESSAGE

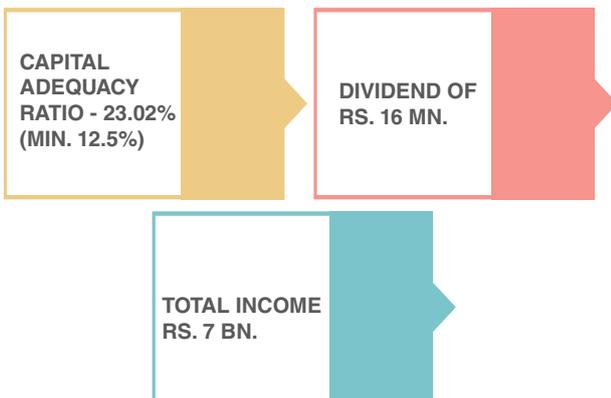
THE BIGGER PICTURE

For the financial year under review, the Bank recorded a profitable bottom-line with net profit amounting Rs. 547 Mn., but subdued in comparison to the previous year. The relative decline is a result of an 11% reduction in total income, which stood at Rs. 7 Bn. at the end of the financial year. Moreover, net interest income stood at Rs. 3.1 Bn. at the end of the financial year, while interest income also declined by 11%, resulting in a year-end amount of Rs. 6.6 Bn.

Total operating expenses increased by 17% amounting to Rs. 1.9 Bn., further impacting the bottom line. In addition, there was an 18% increase in staff remuneration and benefits, as we honoured our commitment to the CBEU collective agreement.

During the year under review, our deposit portfolio increased by Rs. 1.8 Bn., while the total loan portfolio increased by 2%. Moreover, total assets increased by 3% over the corresponding period to Rs. 63 Bn.

We are pleased to announce a Rs. 16 Mn. dividend payment based on 2020 profit to our shareholders after a hiatus of five years. The profitable returns of the past few years facilitated this payout, enabling us to recognise our financial stakeholders for the trust and confidence they have placed in us.



CONTINUED FINANCIAL UNBURDENING

The pandemic's full impact on the economy is now becoming increasingly visible. Inflation is on the rise, driven by rising food and energy prices and due to consequences of supply chain disruptions. The impacts on the housing market are also more palpable than ever before. Prices of raw materials have increased just within the few months of drafting this report. Rising commodity and raw material prices may deter construction to a considerable level – impacting the housing market. As a result, we expect restraint in our housing credit portfolio. Yet, despite these deterrents, we continue to provide financial relief and financing to customers, who belong to the more modest economic categories, enabling them to pursue their interests even during tough economic times.

Although with recurring COVID outbreaks in 2021, which impacted a languishing economy, we extended moratorium facilities mandated by CBSL, in addition to extending bank-driven financial concessions to our borrowers. Extensions were provided for both individuals and businesses including those in the MSME sector. We restructured certain loan facilities applying discretion, while taking sound decisions to curb non-performing loans and raise asset quality, through an effective credit management process.

Moreover, the Bank took measures to facilitate penalty waivers on the basis of flexible conditions to customers, taking measures to further assist and encourage them to settle repayments. Consequently, during the year, a total financial relief of 91.6 Mn was given.



FULFILLING THE CAPITAL REQUIREMENT

In strengthening our capital position, we added Rs. 531 Mn. through Capital and reserves to reduce the Rs. 1.5 Bn. gap, which existed at the beginning of the financial year. Despite the shortfall, we sufficiently maintained our statutory capital and liquidity obligations by maintaining an above average liquid assets ratio and capital adequacy ratio.

As a licensed specialised bank, we are required to fulfil a total of Rs. 7.5 Bn. in minimum capital, and with its hundred-percent fulfilment we will be bolstering our financial position, whilst assuring further stability to stakeholders and shareholders.

IMPACTFUL EFFORTS

Across our financial and operational performances, our employees remained the key, which locked everything into place. Their dedication deserves commendation, as they went above and beyond in connecting with customers, ensuring the smooth functioning of services, even during months of lockdowns. They were instrumental in working towards improving our collections and bringing down the overall NPL ratio, while the prudent judgments and insights of our management helped raise asset quality.

Moreover, our loan processing system underwent significant changes in the recent past, beginning in 2019, as we centralised evaluation and monitoring processes aligned with the goal of bringing down our NPL levels. As a result, not only did the ratio of non-performing loans during last three years decline, it has also improved the quality of loans disbursed.

ENSURING EMPLOYEE WELL-BEING

The higher management continued to ensure the well being of staff affected by the pandemic. Financial support was provided to both permanent and contract staff in finding their financial footing during affected times. We also maintained adherence to health regulations, while providing all necessary arrangements for employees to safely conduct their duties. Remote work arrangements, transport facilities, sanitisation products were ensured till social movements were relaxed.

Despite moratoriums, we fulfilled our financial obligations to employees by increasing remuneration and promoting staff members, assuring both financial stability and career growth even amidst a volatile environment.

OUR DIGITALISATION DRIVE

Digitalisation has become imperative, mainly in making services a competitive factor for the Bank. Due to the pandemic, we accelerated efforts to improve several services including electronic banking for the convenience of customers. However, the rate of adoption by customers remains lower than expected in the short term.

We expect online banking to play a bigger role in the long term, as more and more customers are expected to adopt Bank's digital services. At present, usage is at a moderate level, where our customer segments prefer to obtain services through branches and bank representatives. In allowing a swift transition to e-banking and other digital services we will continue to create awareness on the conveniences of such services. With only 35% of internet penetration in the country, and given the unique demographics of our customers, this will take a relatively prolonged time; however, we expect that the trust our customers place on us will eventually lead to their acceptance and adoption of online banking services.

Nevertheless, there is gradual and steady growth of customer transactions on the Lanka Clear digital payment solution. As a member bank of this national payment platform, we were able to fast track our move towards a cost-effective digital payment solution, while enabling our customers all the conveniences of digital transactions.

STRATEGIC PARTNERSHIPS

Bringing on board new partnerships in transferring financial benefits, we initiated discussions on memorandums of understanding with the Industrial Development Board. Through both strategic partnerships we expect to financially assist small and medium scale entrepreneurs associated with both institutions, by providing credit lines to support investments in raw materials and equipment.

Our alliances with these organisations will help sustain the economic goals of target segments, especially with IDB being an industrial force for thousands of small and medium scale enterprises.

01

02

03

04

05

06

07



CHAIRPERSON’S MESSAGE

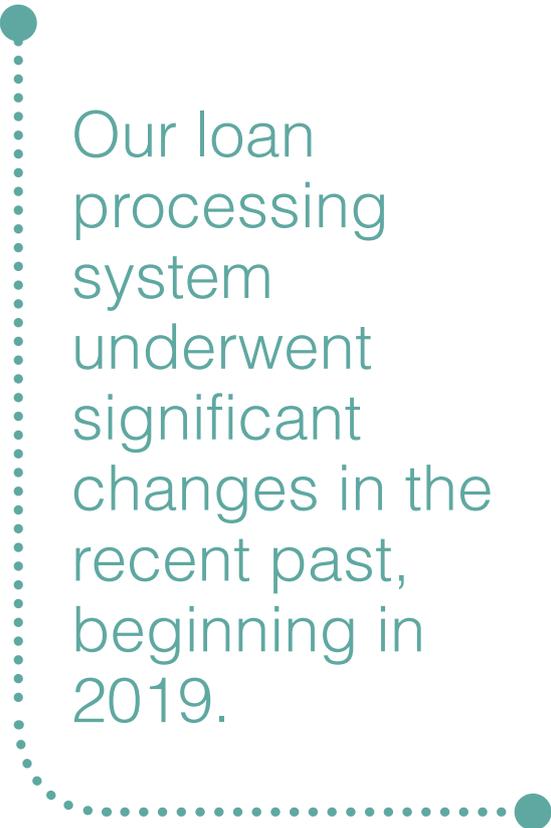
Further expanding our core product segment, which is housing loans, we are continuing discussions with USDA and UDA to provide loans to homebuyers of UDA apartments – which are development projects funded by USDA. This is expected to come into effect after successful discussions – enabling those from the middle-income segment to realize their dream of an affordable and attractive house.

ACCOUNTABLE LEADERSHIP AND GOVERNANCE

In the year 2020, we created our Board Charter, based on the HDFC Act of Incorporation, HDFC rules, and based on regulatory and applicable statutory governance requirements. The charter provides a robust framework, comprehensive of leadership authorities, responsibilities and a structured approach to managing operations. The board Charter was adhered to in 2021, maintaining board authorities and leadership responsibilities in the best interest of the Bank and its stakeholders.

During the year, the Board functioned effectively by addressing concerns and strategic aspects, and took timely decisions on several aspects as per the board agenda. Based on uncompromised accountability, we have maintained compliance to all regulatory and statutory requirements during the year, with no penalties or fees incurred.

Relevant sub-committees have also functioned satisfactorily, as they exercised their responsibilities over internal controls and accounting policies, human resource and remuneration, risk management and related party transactions.



Our loan processing system underwent significant changes in the recent past, beginning in 2019.



AN OUTLOOK OF BROADER POTENTIALS

Focusing on near term plans, we aim to close the existing gap in the minimum capital requirement through profit retention and a bond issue targeted in the range of Rs. 750 Mn to Rs. 1 Bn.

Plans are also underway to launch three loan products in the coming year, focused on the academic community, armed forces and healthcare insurance needs. All three products will be branded attractively, and provided to target segments through a personalised approach – making them exemplary HDFC products. Our focus will be on establishing improved service features as a key competitive approach in the operational year ahead.

Subsequent to achieving the Minimum Capital requirement of Rs.7.5 Bn, our branch expansions are expected to regain momentum beyond 2022, as we plan to add 15 branches to the network.

Automations will also continue beyond 2022, with efforts to advance our core banking system with several new modules and upgrades. In addition, cyber security and network security will be enhanced regularly, to support our transition to digitalisations and automations.

APPRECIATIONS

For conducting duties to the full extent and for managing stakeholder expectations, I convey my appreciation to the Board of Directors, the CEO/GM and to the entire corporate management team. Your leadership enables the Bank to grow undeterred by external challenges. I also thank our staff for their dedicated efforts, integrity and professionalism, and for being representatives of our values. To our customers and service partners, I extend another note of thanks for your trust in us and for remaining with us across the years.

We will continue to follow our core values in serving our stakeholders, while using good judgement to improve our performance and pursue well-devised strategies for growth.

Mrs. Wasanthi Manchanayake
Chairperson

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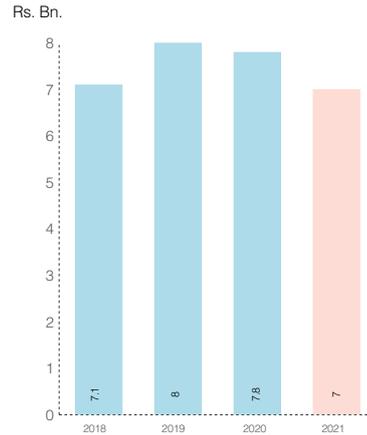


Dear Patrons of HDFC Bank,

After two years of facing social and economic impacts of the pandemic, the country began experiencing some sense of the pre-pandemic normalcy towards the end of 2021. As lockdowns were lifted and as businesses regained the old pace, the Bank too regained its momentum in driving growth and value creation. However, towards the second half of 2021, the full economic and social impacts of the pandemic began to unfold, pushing us to confront the daunting task of rebuilding the nation's economy back to its pre-pandemic stability.

Looking back at 2020, the country's financial regulator took timely decisions to support people and the State; during what was one of the most uncertain and unprecedented times for the economy. In 2020 when the Central Bank introduced facilities including moratoriums, the decision resulted in the financial system approving significant volumes of concessions - giving priority to the MSME sector.

Total income



CEO/GM'S REVIEW

I am happy to announce that the year ended on a positive note despite macroeconomic constraints, with a profit after tax of Rs. 547 Mn.



After a gap of five years, we distributed a dividend of Rs. 16 Mn. (Based on 2020 profit) to our shareholders. Although a lower sum, it was a significant achievement and a bold decision to be taken amidst the volatilities of the country's economy.

01

02

03

04

05

06

07



CEO/GM'S REVIEW

The other significant initiative was the Saubagya COVID-19 Renaissance Facility for working capital loans at 4% interest rate, with repayment periods stretching from 12-36 months. In terms of curbing the spread of COVID-19, Sri Lanka became exemplary in its vaccination drive, with 50% of the population fully vaccinated by September 2021, meeting WHO targets and strengthening people's resilience to COVID-19.

Yet, despite taking necessary measures at the right time, the hidden effects of global border closures and country lockdowns have emerged, causing a domino effect on the nation. These include rampant inflation and threats to dwindling foreign currency reserves. While the country has faced more issues than most nations, there is expectation that through hard changes in economic and monetary policies, the country will be able to rebound towards progress.

Last year's GDP growth of 3.7 is also an indication that in time, a pre-pandemic-level recovery was inevitable. Given the relaxation of movement constraints, economic sectors recommenced work, gradually increasing activities and business results. Most importantly, the external sector which brings in much needed foreign exchange, rebounded fairly towards the end of 2021 with a 24.4% change in merchandise exports, which increased to USD 12.5 Bn in relation to 2020. This however, remained lower than merchandise imports, which reached USD 20.6 Bn. by the end of 2021, widening the trade balance, from USD 6 Bn. to USD 8.1 Bn.

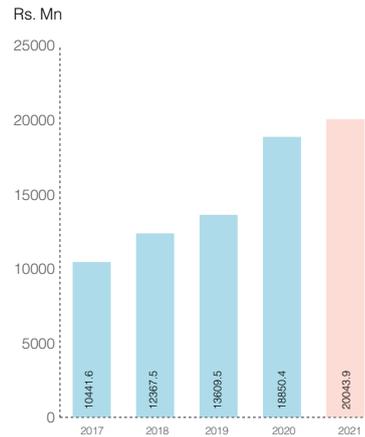
GAINS AND FINANCIAL POSITION

I am happy to announce that the year ended on a positive note despite macroeconomic constraints, with a profit after tax of Rs. 547 Mn. The profit before tax amounted to Rs. 1,198 Mn. in 2021. I believe that the consolidated benefits of an increase in fee income, timely asset and liability management, improvement in recoveries which lead to lower impairment, contributed towards the year's profitability.

However, bottom-line results were subdued in comparison to the previous year, as PAT and PBT declined by 22.7% and 13.2%, respectively. Total assets for the year stood at Rs. 62.9 Bn. with a growth of 3% from 2020. Profit after tax was impacted by personnel expenses to the staff, which increased during the year to Rs. 1,387 Mn.

Total income also declined by 11% to Rs. 7.0 Bn. in comparison to 2020, while total operating income was reported as Rs. 3.4 Bn., a 2% lift from the figure in 2020. Fee income increased by 13% to Rs. 342 Mn. Net interest income reached Rs 3.1 Bn. in 2021, in comparison with Rs. 2.98 Bn in 2020, the increase is due to the reduction in interest expenses.

Retail - Fixed deposits



THE APPROACHES OF 2021

In 2021, our focus was directed towards remaining profitable, while developing a skilled workforce, improving our technological backdrop and being fully compliant with regulations. While these were focused upon on a strategic level, operationally, we focused on building a quality portfolio with a lower NPL. Our overall NPL now stands at 18.8% in comparison with 20.2% at the beginning of 2021. Moreover, keeping costs at an optimum level we maintained our overhead ratio at 4% in the year under review.

Aligning with the five-year strategic plan, we reached a total equity of Rs. 6.63 Bn., and 0.88% of ROA. In supplementing the strategic plan we developed divisional annual action plans for all business and service units. Moreover, the strategic plan will be revisited annually and adjusted where necessary. It must be noted that areas of growth and quality improvements are lagging behind targeted actions, due to pandemic related obstructions.

VALUE FOR STAKEHOLDERS

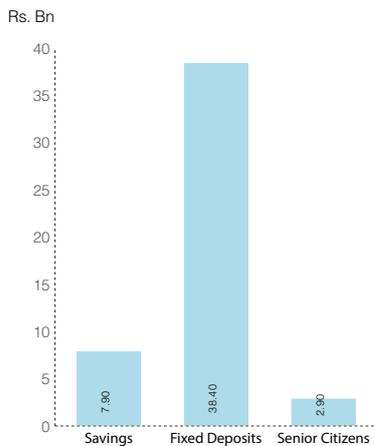
After a gap of five years, we distributed a dividend of Rs. 16 Mn. (Based on 2020 profit) to our shareholders. Although a lower sum, it was a significant achievement and a bold decision to be taken amidst the volatilities of the country's economy.

In 2021, we negotiated and signed the collective agreement for 2021-2023, while paying all salary arrears as per the agreement. There was a 18% increase in remuneration, as we committed to over Rs. 1.38 Bn. in total staff benefits and salary in comparison to Rs. 1.17 Bn. in 2020. During the year, we invested in a higher number of training programs for our employees in addition to an online training facility which accommodates 300 people.



Furthermore, in delivering assured value to customers, we paid a sum of Rs. 3,124 Mn. in interests to deposit customers, while approving a total of Rs. 12,000 Mn. in loans during 2021.

Savings, FD and Senior Citizens Portfolio (2021)



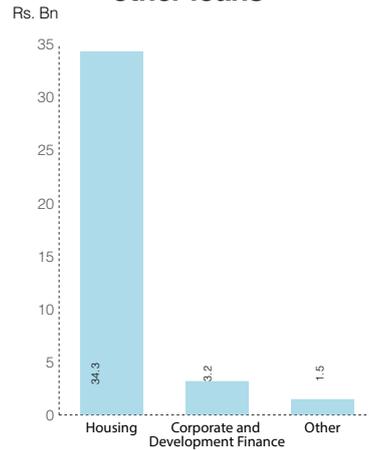
THE SEGMENT PERFORMANCE

Looking at our two main business portfolios, there was a 1.5% growth in loans and a 4% growth in deposits. During the year, the composition of retail deposits out of total deposits increased from 30% to 59%, taking us just 1% under the targeted growth; this was done with the purpose of reducing our dependence on more price sensitive corporate deposits, and with the objective of having a more granular deposit base. Corporate and institutional deposits remained at 41% from the total base, while our total deposit base increased by 4% to Rs. 49.8 Bn. from Rs. 47.9 Bn. in 2020. There were visible growths in savings (12.9%), investment plans (49%) and senior citizens deposits (29%), with a marginal growth in fixed deposits.

Retail fixed deposits increased by 6% during the year, in comparison to 2020 while corporate and institutional fixed deposits had a decline of 3%. Overall, fixed deposits, reached Rs. 38.4 Bn. by the end of the financial year. During the year, two large state sector deposits amounting to Rs. 2.2 Bn. were withdrawn from the Bank, which were compensated through the growth in retail deposits.

The retail loan and advances portfolio grew by 2%, while there was a 4% increase in our housing loan segment. The total loan portfolio amounted to Rs. 41.8 Bn. surpassing Rs. 41.2 Bn. from 2020. Housing loans, which represents 84.46% of the entire loan portfolio, amounted to Rs. 34 Bn. compared to Rs 32 Bn. in 2020.

Housing loans, corporate and SME finance and other loans



IMPROVING THE CREDIT CULTURE

In 2019, we commenced our focus on improving the credit culture across the Bank. This was done through a series of process improvements. Loan approval process was more centralized based on thresholds. Centralisation of disbursement approval, follow-ups and recovery was also overseen by the management along with the risk and credit departments. These steps have now made our loan approval process more effective in terms of improving the quality of loans disbursed and in bringing down our NPL ratio; moreover, the system now ensures proper end utilisation of funds. Results of the revamp became visible in 2020 and 2021.

During the year, an online paperless approval system was fully implemented, providing personnel a digitised system to access documentation and take swift and hassle free decisions. Furthermore, our collection and recovery unit was strengthened with the appointment of a new head for the department.

Encouraging employees to work consciously and dedicatedly towards increasing collections, we provided quarterly rewards for portfolio growth and NPL reductions; in addition to providing annual awards for highest portfolio growth, and NPL reduction, as well as for deposit growth.

- ▶ 01
- 02
- 03
- 04
- 05
- 06
- 07



CEO/GM'S REVIEW

SUPPORTING OUR ECONOMY'S BREADWINNERS

Since the launch of the 'Saubagya' refinancing facility in 2015, we have granted a total of Rs. 332 Mn in loans as at the end of 2021. This is apart from development credit of Rs. 1.9 Bn. which was reported as the total value at the end of the year, including Rs. 335 Mn. disbursed during the year under review. In total, the Bank has provided Rs. 340 Mn. in Development and SME Finance across the financial year. At the end of 2021, the total value of Development and SME finance stood at Rs. 3.4 Bn.

Since the onset of the pandemic's financial relief package, we have extended credit moratoriums to 5,874 customers, while moratorium related concessions, amounted to a total value of Rs. 5.66 Bn. During 2021, we also continued to extend moratoriums as per the regulatory mandates, mainly to our customers in the hospitality and tourism sectors, which included a small number of customers.

PROCESS IMPROVEMENTS AND GOVERNANCE

The Bank continues to undergo a conscious effort in improving processes, through internal controls and risk management, which has a direct association in improving our credit culture. We also ensured that Board Committee structures are complete with TORs and policies enabling the committees to discharge duties effectively. During the year, the board reviewed and approved the investment policy, adjusting it to avert risks and losses based on recent scenarios in the financial markets and the economy. In addition, the Board also reviewed the progress of the strategic plan.

BACKING DIGITAL EXPANSIONS

Initiatives in the recent past have increased our focus on data management requirements and in strengthening our technological systems. As a result, we invested Rs. 30 Mn. in implementing Oracle 19C and another Rs. 35 Mn. in upgrading our server capacity.

The delinquent management system introduced in 2019 is now complete with Loan, Leasing and Gold Loan modules, with Legal module undergoing User Acceptance Testing (UAT), while a new module for reporting is under progress.

As a Bank which had a somewhat delayed entry into digital products, we now have a planned focus on increasing our scope in digitalisations. During the year, we converted our ATM card to an International Debit Card, enabling POS transactions. Adding to e-banking facilities we have now enabled immediate fund transfers through HDFC Click – our dedicated e-banking portal. Moreover, for Digital Payment transactions, our savings accounts are now connected with the JustPay payment platform.

FULFILLING THE CAPITAL GAP

In terms of achieving the minimum capital requirement we were well on our way in 2021 with plans to close the remaining gap by the end of 2022. In the year under review, this became possible through retained profit being transferred to fulfill the requirement. In addition, we plan to issue a perpetual bond of Rs. 1 Bn., which will help raise the remaining capital deficit without impacting the profits of 2022.

OUR FUTURE IN NUMBERS

Our medium term focus revolves around addressing goals set out in the strategic plan for 2021-2025. Given the limitations that have arisen in fulfilling the capital requirement, our ability to aggressively pursue operational goals was restrained. In 2022, we will strive to bring closure to the remaining capital deficit of Rs. 750 Mn. The subsequent free up of profits and other capital sources will then be allocated towards expanding operations and in expediting action plans detailed under the strategic plan.

Our main focuses over the next few years will include taking our total equity up to 11.5 Bn., total assets up to Rs. 116 Bn. and bringing down our NPL ratio to 6%. Moreover, we also have a target of reaching 70% of retail deposit composition by the end of 2025; in addition, we also target an increase of savings composition to 25% from 17%.

Our market share over the years has been relatively small, owing to our target customer segments, whose earning potentials range from low to middle income ranges. Nevertheless, we expect to increase our focus on the corporate sector as well as the MSME communities and various smallholder sectors in expanding our market share from 3.5% to 4.5% in the medium term, within the licensed specialised banking sector.



An expansion in the corporate and development category will also pave the way for us to lower our existing higher risk exposures, while also improving the quality of our asset portfolio. Not only will this bode well on our long-term business growth, it is also expected to boost our credit rating to BBB.

However, the economic and social adversities within the country will likely affect the banking industry. Therefore, we will continue to factor in economic impacts and the effects of international developments on commodity prices, which carry a direct impact on the country's existing high inflation.

In the near term we will be looking at making three transformations to the balance sheet - improving the quality of loans granted, increasing the composition of floating rates asset base and in increasing retail deposit composition. In terms of promoting floating rate assets, our focus is to reach 50% of the portfolio on floating rates within the next few years, which will also allow customers to make payments on lower rates, as interest rates will not remain the same and will likely reduce across the loan term.

From an operational perspective we will continue to adopt further technological capabilities in becoming an efficient niche market player. Further technological and digital solutions will also become prudent in attracting new depositors and borrowers, while diversified. Diversified and innovative services will attract more tech-savvy demographics with busy lifestyles. In addition, raising our commitment to environmental and social accountability, we will lay down the steps in developing a robust environment and social management framework with a target to mobilise 'Green Funding'.

THE TIME AHEAD...

The economic growth of the country now remains at a standstill. Therefore, making any predictions at this time is immature. However, we remain somewhat optimistic that the country's discussions with IMF, the tight monetary policy and increased rates will bode well for the country's mid-term financial position. While some tough calls will have to be taken, we somewhat anticipate the economy to reach better days.

Given the increased rates at the time of penning the report, I project our deposits to increase in the immediate time ahead. Based on the rising inflation which will tighten disposable income, we expect loans and advances to witness a slowdown during the year ahead.

ACKNOWLEDGING COMMITMENT

As a financial intermediary, the Bank needs the governance and leadership of our Board of Directors, and the operational experience and financial acumen of our corporate management, to strike a balance between our strategic vision and our operations. I received the support of both parties throughout the year in ensuring this balance and in maintaining financial stability. Therefore, I convey my appreciation to the Board of Directors, especially Chairperson Mrs. Wasanthi Manchanayake, for their confident decision-making and leadership.

I am also grateful to our Regional Managers and Branch Heads for their dedication towards being aware of the present challenges and for working towards maintaining growth and stability. The same can be said for our employees who were fully committed to their duties, across branch and head office operations and also amongst our palmtop operations. I am thankful to our entire team for coming together in providing services during lockdowns and for ensuring that our portfolios continued to improve.

I would also like to extend my gratitude to our customers, who continue to rely on our services for financial progress and I must also thank our service partners, for extending your understanding and support during the past financial year, and for working with us to overcome challenges.

We continue to strengthen our financial position, with the objective of sharing the outcomes of our hard work with all stakeholders.

Mr. Palitha Gamage
CEO/General Manager

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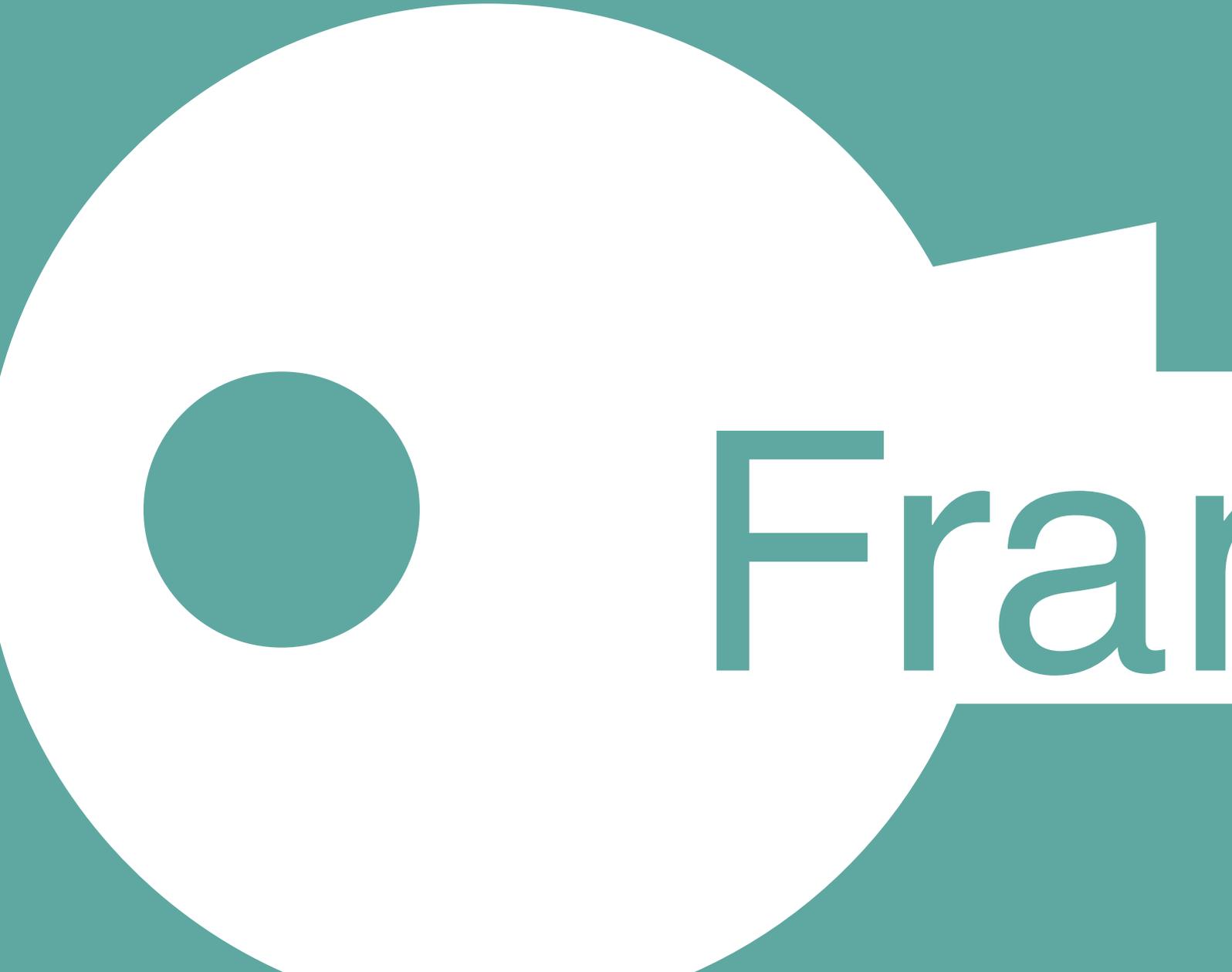
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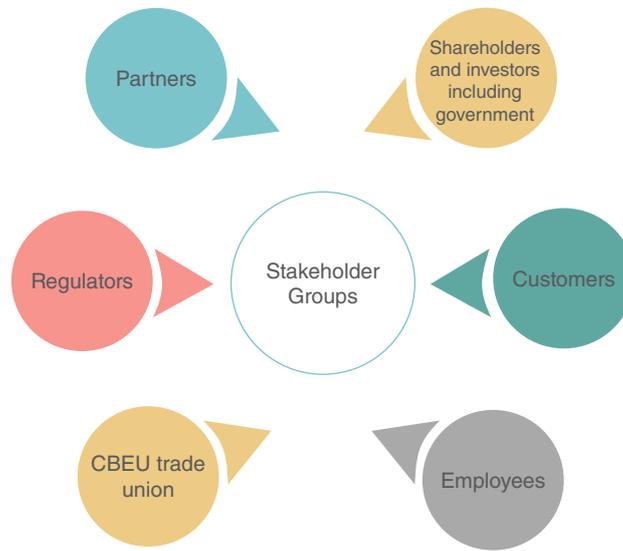


FOSTERING RELATIONSHIPS WITH STAKEHOLDERS

We operate with a network of diverse stakeholders that is directly impacted by what we do. In maintaining respectful and positive communications we engage with them in a myriad of ways. However, engagement levels differ according to the nature of business transactions and stakeholder expectations.

We remain focused and mindful of our responsibilities towards our shareholders, customers and regulators, while staying committed to our obligations towards partners and employees.

OUR STAKEHOLDERS



Purpose

We engage with stakeholders to:

1. Ascertain expectations
2. Inform new developments and progress
3. Deliver expected value



The following provides an overview of how we engage with our stakeholders.

Stakeholder	Engagement Method	Frequency of Engagement	Level of Engagement
 <p>Shareholders and Investors including the government</p> <ul style="list-style-type: none"> Institutional shareholders Public individual shareholders 	<ul style="list-style-type: none"> Annual report Interim financial reports AGM Company secretary E-mails Visits 	<ul style="list-style-type: none"> Annually Quarterly Annually Continuous 	High
 <p>Customers</p> <ul style="list-style-type: none"> Retail and corporate clientele, including MSMEs, private and state sector clients 	<ul style="list-style-type: none"> Branch services Palmtop banking HDFC website E-banking (HDFC Click) Digital transactions Awareness programmes Institutional meetings Call centre Social media 	Continuous	High
 <p>Employees</p> <ul style="list-style-type: none"> Branch staff Head office staff Palmtop officers 	<ul style="list-style-type: none"> Intranet E-mails Skip level meetings Inductions Training programs HDFC newsletter 	Continuous	High
	<ul style="list-style-type: none"> Awards program 	Annually	
 <p>Trade Union - CBEU</p>	<ul style="list-style-type: none"> Meetings E-mails 	Time to time	High
 <p>Partners</p> <ul style="list-style-type: none"> Merchants and service providers Institutional partners 	<ul style="list-style-type: none"> E-mail Meetings Site visits 	Continuous	Medium
 <p>Regulators</p> <ul style="list-style-type: none"> CBSL CA Sri Lanka SEC CSE 	<ul style="list-style-type: none"> Mandatory submissions Inspections Forums and workshops Media communications 	Periodically and Continuous	High
 <p>Community</p>	<ul style="list-style-type: none"> HDFC website Social Media Media communications E-mail 	Continuous	Low

- 01
- 02
- 03
- 04
- 05
- 06
- 07



FOSTERING RELATIONSHIPS WITH STAKEHOLDERS

MANAGING STAKEHOLDER EXPECTATIONS

Through our regular interactions with stakeholders and through years of well-maintained relationships, we have ascertained several key expectations of our patrons.

Stakeholders	Expectations	Management Approach
 * Shareholders and investors including the government	<ul style="list-style-type: none"> Financial growth and stability Ethics and transparency Well-balanced financial management Innovations and competitiveness Strategic actions that cause positive market sentiment 	<ul style="list-style-type: none"> Strategic plan focused on financial growth Maintaining or increasing profitability Increasing income Optimising costs Ensuring asset quality
 Customers	<ul style="list-style-type: none"> Reliable service Inclusive and affordable products Approachability Awareness on products Financial stability for depositors Safety in digital/online transactions 	<ul style="list-style-type: none"> 100-member palmtop team for doorstep services Professional and adept staff Constant social media engagements Physical and digital product promotions Customised credit plans and loan restructuring Increasing cyber-security Continuous improvements in digital transactions
 Employees and Union	<ul style="list-style-type: none"> Job security Knowledge growth and succession Financial development Conducive work environment Health and safety Performance recognitions Inclusivity and equal treatment 	<ul style="list-style-type: none"> Increasing remuneration and benefits Unmatched financial incentives and work benefits Promotions Increasing number of training programs Good relations with employee union Due recognition for performance
 Partners	<ul style="list-style-type: none"> Commitment to contracts Timely payments Open communication Friendly and professional rapport Providing new business Good reputation 	<ul style="list-style-type: none"> Timely payments Open communication
 Regulators	<ul style="list-style-type: none"> Ethical financial transactions Transparent reporting Prudent risk management Proper credit approval Sustainability in governance Compliance to regulations 	<ul style="list-style-type: none"> Maintaining timely and comprehensive reporting Addressing concerns Compliance reports Period financial report submissions
 Communities	<ul style="list-style-type: none"> Responsible operations Minimal environmental impact CSR Financial development 	<ul style="list-style-type: none"> Reducing impact on the environment Community development through MSME and smallholder financing

Integrated Value Creation - Strategic Framework



MATTERS OF MATERIALITY

Understanding the needs of our stakeholders and the performance of our financial and operational aspects enables us to adopt a holistic approach to value creation. By assessing matters of material importance, we not only ascertain what is expected of us, but we are able to actualise expectations through a clearly defined strategic plan, with well-met goals.

HOW WE ASSESS MATERIAL MATTERS

We have placed importance on several material matters that is relevant to us in achieving objectives, in achieving growth and stability. Material matters include stakeholder expectations and priorities that impact us as a financial intermediary. These are recognised and assessed by applying better judgment and engagement methods.



- 01
- 02
- 03
- 04
- 05
- 06
- 07



MATTERS OF MATERIALITY

MATERIAL MATTERS

For the purpose of compiling a comprehensive report, we have listed aspects that have material relevance to us and to our stakeholders.

Stakeholders with direct material relevance	Material Aspect	Relevance to the Bank	Why is it material?	Management Approach	
				Approach	Reference
All	Revenue and profitability	H	Revenue and profitability enables growth and value creation	Growing revenue and profitability through a concentrated focus on business segments	Business Segments and Financial Capital Report
All	Sound financial position	H	Increases shareholder confidence and meets regulatory requirements, while increasing stability	Fulfilling regulatory capital requirements, sound financial and investment management alongside optimizing cost expenditure	Financial Capital Report and Financial Statements
Customers Partners	Improving accessibility	H	Paves the way for increased business interactions, revenue growth, and customer satisfaction	Developing digital banking channels and accessibility through palmtop banking unit	Social and Relationship Capital Report and Intellectual Capital Report
Customers Employees	Prudent lending process	M	Keeps asset quality high and boosts financial stability	Credit approval process with authority levels and integration with risk department	Business Segments Report, Risk Management Report
Employees	Managing NPL	M	Reduces risks and improves revenue	Empowering and improving collection and recoveries department	Business Segment Reports and Financial Capital Report
Customers	Diversified and affordable products	M	Brings in new customer segments, helps expand market boundaries	Renewing and rebranding products	Social and Relationship Capital Report and Intellectual Capital Report
Customers Employees	Competitive and convenient services	H	Better services leads to attracting and retaining customers	Maintaining doorstep services and increasing digital services, training to employees	Social and Relationship Capital Report and Intellectual Capital Report
Employees	Rewards and recognition	M	Enhances satisfaction and motivates productivity	Annual rewards and recognition, monthly recognitions	Human Capital Report
Employees	Managing talent, career growth and succession	H	Builds team engagement and prospects for career and personal growth	Policies that ensure talent management	Human Capital Report
Employees Customers	Health and safety	M	Ensures well-being, and a sense of care	Responsible conduct against COVID-19	Human Capital Report and Social and Relationship Capital Report
Employees	Fair remuneration and benefits	H	Better motivation, productivity and sense of purpose	Honors timely payments and collective agreement with union	Human Capital Report



Stakeholders with direct material relevance	Material Aspect	Relevance to the Bank	Why is it material?	Management Approach	
				Approach	Reference
Employees Customers	Inclusivity and equality	M	Endorses a respected and conducive environment, which attracts and retains people	Ensures a non-discriminatory work environment, welcomes diversity and ensured equal treatment	Human Capital Report and Social and Relationship Capital Report
Partners Regulators Community	Strengthening partner relations	H	Positive relations builds reputation, which in turn helps boost business growth	Engaging with partners and maintaining well-rounded contracts	Social and Relationship Capital Report
Partners Employees	Financial value creation	H	Builds trust that leads to loyalty and satisfaction	Through timely payments	Social and Relationship Capital Report
All	Compliance	H	Enhances reputation and reliability	Compliance with external regulations	Corporate Governance Report and Risk Management Report
All	Anti money laundering initiatives	M	Increases accountability	Enhancing knowledge to counter laundering activities through training	Human Capital Report
All	Risk management and corporate governance	H	Conscientious conduct and responsible handling of people's finances	Risk management policy and robust governance framework	Corporate Governance Report and Risk Management Report
All	Business continuity	H	Ensure continued value creation for all	Setting tech infrastructure in place	Manufactured Capital Report and Intellectual Capital Report
All	Advancing technologically	M	Develop efficiencies for better service, productivity and enhanced business activities, as well as cost optimisations	Investing in improving digital tools and internal systems	Intellectual Capital Report
All	Managing impact on natural environment	L	Mindfulness in safeguarding the environment and sustainability	Approaches to optimise energy usage and adopt environmental	Natural Capital Report
Community	Community service	M	Provide financial assistance to underserved businesses and individuals	Efforts to develop MSMEs and smallholder communities	Social and Relationship Capital Report

H – Highly relevant to strategic focus and operational goals
M - Moderately relevant to strategic focus and operational goals
L - Low relevance to strategic focus and operational goals





STRATEGY AND RESOURCE ALLOCATION

THE STRATEGIC PLAN (2021-2025)

We have developed specific objectives and goals to fulfill our strategic focus for the next four years. Our focus for the strategic plan is based on several objectives, which we aim to achieve by the end of 2025.

Strategic Objectives



WHAT WE WANT TO BE

Leader in the housing finance market – Currently one of the two housing banks mandated by acts of parliament; we are striving to become a leader in the market for housing finance.

Remaining as a stable and standalone entity – Maintaining financial stability through adequate capital infusions in order to be self-sufficient and induce growth

Further develop our workforce – Develop a force competent in all technical aspects of banking, risk management and finance

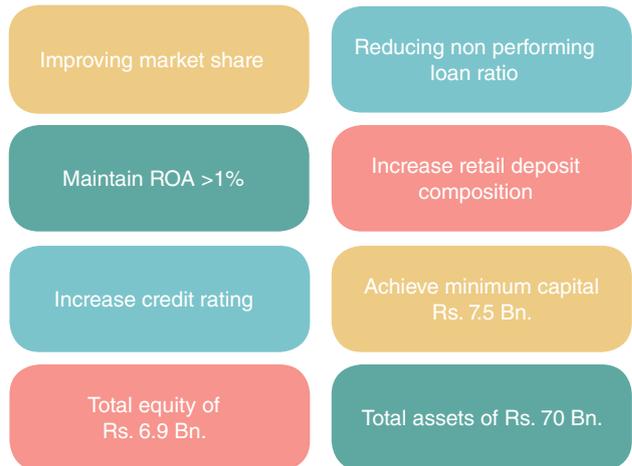
Culture of risk consciousness – A risk conscious culture through proper training and streamlined processes for credit and financial transactions

Technologically relevant – Adopt tech infrastructure across bank’s functions, facilitating effective functioning of both back office and front office processes

Full compliance with regulatory requirements – Seek and establish compliance with all banking and technology related regulations.

KEY OPERATIONAL GOALS (2021)

With a focus on achieving strategic objectives, we have set out several broad-based operational goals to enhance our financial position and stability within the market; with the ultimate aspiration of fulfilling all strategic objectives.





HOW WE MET GOALS IN 2021

The following depicts how we met goals in the year under review. While we are on track with ROA, retail deposit mobilisation and credit rating, we are yet to reach other targets which were planned for 2021.

NPL reduced	ROA	Retail deposit composition	Market share (LSBS)
2021 - 18%	2021 - <1%	2021 - 59%	2021 - 4.7%
2020 - 20%	2020 - >1%	2020 - 30%	2020 - 5.3%
Credit rating	Capital Base	Total equity	Total assets
2021 - BB+ (lka) Stable	2021 - Rs. 6.72 Bn.	2021 - Rs. 6.4 Bn	2021 - Rs. 63 Bn.
2020 - BB+ (lka) Stable	2020 - Rs. 6 Bn.	2020 - Rs. 5.8 Bn	2020 - Rs. 61 Bn.

HOW WE PLAN TO ACHIEVE OUR OPERATIONAL GOALS

The following includes a broad-based look at how our operational goals will be achieved in achieving strategic objectives within the next four years.

Goal	Approach
Improving market share	Market penetration (personal and cross selling, preferential rates etc...) Market development (higher income groups and expansions) Product development and diversifications (new credit schemes)
Reducing non performing loan ratio	Enhance new loan quality Better collection follow-up Effective use of the delinquency management system
Maintain ROA >1%	Increase non interest income Increase CASA ratio Support the above through improved productivity and improved staff motivation
Increase retail deposit composition	Enhanced market communications Channel and product development
Increase credit rating	Perpetual bond issue
Achieve minimum capital Rs. 7.5 Bn.	Retained profits
Total equity of Rs. 6.9 Bn.	Improved loan granting process
Total assets of Rs. 70 Bn.	Improved asset quality

01

02

03

04

05

06

07



VALUE CREATION MODEL

EXTERNAL AND

INPUTS

FINANCIAL CAPITAL

- Shareholders Fund
- Deposit Base
- Total Assets
- Borrowings and Debentures
- Investments

HUMAN CAPITAL

- Policy Framework
- Performance Evaluation
- Recruitment and Career Advancement
- 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
- Growing Partners
- Diverse Suppliers
- Partnership with Community based institutions
- Focus on developing smallholders and SMEs
- Regulator Relations
- Supporting communities/SMEs
- Development Projects
- CSR

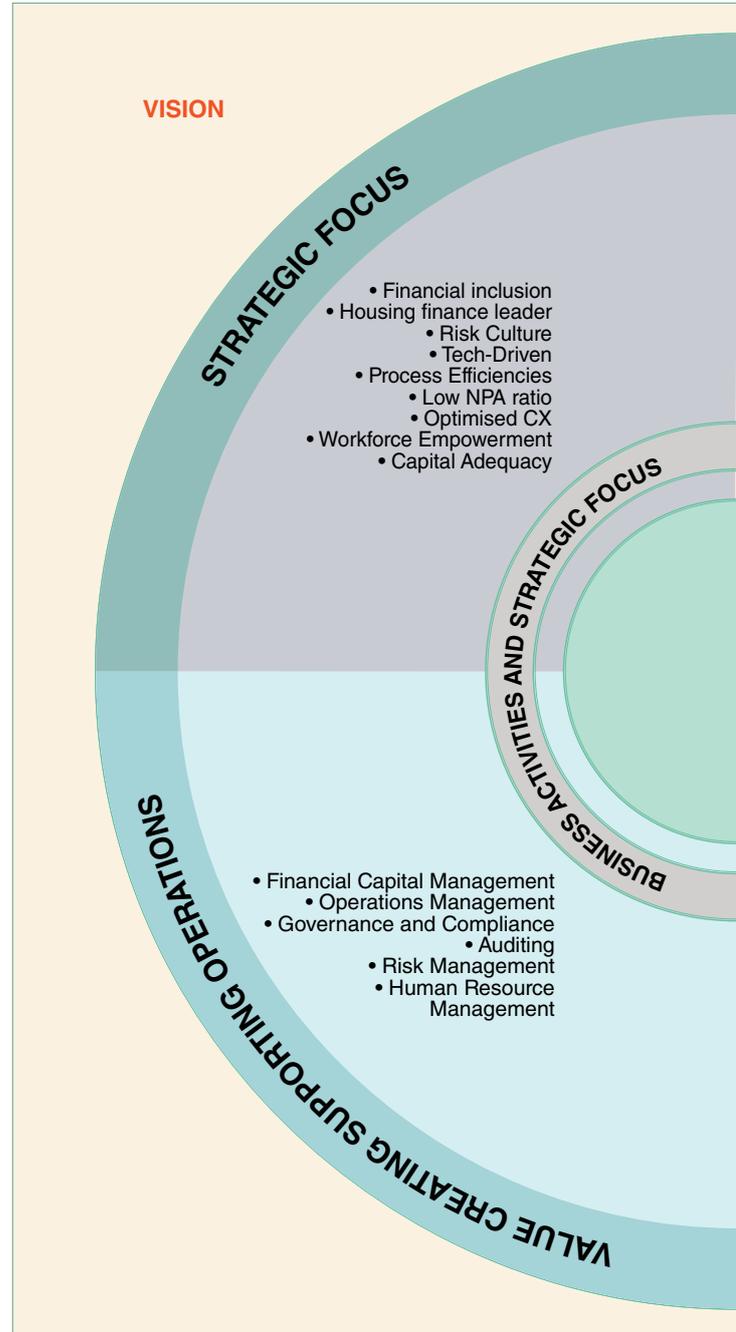
MANUFACTURED CAPITAL

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

NATURAL CAPITAL

- Material recycling
- Renewable energy
- Utilities consumption
- Nurturing nature

ACTIVITIES THAT CREATE VALUE



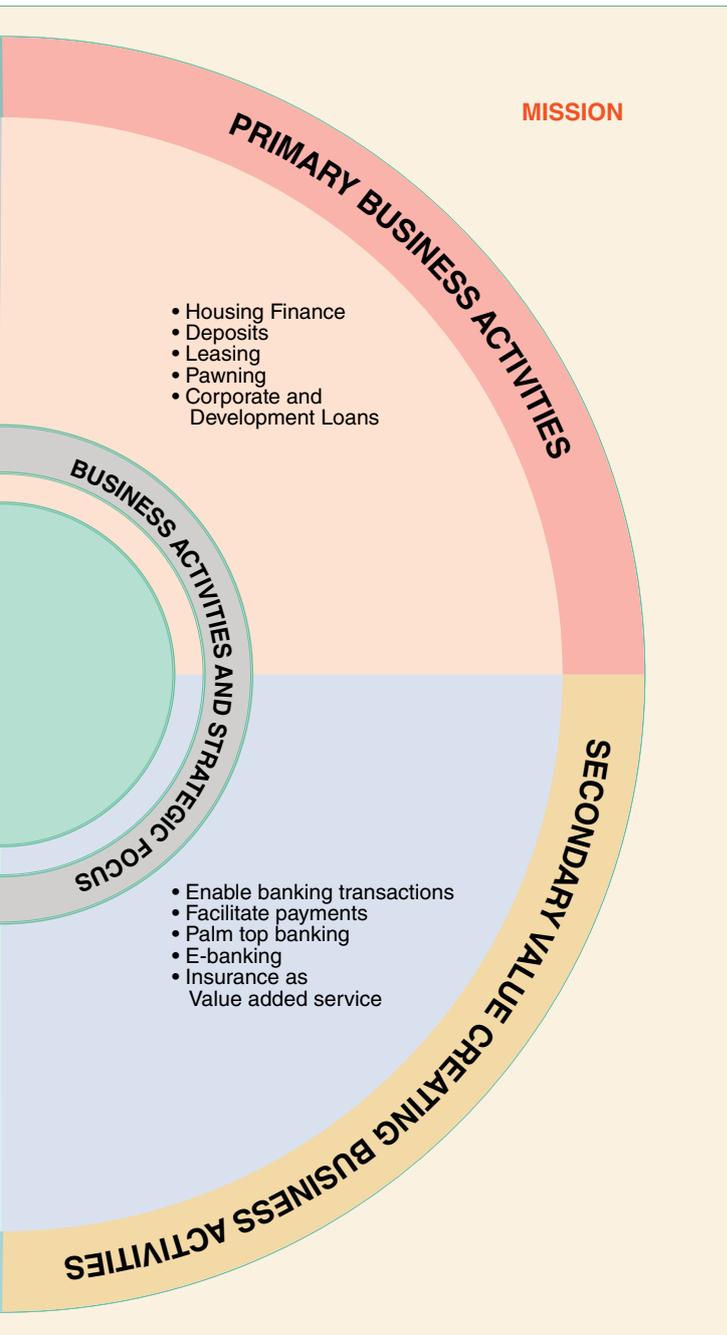
OUTPUTS

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



REGULATORY ENVIRONMENT

ACTIVITIES THAT CREATE VALUE



DESIRED OUTCOMES

FINANCIAL CAPITAL



- Continuous Profitability
- Tax revenue to GOSL
- Dividends to Shareholders
- Adequate capital base
- Good asset quality
- Good 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
- Strategic Plan

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

01

02

03

04

05

06

07



FOCUS ON SUSTAINABILITY

At HDFC Bank, our focus on growth is linked with sustainable banking practices and sustained value creation for all stakeholders. We strive to continuously move beyond a focus on profit, while embracing contributions towards people and the planet.

While most businesses focus on providing doorstep services to individuals with wealth, our focus is in reaching those with inadequate capacities to visit branches. In this aspect, our palmtop banking team takes our services closer to customers' doorsteps, taking time and effort to reach them for the purposes of collecting deposits and loan repayments, as well as utility bill payments.

HOW WE CONTRIBUTE TO SUSTAINABLE DEVELOPMENT

Economic	Social	Environmental
<ul style="list-style-type: none"> • Creating value for all stakeholders • Financial inclusion - providing financial support to individuals overlooked due to low income • Providing financial literacy 	<ul style="list-style-type: none"> • Providing employees with equal opportunities for growth • Ensuring equitable treatment and embracing employee diversity • Treating customers with respect and ethically. 	<ul style="list-style-type: none"> • Adoption of renewable energy • Minimising paper usage • Mindfully consuming non-renewable resources (Please refer natural capital management report on page 116 to 118)

PROVIDING FINANCIAL LITERACY

For every individual that approaches us, we provide healthy awareness of solutions that are at their disposal. We believe that for financial inclusivity to be meaningful, awareness and financial literacy is important. We equip our customers with the understanding in selecting the right credit or deposit scheme that matches their financial aspirations and budgetary capacities.

EMPLOYEE DIVERSITY AND EQUALITY

While ensuring the professional growth and financial strength of our team, we strive to maintain a workplace that embraces diversity and pursues equality. Whether through promotions, by providing incentives or through annual awards for service excellence, we maintain an equitable approach in all aspects of employee treatment.

For us there is no bias in who we recruit and no preference for any cultural or economic backdrop. We believe in extending the right opportunity to the right professional, setting aside all mental biases when recruiting and retaining employees.

CREATING STAKEHOLDER VALUE

While we are responsible towards increasing the investments of our shareholders, we are also dedicated to using our financial capital to create value for all stakeholders. With multiple groups of stakeholders impacted through our banking activities, we believe in striking a balance between bank's strategic objectives and stakeholder expectations.

FINANCIAL INCLUSION

The dream of owning a house is a dream common to all. However, not all carry the financial means to achieve it. As a specialised bank, we are not only responsible for financing home loans, but also in assisting those with weak financial means to own a home of their own. As a result, individuals from low-middle income brackets seek us in accessing affordable and sustainable housing finance, in order to increase their living standards. And it is also our belief that financial inclusion enables poverty reduction.

Borrowers are able to benefit from EPF or mortgage-backed home loans, in addition to lifestyle loans, which provide the means necessary to enhance their standard of life.

CONTRIBUTING TO ENVIRONMENTAL SUSTAINABILITY

In the recent past, we have taken measures to gradually increase our contributions to sustaining the environment. Through direct efforts such as planting of tree saplings to more indirect methods such as careful use of power and waste management, we have expedited several measures to reduce our footprint on the environment and increase environmental sustenance to some extent.

HOW WE PROMOTE SUSTAINABILITY FRAMEWORKS

SUSTAINABLE BANKING

In bolstering our pursuit of sustainable and accountable banking initiatives, we became a signatory to the Sustainable Banking Principles (SBP) by Sri Lanka Banks' Association (SLBA), which promotes 'sustainable economic growth'. Mirroring standards in international sustainable finance, the initiative promotes 11 principles, which is an ideal framework in ensuring that we maintain best practices across our financial transactions.



UNITED NATION'S SUSTAINABLE DEVELOPMENT GOALS (UN SDGS)

Centred on reducing inequality and poverty alleviation, the SDGs are a blue print in creating a sustainable and equitable world. With 17 interlinked goals that form the SDGs, the focus is on the sustainable development of people and the planet. As a financial intermediary, we too carry a responsibility towards adopting the framework in contributing towards an equitable and inclusive planet.

While 2030 was the year when the SDG agenda was expected to be achieved, the pandemic has reversed certain progresses, mainly in poverty alleviation; with this in mind we will continue to bolster our commitment to providing sustainable and affordable financial solutions to the country's financially underserved individuals and communities.



GOAL 1 NO POVERTY

By providing inclusive and affordable credit solutions to our low-middle income customers, we strive to reduce inequalities.



GOAL 5- GENDER EQUALITY

We ensure equality amongst genders, ethnicities and individuals with diverse backdrops.

Female professionals make up the majority of our top and corporate management teams - leading key operational areas and strategic decision-making.



Goal 7 – Clean and Affordable Energy

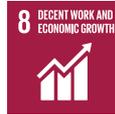
Our plans for the medium term include more adoptions of renewable solar energy.

Our existing solar instalment contributes to the national power supply.



GOAL 10 – REDUCED INEQUALITIES

We maintain a workplace with zero biases and discriminatory behaviours and reports no such behaviour in the year under review, honouring target 10.3.1.



GOAL 8 – DECENT WORK AND ECONOMIC GROWTH

Our employees work in an environment, which respects their personal and professional capabilities, and enables them to work towards their career and financial goals.

We provide a myriad of unmatched financial benefits to employees alongside annual increments and performance based rewards.

Our palmtop team belong to the communities they serve and is recruited based on a model of sustainable employment; at present the team includes 102 individuals.



GOAL 9 – INDUSTRY, INNOVATION AND INFRASTRUCTURE

We contribute towards MSME and smallholder development through need-based credit approvals.

Flexible credit schemes to support sustainable housing finance

We have partnered with industrial institutions in creating awareness on obtaining credit and in managing financial commitments.



GOAL 11 – SUSTAINABLE CITIES AND COMMUNITIES

Contributing to building sustainable cities and communities through affordable housing financing and development finance.

Endorsing inclusivity with housing finance solutions that benefit low income earners.



GOAL 16 – PEACE, JUSTICE AND STRONG INSTITUTIONS

Monitors money laundering activities including suspicious transactions related to terrorist financing.

We comply with the Prevention of Money Laundering Act No. 5 of 2006 and the Convention of the Suppression of Terrorist Financing Act No. 25 of 2005.

- 01
- 02
- 03
- 04
- 05
- 06
- 07



Leadership



BOARD OF DIRECTORS



Seating from Left to Right:

Dr. S.N. Morais
Director

Mr. W.M. Ananda
Director

Mrs. R.M.R.W. Manchanayake
Chairperson

Mr. P.A. Lionel
Director



Standing from Left to Right:

Senior Professor
A. Jayamaha
Director

Mr. M.P.D.U.K.
Mapa Pathirana
Director

Mr. L.E.S. Silva
Director

Mr. D. M. M. M.
Wijayarathna
Director

Mr. D.M.A.K. Dassanayake
Director



BOARD OF DIRECTORS PROFILES



Mrs. R. M. R. W. Manchanayake

Chairperson / Non-Executive,
Independent Director

Mrs. R. M. R. W. Manchanayake was appointed as Director and Chairperson of the HDFC Bank with effect from 02nd January 2020.

An Attorney-at-Law by profession, Mrs. Manchanayake provided her professional service to the Department of Inland Revenue in 1984 as an Assessor, and was subsequently promoted to the position of Commissioner General in 2014. From then on, she provided professional expertise and acumen as a Senior Tax Policy Consultant at the Ministry of Finance from 2015 to 2019.

During her tenure at the Inland Revenue Department she was an active figure in contributing to the implementation of the RAMIS Project (Automation Project), as Project Director. In addition, she has attended several overseas workshops and training programs including E-Governance practice and innovation at the Singapore E-Government Leadership Center, Tax

Fraud Auditing and Collection Techniques in California USA, Negotiation of Tax Treaties in Malaysia, Training programs in Tax Administration in Nagpur and Delhi, OECD Transfer Pricing in Paris and Practical training on Best Practices in Public Service in Thailand. She has served as a member of the Board of Directors in Sri Lanka Accounting and Auditing Standards Monitoring Board and Board of Investments during the years 2014 & 2015.

Mrs. Manchanayake completed her primary and secondary education at the Gampaha Bandaranayaka Vidyalaya and obtained her Degree in Economics specialising in Industrial Management from University of Kelaniya. Further, she has obtained a Diploma in Foreign Languages and a Diploma in English from the Sri Lanka Technical College. She qualified as an Attorney-at-Law at the Sri Lanka Law College and has obtained a Diploma in Advanced Professional English from the University of Colombo. The Sri Lanka Institute of Development Administration awarded her the Diploma in Information Technology, and in 2009 she was awarded the Post Graduate Degree of Master in Public Management.



Dr. S. N. Morais

Non-Executive, Independent Director

Dr. Morais, was appointed as a Board Member of the HDFC Bank with effect from 28th June 2019.

A Development Economist with wide international exposure, Dr. Morais currently serves as the Dean of the Faculty of Humanities and Social Sciences at the Open University of Sri Lanka. Dr. Morais has extensive experience in the areas of teaching, research, academic administration and national development frontiers and remains actively involved in the policy development work of the United Nations System, the private sector, non-governmental organization, both locally and internationally. Working in the broad frontier of post war economic transformation, his inputs have been positively acclaimed by professional teams involved in the Human Development Reports of the United Nations Development Program since 2014.

He has also taken a keen interest in practical measures that can be taken in empowering people through Micro Finance Programs and was instrumental in developing a major university program in collaboration with the Central Bank of Sri Lanka in empowering bank officers

in the Regional level development banking sector. Among other programs he has engineered, is the Micro Finance Research Program in collaboration with the University of Lund in Sweden. He has also internationally represented issues relating to Sri Lankan Youth development training in global conferences in the United Kingdom, South Africa, Uganda and other countries.

Dr. Morais has experience in working for conflict affected people particularly in projects aimed at uplifting their livelihoods. This enables him to relate to the socio-economic burdens of the marginalized not only from a scholarly perspective but from the standpoint of someone who experienced war torn conditions. He is a firm believer in holistic development of mankind with a proper balance between physical and material development and spiritual and cultural development.

Dr. Morais concluded his Ph.D at the Asian Institute of Technology in Thailand through an ADB Award, and the Master's Degree in Economics at the University of Colombo.

01

02

03

04

05

06

07



BOARD OF DIRECTORS PROFILES



Mr. L. E. Susantha Silva

Non-Executive, Independent Director

Mr. Susantha Silva, was appointed as a Board Member of the HDFC Bank with effect from 10th August 2020.

Mr. Silva holds nearly four decades of experience in leadership positions at leading establishments, both locally and globally. He holds numerous fellow-member qualifications from both local and global professional bodies.

He is a fellow member of the Institute of Chartered Accountants of Sri Lanka (FCA), Institute of Certified Management Accountants of Sri Lanka (FCMA), Institute of Chartered Professional Managers of Sri Lanka (FCPM) and a Member of Sri Lanka Institute of Service Management (MSLICM). He also holds memberships of Certified Practicing Accountants of Australia (MCPA) and Association of Computer Society of Australia (MACA). He is a graduate of B. Com (Sp) from the University of Kelaniya, and has obtained an MBA Qualification from the Open University of Malaysia.

At present, Mr. Silva functions as the Group Chief Executive Officer / Director of Prestige Group (Authorised Agent of BMW). In addition, he represents the Councils of the University of Kelaniya and the Post Graduate institute of Pali and Buddhist Studies of the University of Kelaniya as a Council Member. He is also Chair to the Audit Committee of the University. In the past, he has served as Executive Director at Litro Gas Company

Limited and was the former Managing Director/CEO and Board Member at the Ceylon Petroleum Corporation; He also functioned as acting Chairman of CPC and CPSTL on several occasions. He has also held multiple positions in Cabinet appointed Committees in Sri Lanka.

Mr. Silva has also held the position of Vice Chancellor/ CEO of the IBS University of Papua New Guinea that is affiliated to Southern Cross University of Australia and as the Regional Director for the African Business operation for a Group of UK-based Companies. Additionally, he was also a member of the Board of Directors of Airport Aviation Services (Sri Lanka) Limited and chaired its Audit Committee during 2019. In Addition, Mr. Silva chaired the Audit Committee of the HDFC Bank, as a Board Member during June 2012 to May 2015.

Mr. Silva has also held Senior and Board Director level positions with multinational companies in the UK, Africa, Maldives, and Middle East and Papua New Guinea. Closely associated with the IT sector, he has spearheaded many IT verticals, as President of Papua New Guinea Computer Society in the global context and has been at the center of IT Departments in local establishments. Mr. Silva is also a trainer of human capital development and has provided professional guidance as a lecturer at many recognised institutes, universities, both locally and globally.



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 counts for over 35 years of service at the University of Kelaniya, serving as Head of the Department of Human Resource Management, Head of the Department of Accountancy and Coordinator of the Master of Business Administration programme in the Faculty of Commerce and Management studies. At present, he is the Dean of the Faculty of Graduate Studies of the University.

In 2005, he moved to the University of Southern Queensland, Australia, in pursuit of his Doctoral studies, and in 2010 he was awarded the Degree of Doctor of Philosophy. 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 size enterprises in Sri Lanka and his finding was presented in national and international Conferences and was published in many peer reviewed local and international journals and has appeared in many researches around the World.

Senior Prof. Jayamaha is also a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and practitioner and preceding partner of Jayamaha, Pushpakumara and Company. As a qualified Chartered Accountant he has rendered his duties as a consultant for numerous extension programs and thereby he is able to contribute to policy making endeavours to the National Education system of Sri Lanka. Further, Senior Prof. Jayamaha offers his service as a reviewer of the institutional review of Sri Lankan Universities and higher educational institutions conducted by the University Grant Commission in Sri Lanka. He is also a Director, Board Member of the Sri Lanka Accounting and Auditing Monitoring Board.

01

02

03

04

05

06

07



BOARD OF DIRECTORS PROFILES



Mr. D. M. A. K. Dassanayaka

Non-Executive,
Non-Independent Director

Mr. D. M. A. K. Dassanayaka was appointed as a Board Member of the HDFC Bank with effect from 10th August 2020.

Commencing his career with the Tea Small Holdings Development Authority, Mr. Dassanayaka has held several key positions such as Chairman of the Co-operative Employees Commission (2005 – 2015) under the Ministry of Internal Trade and Corporative. At present, he serves as the Vice Chairman of the National Housing Development Authority. In addition, he is an attorney by profession, and also holds a National Diploma in Technology (Agriculture) from the NDT.

He has undergone numerous foreign and local training programs such as 'Developing and Managing Extension Approaches' conducted by Development Consultant for Asia and the Pacific (DCAP) held in Manila, Philippines; this is in addition to a training program on Management Skill Development, held in University of Centro Soyuz, in Russia, an Efficiency Development Program conducted by Sri Lanka Institute of Development and Administration (SLIDA) in 1991, a training course on 'Efficiency Enhancement' conducted by National Institute of Plantation Management (NIPM) in 1993, and In Plant Training Programs conducted by the National Apprenticeship Board.



Mr. M. P. D. U. K. Mapa Pathirana

Non-Executive, Independent Director

Mr. M. P. D. U. K. Mapa Pathirana was appointed as a Board Member of the HDFC Bank with effect from 14th December 2020

With over three decades of experience in the public service, Mr. Pathirana presently provides his expert services as Secretary to the Ministry of Labour, as Chairman of National Institute of Occupational Safety and Health, as Chairman of Srama Vasana Fund and as Chairman of National Institute of Labour Studies.

Mr. Mapa Pathirana has an extensive repertoire in public service and has been a Chief Negotiator with multinational agencies and bilateral development partners in securing loans and grant assistance to the government of Sri Lanka. He also represents multiple committees appointed by the Cabinet of Ministers to select suitable constructors and investors for the priority development project by the Government and has also represented Board of Directors in State Owned Public Enterprises as a Treasury Member.

Mr. Mapa Pathirana is recognised as a senior most Special Grade Officer of Sri Lanka Administrative Service and has also served as Board Member of Asian Development Bank (ADB) – the largest Multinational Development Cooperation in the Asian and Pacific

Region. He was also engaged in the position of Minister Counsellor of the Sri Lanka Embassy in Tokyo. Prior to being appointed as the Secretary to the Ministry of Labour he held several high ranking positions in public service as Secretary to the Ministry of Industrial Export and Investment Promotion, Secretary to State Ministry of Mahaweli Development and Environment and Additional Secretary to the Ministry of Mahaweli Development and Environment and Director General of Central Environmental Authority. He has also served in the Ministry of Finance across several capacities, including Director General of the Department of External Resources.

Academically, Mr. Mapa Pathirana holds a Bachelor's Degree in Estate Management and Valuation (Special Degree) from University of Sri Jaywardenepura, and a Master of Commerce and Management in the stream of Economics from Lincoln University, Canterbury, New Zealand. Furthermore, he obtained his Post Graduate Diploma in Economic Development from University of Colombo and a Diploma in International Affairs from the Bandaranaike Centre for International Studies, Colombo and has also completed professional part 2 of the Institute of Chartered Accountant of Sri Lanka while holding Associates membership of AAT.

01

02

03

04

05

06

07



BOARD OF DIRECTORS PROFILES



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. W.M. Ananda (Special Grade SLAS Officer) is presently working as the Additional Secretary (Housing & Development) in the State Ministry of Rural Housing and Construction and Building Materials Industries Promotion. He started his career as an Assistant Director of Establishments in the Ministry of Public Administration in 1998.

He has held many posts as an Assistant Divisional Secretary of Pasbagekorale & Doluwa, in Kandy District. Thereafter, he was attached to the Central Provincial Council and held many posts, such as Assistant Secretary and Cooperative Commissioner of the Central Province. Subsequently, he has held Division Secretary posts of Wilgamuwa and Pallepola in Mathale District and Nuwara-Eliya in Nuwara-Eliya District, and has also 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 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 of the Bank of Ceylon. He joined the Bank of Ceylon in 1983 as a management trainee after graduating from the University of Colombo. He is a career banker with nearly 40 years' 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 has received broad experience and extensive training in treasury management and Forex dealing in London in the year 1988 to 1989. Further, he headed the treasury of BOC Karachi during the period from 1998 to 2001. He was a member of the Credit Committee and Asset and Liability Management Committee for 10 years and specialized in cross border funding and cross selling of financial instruments. He has 20 years' experience in the primary and secondary market of government securities and has held the position of CEO of the Primary Dealer Unit of BOC.

Under his leadership, BOC treasury achieved several milestones. Two issuance of USD 500 million bonds each in 2012 and 2013, which was the first ever largest international bond issuance by a Sri Lankan bank. First ever USD debenture in Sri Lanka and 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 mobilize foreign funds to Sri Lanka.

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

Mr. Lionel was the President of the Sri Lanka Forex Association in 2013, which is the apex body of forex dealers of local and foreign banks in Sri Lanka and was instrumental in providing support for the enhancement of the forex market in Sri Lanka. He has also held different positions in the association for about ten years and assisted it 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 about 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' of 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 Central Bank of Sri Lanka for a distressed finance company. Moreover, Mr. Lionel obtained his Bachelor of Education Degree from University of Colombo in 1980.

01

02

03

04

05

06

07



BOARD OF DIRECTORS PROFILES



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. D. M. M. Maduranga Wijayarathna (LL.B Hons – University of Colombo) is presently working 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 Lawyers for Justice Association.



CORPORATE MANAGEMENT



Mr. Palitha Gamage

CEO/ GM

*B. Sc (Engineering) Hons. Degree (University of Moratuwa)
MBA -Asian Institute of Technology, Thailand
Date of Appointment - 16th August 2018*

Mr. Palitha Gamage, a Senior Banker with over 34 years of experience in banking was appointed as CEO/GM of HDFC Bank of Sri Lanka on the 16th of August 2018. Mr. Gamage commenced his banking career at DFCC Bank in 1987. Prior to joining DFCC Bank in 1987, he worked as a Civil Engineer at the State Engineering Corporation of Sri Lanka.

At DFCC Bank, he served in several senior managerial positions in Corporate Banking, SME Banking, Investment Banking, Planning and Operations. In addition, he also served as Head of Corporate Credit at DFCC Vardhana Bank. At the time of joining the HDFC Bank as its GM/CEO, he held the position of Executive Vice President (Integrated Risk Management) / Chief Risk Officer of DFCC Bank. He served as a member of the Governing Board of the National Institute of Business Management for three years from 2010 and as a Non-Executive Director of the National Asset Management Ltd. (NAMAL) for four years from 2014. Additionally he served as the Chairman, Board Audit Committee of NAMAL for two years and as the Head of Risk Management Committee of Acuity Securities Ltd.

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

He is a Passed Finalist of the Chartered Institute of Management Accountants (CIMA), UK and a Corporate Member of the Institution of Engineers, Sri Lanka.



Mr. A.J. Athukorala

Chief Operating Officer

*Date of Appointment - 01st July 2009
B.Sc (University of Colombo) ACMA (UK)
CISA (USA) CISM (USA)*

Mr. Athukorala possesses extensive executive experience of more than 34 years in the banking industry. He has served in Seylan Bank and People's Bank for more than 10 years each, before joining HDFC Bank.

He is an Associate Member of the Chartered Institute of Management Accountants, UK, and a Bachelor of Science of the University of Colombo. He also holds the titles of 'Certified Information Systems Auditor' and 'Certified Information Security Manager of Information Systems Audit & Control Association, USA and the Diploma in Computer Systems Design of National Institute of Business Management, Sri Lanka.

01

02

03

04

05

06

07



CORPORATE MANAGEMENT



Mrs. 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 carrier at HDFC Bank as a Legal Officer. Since then, she made steady progress and was elevated to the position of Deputy General Manager Legal & Recoveries in the year 2020.

She counts over 33 years of professional experience in the field of law, specializing in housing finance, banking and litigation.



Mr. C. R. P. Balasooriya

Deputy General Manager –
Treasury, Payment & 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 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, 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 in Finance and Economics from the University of Colombo. He is also and Associate Member of AAT Institute of Sri Lanka.



Mr. D.M.D.M.K. Dissanayake

Assistant General Manager – Credit

ACA, ADCM (IBSL)

Date of Appointment - 18th June 2012

Mr. Dissanayake has over 22 years of experience in the fields of Credit and Finance. Prior to joining HDFC Bank, he served as Credit Officer, Account Manager, Senior Account Manager, Accountant and Senior Manager Credit and Operations in major private sector financial institutions. He also has experience in the fields of Auditing, Financial Management, Taxation, Operations and Credit Management.



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

Assistant General Manager – HRM & Company Secretary

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 as the AGM –HRM.

01

02

03

04

05

06

07



CORPORATE MANAGEMENT



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 mobilization, branch operation, accounting, financial management, taxation, auditing, treasury management, compliance, corporate financial reporting and annual reports, budgeting and financial planning and 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 and joined Regional Development Bank in 1998 and worked in the capacities of Audit/ Executive Officer, Assistant Manager and subsequently joined HDFC Bank in 2004 in the capacity of Branch Manager Gampaha. From 2007, he also served in the capacities of Accountant Treasury, Accountant Finance and Senior Manager Finance and Chief Manager Finance.



Mrs. 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' experience in the private and banking sectors, in the fields of management, finance, 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. K. R. M. Aruna Bandara

Assistant General Manager - Compliance Officer
B.Com (Special), CBA (CA Sri Lanka), SAT (AAT Sri Lanka), CBF
Date of Appointment – 03rd May 1999

Mr. Bandara counts more than 32 years' experience in the field of Auditing and Accounting in organisations in the public and private sectors. Prior to joining HDFC Bank, he served as Audit Examiner - specialising in the auditing of public corporations and also served as Audit Executive for a foreign funded project. He was appointed Head of Compliance with effect from 02nd January 2012.



Mr. A. M. Neelachandra

Chief Manager- Information Technology
Bsc, 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 system and has also worked in the Computer and Technology Council for two years.

01

02

03

04

05

06

07



CORPORATE MANAGEMENT



Mr. I. Nishantha

Chief Manager - Risk Management

*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 prior to 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.



Mrs. G. Palika Priyadarshani

Chief Internal Auditor

*ACA, ACMA, MAAT, Diploma in Banking & Finance (IBSL)
Master in Economics, BBA (Accountancy) Sp Degree
Date of Appointment – 25 October 2021*

Mrs. Priyadarshani has over 11 years of experience in the Auditing field. Prior to joining HDFC Bank, she served as Superintendent of Audit in National Audit Office. In her auditing career, she has experience in Banking Sector, State Owned Enterprises, Government Corporations and Boards



HEADS OF DIVISIONS



Mr. T. H. K. P. De Silva

Chief Manager
- Information Security



Mr. D. N. Dharmaratna

Chief Manager - Credit



Mr. W. D. K. Senevirathne

Chief Manager - Recoveries



Mrs. M. R. S. Fernando

Chief Manager - Legal



Mrs. C.P.K. Hewage

Senior Manager - HR



Mrs. M. U. S. De Costa

Senior Manager - Operations



Mr. D. M. A. Dissanayake

Senior Manager - Corporate
and Development Finance

01

02

03

04

05

06

07



HEADS OF DIVISIONS



Mrs. L. D. S. H. Liyanage

Senior Manager - Payment



Ms. J. A. I. K. Jayalath

Unit Manager - Gold Loan



Mr. G. D. K. H. Perera

Manager - Deposits and
Business Development



Mr. B. M. P. Perera

Manager
- Credit Administration



Mrs. K. H. D. Priyanka

Manager - Marketing



Mrs. N. L. Wijesiri

Manager - Technical and
Premises Maintenance



REGIONAL AND BRANCH MANAGEMENT



Mr. R. A. J. N. Ranasinghe

Region 1 - Regional Manager



Mrs. L. Gunatilaka

Region 2 - Regional Manager



Mr. B. W. M. C. Kumarasiri

Region 3 - Regional Manager



Mr. G. W. A. N. Kalinda

Region 4 - Regional Manager



Mr. I. K. Dawatanga

Region 5 - Regional Manager



Mr. H. M. U. Samaraweera

Region 6 - Regional Manager

01

02

03

04

05

06

07



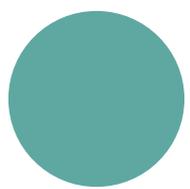
REGIONAL AND BRANCH MANAGEMENT

BRANCH MANAGERS

Title	Name With Initials	Branch
Ms.	A.A.S.I.T. Somathilaka	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.	S.H.K. Gamage	Chilaw
Mr.	D.K.P. De Silva	Colombo
Mr.	D.S.R. Dissanayake	Dambulla
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
Mrs.	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.	S.M.S.K. Bandara	Rathnapura
Mr.	M.A.S. Desapriya	Tangalle
Mr.	M.L.N. Anuradha	Tissamaharama
Mr.	A.G. Stephan	Trincomalee
Mr.	T. Velshkuma	Vavuniya



Management



Discussion & Analysis



OPERATING ENVIRONMENT

The external environment has a direct impact on our strategic and operational objectives. External developments can impact the way we address stakeholder expectations, making it imperative to monitor the various landscapes within the external environment on a regular basis.

THE EXTERNAL ENVIRONMENT IN 2021 (PESTEL ANALYSIS)



POLITICAL IMPACT

Although the Government's 2021 fiscal strategy had the purpose of stabilising the country's macroeconomic landscape, expectations were not achieved due to challenging circumstances and inconclusive policy decisions. In 2021, the government endorsed a low-tax regime, including tax holidays for several service and industrial sectors. With regards to the policy environment in 2021, the Central Bank moved away from an accommodative monetary policy, in controlling inflationary pressures in August 2021. SDFR and SLFR were increased by 50 basis points in mid 2021, followed by a 2% increase of the SRR in September 2021. In March 2022, the limits imposed on local lending rates were revised upward; moreover, interest rate on special mortgage-backed housing loan scheme for salaried employees was also revised. At the time of compiling this review, CBSL had further increased policy interest rate by 700 basis points.

RISKS AND OPPORTUNITIES

Upward revisions in market interest rates has a negative impact on lending, while also posing a positive impact on deposit mobilization. The revision of the special housing credit scheme will impact banks with a main focus on housing finance. At present, the country is facing a social and political crisis due to the prevailing economic conditions. Given this context, there is high unpredictability, which makes it premature to make speculations on the country's fiscal trajectory.

IMPACT ON STRATEGIC OBJECTIVES

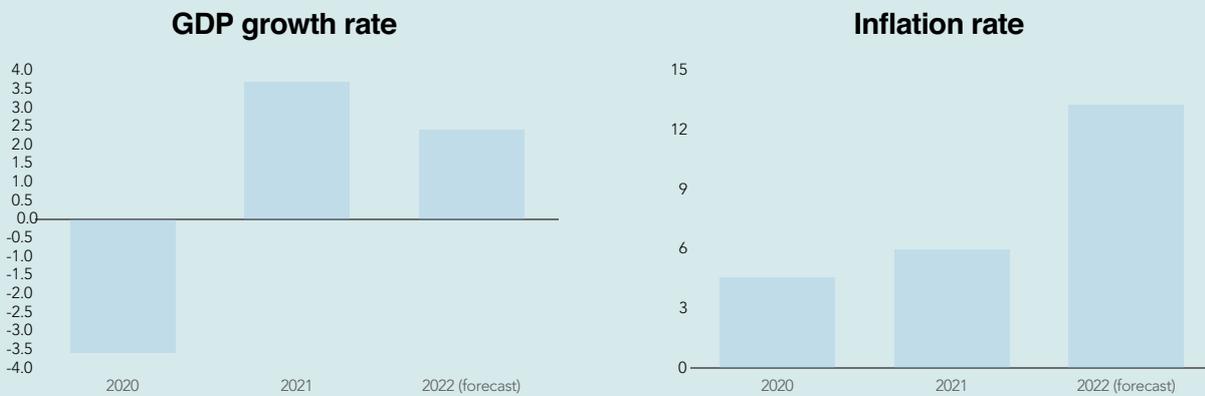
Factor	S1 - Leading the housing finance market	S2 - Remaining as a stable, profitable and standalone entity
Interest rate upward revisions	• Impact on new home loan disbursements	• Potential to increase deposits and interest income • Rising interest expenses will be a negative influence on the bottom-line
Factor	Strategic Objectives	
Political and social unrest	Poses uncertainty on the Bank's strategic direction	



ECONOMIC ENVIRONMENT

Overall economy grew by 3.7% in 2021, alongside growth of all economic sectors, of which, the industry sector recorded the highest growth. However in nominal terms, growth was recorded as 11.9%. The external sector faced mounting challenges, of which, depleting official reserves, broadening trade deficit and low inflows remains as major concerns.

Moreover, inflation continued to rise, as a result of a mix of uncontrollable factors, including pandemic induced supply chain disruptions, rise in energy and commodity prices, rupee depreciation, higher fertilizer prices and disruptions from geopolitical tensions.



Source: Economic Indicators for Sri Lanka. Asian Development Bank (ADB). www.adb.org

RISKS AND OPPORTUNITIES

Due to rising inflation, depositors' ability to save will be impeded due to higher cost of living. However, if interest rates continue to rise, then this disparity might be narrowed to some extent, as it will encourage citizens to opt for deposits and savings products. Diminishing disposable income may also inhibit growth in credit demand. Diminishing disposable income may affect repayment capacity of existing customers.

IMPACT ON STRATEGIC OBJECTIVES

Factor	S2 - Remaining as a stable, profitable and standalone entity	S4 - Culture of risk consciousness
Rising inflation	<ul style="list-style-type: none"> Customers may prefer to invest in high earning instruments, moving away from deposits, impacting Bank's potential to attract funds. Bank will be prompted to encourage deposits through swift service optimizations and competitive offerings. 	<ul style="list-style-type: none"> Require employees' awareness on the economy's impact on the Bank and measures to buffer risks

- 01
- 02
- 03
- 04
- 05
- 06
- 07



OPERATING ENVIRONMENT

SOCIOCULTURAL IMPACTS

Sri Lanka's over 60 demographic has reached 12.3% of the population – the highest proportion of mature demographics in South Asia. As a result there may arise age-related health concerns, as seen through COVID-19 related mortalities, of those above 60 in Sri Lanka.

According to UNESCO UIS, literacy rate amongst those above 15 years is at 92.3%. In addition, TRC statistics show 29,958,852 cellular mobile subscriptions in 2021, while LIRNEasia finds an increase in internet use, which reached 44% from total population in 2021.

RISKS AND OPPORTUNITIES

Based on a widening older demographic, there is the opportunity to create and promote retirement savings and investment plans amongst the younger populations, as well as the potential to attract senior citizens' deposits. Given the increasing internet and mobile phone users there are tremendous opportunities to increase e-banking and mobile banking services.

IMPACT ON STRATEGIC OBJECTIVES

Factor	S1 – Leading the housing finance market	S2 - Remaining as a stable, profitable and standalone entity	S3 - Further develop our workforce	S5 - Technologically relevant
High mobile penetration and increasing internet use	Potential to promote housing finance through web and digital mediums; and massive potential to expand online/digital banking services	Provides the opportune context to invest in digital channels to expand business and revenue, and scale operations	The need to further develop workforce acumen on electronic and digital banking through training	The capacity and need to explore and develop services in e-banking and digital transactions
Factor	S3 - Further develop our workforce			
Widening aging population	The need to train employees in identifying needs and developing products around them			



TECHNOLOGICAL FACTORS

Financial technologies play a crucial role in streamlining services and creating unthinkable efficiencies across all banking functions. Innovations such as virtual banking, and open banking through APIs, digital currencies and peer-to-peer lending are part of FinTech innovations. Moreover, COVID-19 accelerated digital services and solutions as well as back-end tech systems in technologically late adopters, making it a bridging solution between institutions and customers during lockdowns and restrained mobility.

New technologies enable FIs to reach underserved populations in a less cumbersome manner. While low internet penetration may stand in the way of achieving this, the high volume of cellular subscriptions in Sri Lanka, creates optimistic avenues. FinTech is a key differentiator in competitive service delivery, with reduced intermediary costs and functions which carries the potential to attract customers that prefer efficiency and low-costs. Moreover, when adopting technology based products and services, cyber security, data protection will have to be fully assessed and proactively ensured, while complying with regulatory frameworks.

RISKS AND OPPORTUNITIES

For Banks, the risk of late adoption will become a disadvantage. Yet, tech innovations can greatly reduce operational costs for both the bank and customers, while creating greater efficiencies, despite higher cost of investment. With technology comes the risk of cyber attacks and threats to data protection, warranting greater restraints in cyber and network security, as well as user training. Moreover, in adopting new technologies we consider user friendly solutions in respect of the IT illiterate customers who form a fair share of the customer base.

IMPACT ON STRATEGIC OBJECTIVES

Factor	S2 - Remaining as a stable, profitable and standalone entity	S3 - Further develop our workforce	S5 - Technologically relevant
Financial technologies	Service improvements and cost optimizations which will impact the bottom-line	Ability to increase productivity and create a tech-savvy workforce	The Bank requires considerable investments in IT systems
Factor	S4 - Culture of risk consciousness	S5 - Technologically relevant	
Cyber security and data protection vulnerabilities	Will require training and awareness on potential risks, as well as comprehensive policies that ensure enhanced protection	Compliance with CBSL	

- 01
- 02
- 03
- 04
- 05
- 06
- 07



OPERATING ENVIRONMENT

ENVIRONMENTAL IMPACT

A new report (April, 2022) by the Intergovernmental Panel On Climate Change (IPCC) shows that risks from climate related vulnerabilities has increased, bearing harmful consequences, both economically and non-economically. Moreover, the Sustainable Development Goals Report 2021, states that there is a lack of country-wise data. Sri Lanka's recent efforts in renewable energy production included several projects in hydropower and solar power, with several in the pipeline, contributing towards sustainable energy adoptions.

Environmental detriments have an unmistakable impact socially, environmentally and economically. The economical devastation from natural disasters could be magnanimous to nations that are already economically burdened. Social discontent and disruption to normal lives from climate change will also pose serious threats to social progresses. As an island nation, we have to consider international estimations and put into place measures to reach and monitor progress in SDGs and carbon emissions.

RISKS AND OPPORTUNITIES

As an individual FI there is no direct impact on the Bank; however, the social and economic costs of natural disasters and changes in normal lives, could have deep repercussions in the future for all individuals and institutions. Moreover, with rising renewable energy projects in SL, there is opportunity to fund such ventures – and contribute to ESG.

IMPACT ON STRATEGIC OBJECTIVES

Factor	S4 - Culture of risk consciousness
Rising climate disasters	Risks and threats of climate change needs to be better understood as an informed workforce, especially in relation to ascertaining the impact on the financial services sector

Factor	S1 - Leading the housing finance market
Growing focus on renewable energy ventures	Opportunity to encourage housing development schemes with green energy plans and green building principles.

LEGAL ENVIRONMENT

The banking sector remains regulated by several legislations including the banking act and the monetary law act, issued by the Central Bank of Sri Lanka. In 2021, CBSL issued several directions, guiding financial institutions on the nature of transactions, facilities and rates provided for customers. E.g. Restrictions on discretionary payments of Licensed banks, Adoption of SLFRS 9- Financial instruments, Directions on debt moratoria for COVID-19 affected businesses and individuals etc.

Given the pandemic and the consequential economic impacts, monetary regulations continued to change in accommodating stability in the financial system and economic growth. Monitoring the regulatory environment is crucial to sustaining operational compliances and stability within a highly volatile environment.

RISKS AND OPPORTUNITIES

By constantly monitoring the regulatory environment and projecting likely changes will enable FIs to take prudent measures to buffer any adverse impacts. However, the current volatile context in the macroeconomic environment may create further regulatory changes in an increasing manner.

IMPACT ON STRATEGIC OBJECTIVES

Factor	S6 - Full compliance with regulatory requirements
Changing regulatory landscape	Makes compliance complex, with unpredictable developments



BUSINESS SEGMENTS AND PERFORMANCE

DEPOSITS

During the year under review, we continued to pursue deposit mobilisation with the main objective of increasing the retail deposit portfolio from 39% to 60%, as a proportion from the total deposit base. At the end of the year, despite a marginal discrepancy, we increased our retail deposit concentration to 59%, marking a commendable achievement. The increase was necessitated in balancing out the substantial withdrawal of state-based institutional deposits in 2020, which was a result of the Government's decision to allocate financial allowances to low income earning persons.

For the year 2021 we achieved an overall growth in deposit mobilisation by of 3%, in comparison to 13.8% in 2020.

The total deposit portfolio includes 77% of fixed deposits, including both retail and institutional deposits. In addition, the portfolio includes general savings deposits (16%), investment plan related deposits (1%) and deposits in senior citizens accounts (6%).

In the year under review, all categories of deposits increased, with investment plans having the biggest increase of 49%. This granular increase contributed to an overall portfolio growth of 3.8%.

During the year, savings related deposits increased by 15%, while senior citizens' deposits grew by 29.4%. Fixed deposits as a total increased by less than one per cent. Nevertheless, retail fixed deposits grew satisfactorily higher than corporate and development based FDs.

Investment Plans Growth
49%

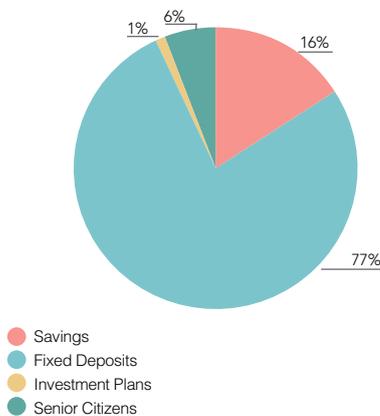
Senior Citizens Growth
29.40%

Savings Growth
13%

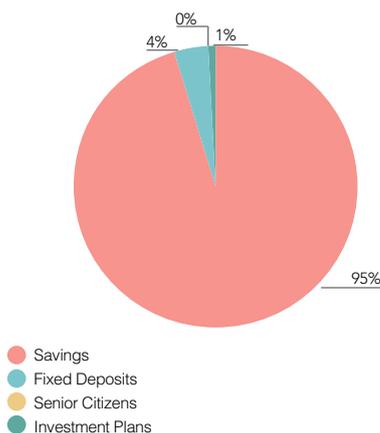
Fixed Deposits Growth
0.29%

DEPOSIT PORTFOLIO

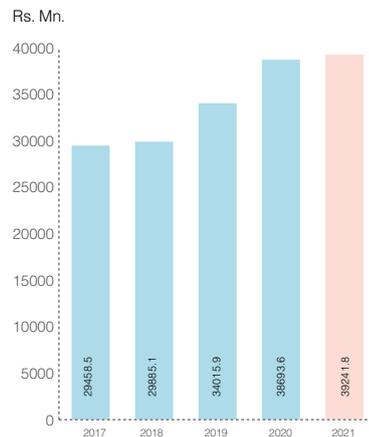
No. Customer Accounts



Deposits



Total fixed deposits



Fixed deposit base has grown over the past five years, with a value of Rs. 39.2 Bn. reported at the end of 2021.

01

02

03

04

05

06

07



BUSINESS SEGMENTS AND PERFORMANCE

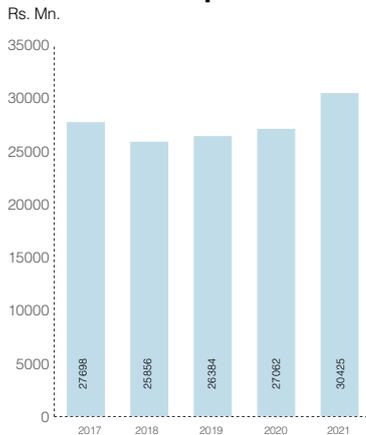
The number of overall deposit and savings based accounts increased by 3.6% during 2021: number of accounts in Investment Plans increased by 57.8%, making it the biggest increase among all product segments. However, net deposits under investment plans share only a 1% proportion from the total deposit portfolio. In addition, the number of senior citizens' accounts increased by 16.07%, while accounts for savings products increased only by 3.93%. Despite savings products having the largest proportion of accounts at 95%, net savings from the total portfolio only accounts for 16% of funds, with fixed deposits taking the lead in deposit value.

The total fixed deposit portfolio shows a monthly average of Rs. 38 Bn. with the lowest deposits recorded in the months of February and June. Highest deposit base is recorded in April. The volume of deposits made in 2021 increased by 12.42% from 27,062 (2020) to 30,425.

RETAIL AND CORPORATE FIXED DEPOSIT PERFORMANCE

In 2021, retail fixed deposits rose by 6% while institutional deposits declined by 3% over the corresponding period. Both retail and corporate FDs amounted to a total of Rs. 39.2 Bn., an increase by 1.35% from Rs. 38.7 Bn. in 2020. Retail FDs increased to Rs. 20 Bn. from Rs. 18.9 Bn. in 2020, while corporate and development related FDs declined to Rs. 19.2 Bn. in 2021, compared to Rs. 19.8 in 2020. Despite a decline in the rate of growth, number of deposits on an annual basis has increased.

Annual Deposit Growth - No. of Deposits

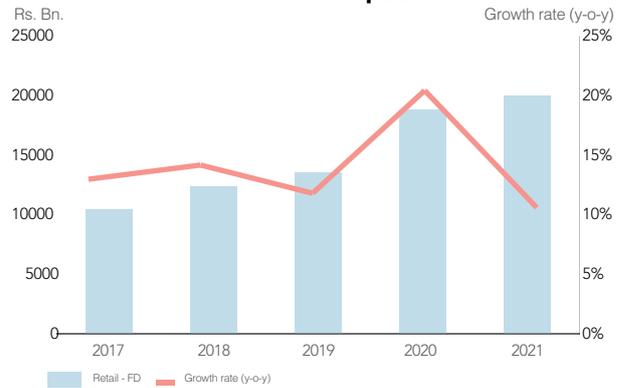


Deposit Mobilisation Growth 1.5 Bn

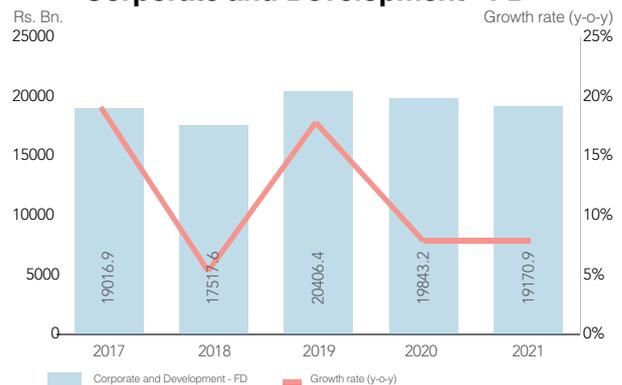
Total FD Portfolio Rs. 39.2 Bn.

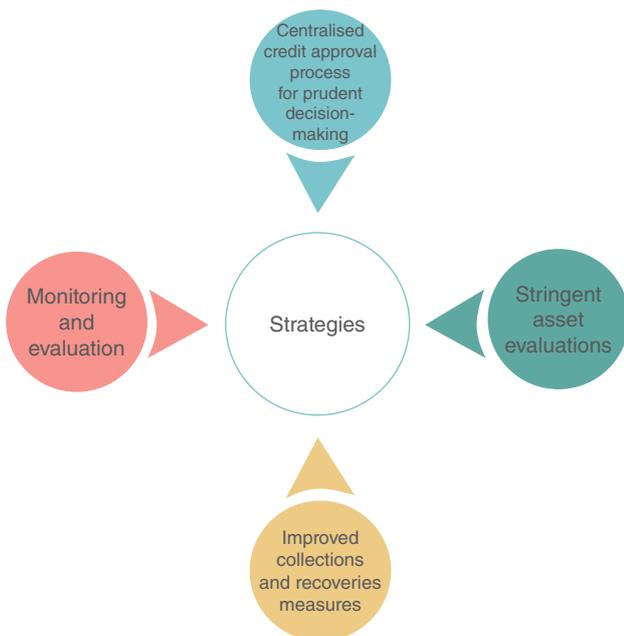
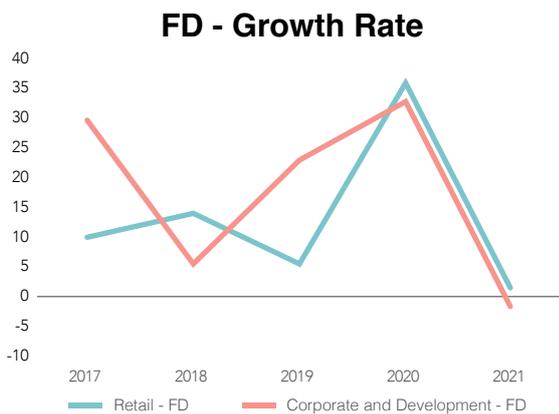
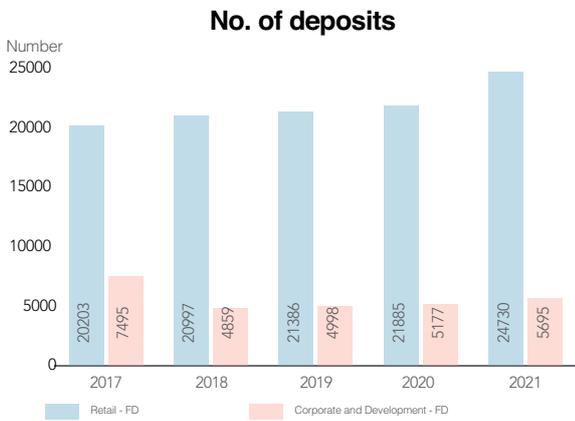
Total savings base Rs. 8.5 Bn.

Retail - Fixed deposits



Corporate and Development - FD





LOANS AND ADVANCES

During the year under review, the Bank managed its credit lines using a prudent and cautious approach, while focusing on several strategies to improve asset quality, NPL ratios and overall lending portfolio.

ANALYSIS OF PORTFOLIO

Total portfolio of loans and advances increased from Rs. 39.8 Bn. in 2020 to Rs. 40.7 Bn. in the year under review. This is a 2.26% increase in comparison to 2020.

COMPOSITION OF CREDIT

During the year, total value of our housing related credit base increased by 6.8%, maintaining the largest proportion of loans from the total portfolio. Total rupee value of Corporate and development finance loans declined by 21%, while there was a 24% decline in the loan value of leasing, in addition to education and lifestyle, microfinance and other types of loans. There was a 6.5% increase in gold loans in 2021.

The increase in the housing loan portfolio is a direct result of the special interest rate introduced for mortgage-backed loans for employed borrowers.

HOME LOANS - COLLATERAL

Collateral based home loans carry substantial weight in the Bank's loan portfolio. We approve housing related loans based on three forms of collateral, which enables us to take into account financial needs of under-served segments, while maintaining securities against the financial risk we undertake.

Collaterals based loans mainly include residential mortgages, loans on EPF balances and personal and institutional guarantors. During the year, EPF backed loans grew by nearly 3%.

31% of collateral based loans are housing loans granted on EPF balances. This is followed by 33.5% of housing loans granted on mortgage basis.

CUSTOMERS

Corresponding with the high loan value of housing loans, customers of the segment also form the highest proportion from all product-based customer segments. However, number of customers has declined by 3.07% in 2021 to 90,591 compared to 2020.

01

02

03

04

05

06

07



BUSINESS SEGMENTS AND PERFORMANCE

CORPORATE AND DEVELOPMENT FINANCE

From the total loan portfolio, corporate and development finance represent a proportion of 7.94% based on loan value and second only to housing based loans. The segment also claims a 4% stake of customers from the total base of borrowers. Compared to 2020, the total value of corporate and development finance reduced to Rs. 3.2 Bn. in 2021, from Rs. 4.07 Bn. in 2020.

As a Bank dedicated to serving the underserved communities of the nation, we offer customers several development credit schemes. These credit products have been developed with specific purposes and target audiences in mind. At present, we actively operate 03 development credit schemes, designed to support entrepreneurs of MSME businesses and smallholders.

Development credit schemes	Total Value as at 31st December 2021 (Rs. Mn.)
Read Athwela	2
Saubhagya	125.1
Development Credit Scheme	1977.36
Nadep Loan Scheme	4.61
Dirimaga	59.3
Swashakthi	13.42
CSDDLs Loan Scheme	79.1
TharunaDiriya	2.18
Business loans	1138.7
SEPI Loan Scheme	4.17
Jaya Isura	0.46

During the year, a sum of Rs, 340 Mn. was disbursed, out of which, Rs. 325 Mn. was granted under development credit scheme to Corporate, Small and Medium Scale Enterprises (MSMEs). This is substantial in comparison to lower sums granted under Saubagya and Swashakthi loan schemes, which are granted in partnership with the Central Bank of Sri Lanka. Moreover, industry-based credit held a substantial proportion from the loan amount disbursed in 2021.

NON-PERFORMING LOANS (NPL)

For years, we have worked to fulfil our vision of providing financial solutions for sustainable living. We do this by focusing on financial inclusivity, especially by serving under-banked individuals and businesses of the country. We have a high concentration of credit risk as a result of our services to the low to middle income housing finance market, which also impacts asset quality. Nevertheless, we took prudent measures to reduce our NPL ratio in the year under review, including a more focused effort at improving collection and recoveries.

2021		2020	
Value (Rs. Mn.)	Full NPL ratio	Value (Rs. Mn.)	Full NPL ratio
13,189.65	32.44	13,133.88	33.04

How we improved collection:

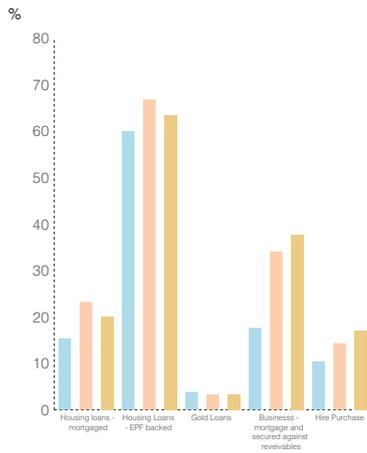
Our collection and recoveries division took measures to improve and increase loan collections and recoveries. As a result, collections increased by Rs. 395 Mn. in the year under review. Measures include:

- Rescheduled loans with easy EMI to encourage repayments
- Special OD waive off given to those who paid arrears in full
- Use palm top officers for recovery collections
- Majority of staff performed recovery functions while working from home
- Recovery visit done by branch recovery officers.



COLLATERAL-WISE NPL RATIO

NPL by Collaterals

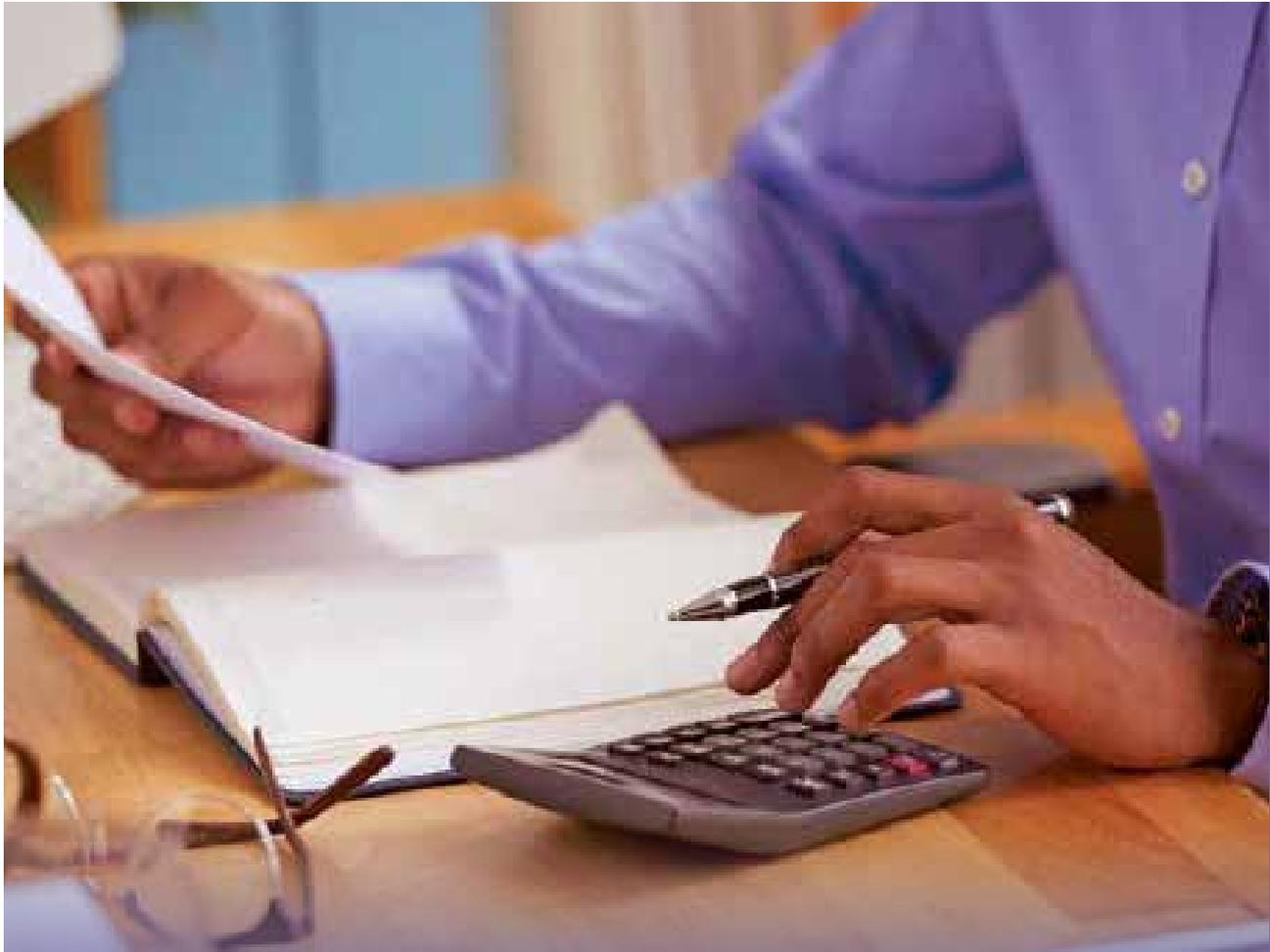


Based on collaterals, NPLs are highly seen in EPF-backed housing loans and in business loans provided as mortgages and secured against receivables. NPL ratios for these segments are 63.42% and 37.73%, respectively. NPLs for mortgage based loans and hire purchase (leasing) loans amount to 20.01% and 17.06%, respectively.

- 01
- 02
- 03
- 04
- 05
- 06
- 07



CAPITAL MANAGEMENT REPORTS: FINANCIAL CAPITAL



Management Discussion and Analysis

OPTIMISING VALUE CREATION

Our financial capital is represented by the funds and financial sources available to us, which powers operational activities and gives life to value creation initiatives. The Bank utilises funds obtained through operational activities, investments, debt and equity with the principles of optimising investments and maximising value creation.

VALUE CREATED AND DELIVERED

Through revenue gathered during the year we distributed financial values amongst our shareholders in the following forms.

Indicator	Value created
Interest Income	Rs. 6.6 Bn.
Net fee and commission income	Rs. 392 Mn.
Profit before tax	Rs. 878 Mn.
Profit after tax	Rs. 547 Mn.
Total assets	Rs. 63 Bn.

Stakeholder	Indicator	Value delivered
Employees	Remuneration and Benefits	Rs. 1.4 Bn.
Government	Tax	Rs. 657 Mn.
Customers	Loans	Rs. 12 Bn.



4%

Deposit portfolio reported an increase of 4% to Rs. 49.8 Bn.



Financial Capital

01

02

03

04

05

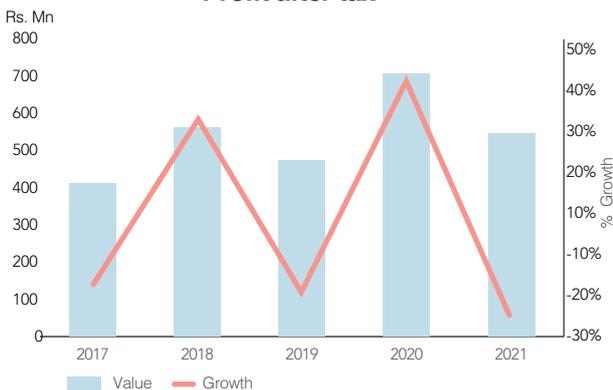
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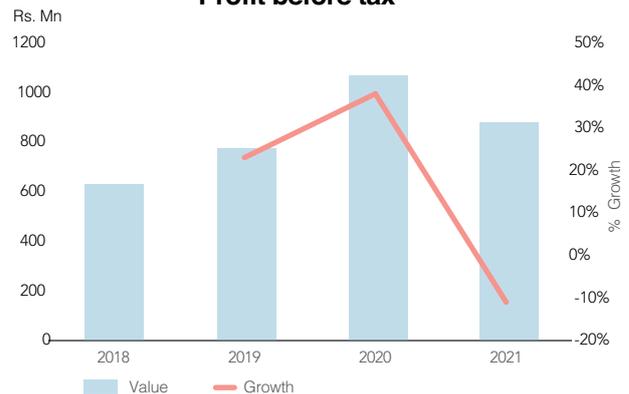
PROFITABILITY INDICATORS

While we recorded a profitable financial year, profit before tax was reported as Rs. 878 Mn. subdued by 18% from Rs. 1,068 Mn. in 2020. Subsequently, profit after tax reduced by 22% to Rs. 547 Mn. from Rs. 708 Mn. in 2020.

Profit after tax



Profit before tax





CAPITAL MANAGEMENT REPORTS: FINANCIAL CAPITAL

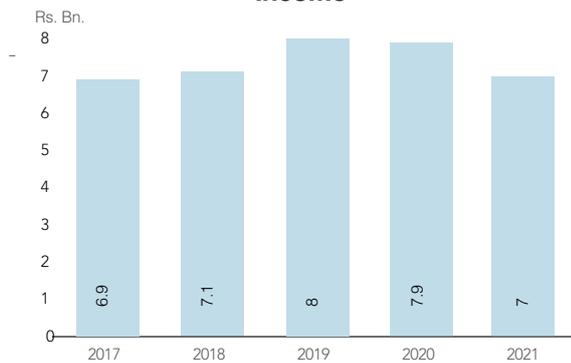
RATIOS

Return on assets decreased marginally to 0.88%, while ROE declined to 9.02% in 2021 from 12.99% in 2020.

INCOME ANALYSIS

At the end of the financial year, the bank recorded a total income of Rs. 7.0 Bn, an 11% decline from the Rs. 7.9 Bn recorded at previous year end. Total operating income reported a marginal increase from Rs. 3.38 Bn. in 2020 to Rs. 3.45 Bn. in 2021. Subsequent to impairment charges, net operating income increased in 2021 by 3% to Rs. 3.15 Bn. from Rs. 3.05 Bn in 2020.

Income

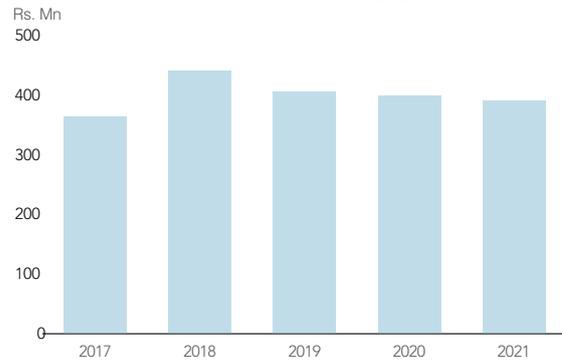


INTEREST INCOME

During the year, interest income decreased by 12% to Rs. 6.6 Bn. from Rs. 7.5 Bn. recorded in the previous year. The decline in interest income can be attributed to low interest rate environment, which persisted in 2021. Consequently, net interest income recorded a 2.5% increase from Rs. 2.9 Bn in 2020.

Fee and commission income was reported as Rs. 392 Mn., a 2% decline in relation Rs. 400 Mn. from the previous financial period. Fee income related to loans and advances, as well as electronic transactions declined during the year, impacting the total accumulation.

Fees and commission

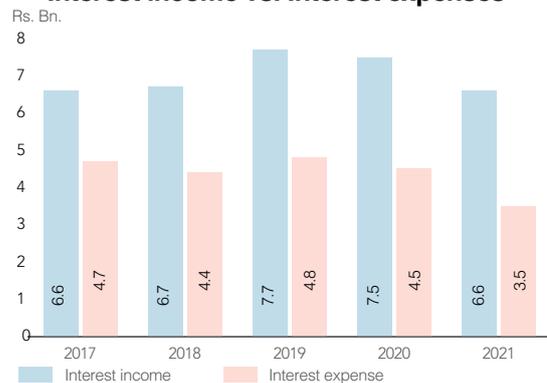


EXPENDITURE ANALYSIS

INTEREST EXPENSES

By the end of the financial year, interest expenses declined by 22% to Rs. 3.5 Bn. from Rs. 4.5 Bn in 2020. Interest payments reduced to Rs. 3.2 Bn by 30% from last year's payment of Rs. 4.6 Bn. This decline is a result of reduced interest payments on debt and lines of credit.

Interest income vs. Interest expenses

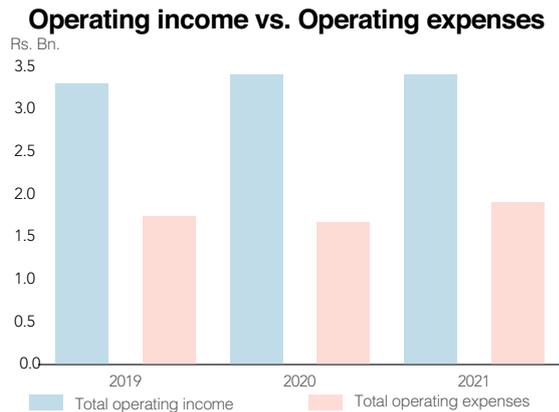


OPERATING EXPENSES

Total operating expenses increased during the year by 25% to Rs. 2.0 Bn. from Rs. 1.6 Bn. reported in 2020. Included in operating expenses are staff costs, which amounted to Rs. 1.4 Bn. an increase of 17% from Rs. 1.17 Bn. in 2020. The inflationary conditions which prevailed in 2021, also added to the higher operating expenses to a moderate extent. In addition, office administration and establishment expenses increased during the year to Rs. 82 Mn. from Rs. 76 Mn. in 2020, while another significant expenditure was insurance and security expenses, which amounted to Rs. 55 Mn. in the year under review.



Depreciation and amortisation expenses increased marginally, to Rs. 161 Mn.



OPERATING PROFIT

For the year ended 31st December 2021, operating profit before tax declined by 14% to Rs. 1.2 Bn. from Rs. 1.4 Bn. in 2020. Consequently, operating profit before tax declined by 18% to Rs. 878 Mn. from Rs. 1.06 Bn. in 2021. The end result in operating profit is due to increased expenses, which could not be offset by the level of income received during the year under review.

IMPAIRMENT CHARGES

Total impairment charges for the year, increased by 21% to Rs. 1.7 Bn. from Rs. 1.4 Bn. recorded in 2020. During the year, we made increased provisions due to the nature of external developments, based on the impacts of COVID-19 and the economic situation of the country. Our stage 1 and stage 2 provisions increased during the year, while stage 3 provisions also increased in 2021.

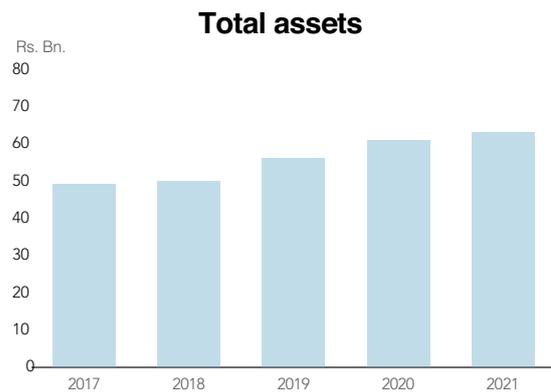
Individual impairment provision increased during the year by 10% to Rs. 676 Mn. from Rs. 617 Mn. in 2020; meanwhile collective impairment reduced by 33% to Rs. 1.1 Bn. from Rs. 828 Mn. in 2020.

FINANCIAL POSITION

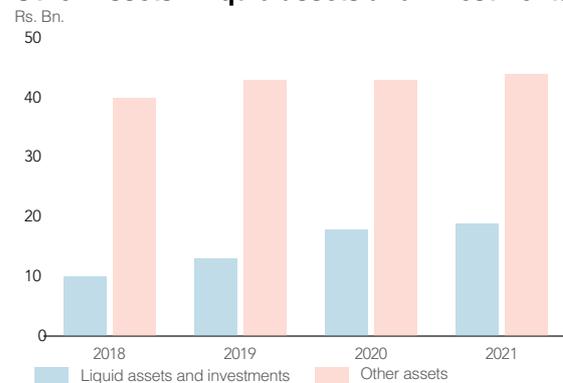
Our financial position is well demonstrated through the following categories.

TOTAL ASSETS

Total assets amounted to Rs. 63 Bn. an increase of 3% from Rs. 61 Bn. in 2020. The increase in total assets is also an increase of 78% over the past four-year period.



Other Assets - Liquid assets and investments



In addition, liquid assets and investments increased by 12% to Rs. 19 Bn., moreover, Other Assets increased marginally by 2% to Rs. 44 Bn. in the year under review. Investment properties also increased by 5% to Rs. 1.06 Bn. in the year being reviewed. Deferred tax assets contracted marginally to Rs. 126 Mn. from Rs. 205 Mn. in 2020.

Property, plant and equipment for the year under review, amounted to Rs. 224 Mn. increasing only marginally from Rs. 223 Mn. from the previous year. New property and asset acquisitions grew by 76% to Rs. 97 Mn. during the year, compared to Rs. 55 Mn. in 2020.

01

02

03

04

05

06

07



CAPITAL MANAGEMENT REPORTS: FINANCIAL CAPITAL

LOANS AND ADVANCES

Loans and advances increased marginally to Rs. 42 Bn. from Rs. 41 Bn. recorded in 2020.

OTHER TYPES OF ASSETS

Cash and cash equivalents declined to Rs. 259 Mn. from Rs. 306 Mn. in 2020, while placements with banks declined to Rs. 8 Bn. from Rs. 10 Bn. in 2020. Moreover, debt and other instruments amounted to Rs. 10.5 Bn. from Rs. 7.5 Bn. in 2020.

RATIOS

Analysing our asset performance further, Investment to Total Assets was 30% in 2021 over the previous year; while the Bank's market share in total assets stood at 3.06% for the year under review.

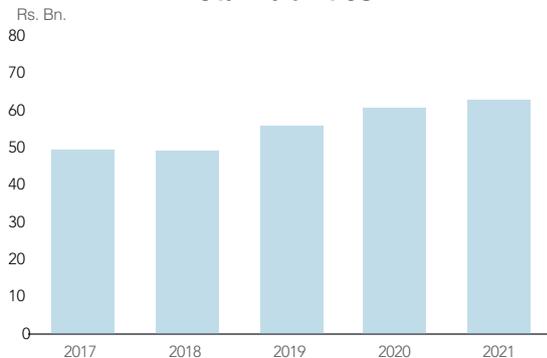
LIQUIDITY RATIOS

At the end of the financial year, Liquidity Coverage Ratio increased to 156% over 138% in 2020, while Statutory Liquid Asset Ratio (SLAR) increased to 27% from 26% in 2020. The Asset and Liability Committee took prudent measures to assess the bank's stress levels, ensuring that liquidity levels fall within a healthy range, and in compliance with the requirements by the regulator.

TOTAL LIABILITIES

Total liabilities increased to Rs. 56 Bn. by 2% from Rs. 55 Bn. in 2020.

Total liabilities



Dues to banks decreased by 12.5% to Rs. 2.1 Bn. from Rs. 2.4 Bn. in 2020. Moreover, financial liabilities represented by dues to depositors increased to Rs. 50 Bn. from Rs. 48 Bn. in 2020, our dues to other borrowers decreased to Rs. 1.3 Bn. from Rs. 1.4 Bn. in 2020.

Debt securities issued amounted to Rs. 1.4 Bn. remaining unchanged from 2020. In addition, Retirement Benefit Obligations decreased to Rs. 772 Mn. from Rs. 778 Mn. in 2020.

During the year, borrowings declined by 9% to Rs. 4.8 Bn. when compared to Rs. 5.39 Bn in 2020; current tax liabilities decreased to Rs. 316 Mn. from Rs. 442 Mn. in 2020. Liabilities increased by 3.6% to Rs. 56 Bn. from Rs. 55 Bn. due to the rate reduction income tax. In addition, current tax liabilities declined by 29% to Rs. 316 Mn. over Rs. 442 Mn. in 2020. During the year, lease liabilities increased by 11% to Rs. 388 Mn. from Rs. 349 Mn. in 2020.

Debt capital remained unchanged for the financial year under review at Rs. 281 Mn. a result of the bank's perpetual bond in 2019.

DEPOSITS

Our deposit portfolio reported an increase of 4% to Rs. 49.8 Bn. from Rs. 47.9 Bn. in 2020. Lower interest rate environment resulted in a decline in new deposits, resulting in subdued growth of the deposit portfolio. Fixed deposits are the largest contributing factor of deposits, amounting to 83% from the total portfolio in 2021, followed by a 17% stake from savings.

RATIO

Borrowings to total assets declined during the year to 8% from 9% in the previous year.

EQUITY

Total equity increased to Rs. 6.4 Bn. from Rs. 5.8 Bn. reported in the previous financial period, reflecting total shareholders' equity for the year 2021.

Total shareholders' equity is represented by changes in the following mix of indicators, as per the statement of financial position.



Indicator	2021	2020	2019
Shareholders' equity	Rs. 6.4 Bn.	Rs. 5.8 Bn.	Rs. 5.1 Bn.
Stated capital	Rs. 962 Mn.	Rs. 962 Mn.	Rs. 962 Mn.
Statutory reserve fund	Rs. 272Mn.	Rs. 245 Mn.	Rs. 210Mn.
Other reserves	Rs. 389Mn.	Rs. 293Mn.	Rs. 268Mn.
Retained earnings	Rs. 4.8 Bn.	Rs. 4.3 Bn.	Rs. 3.7 Bn.

Total equity and liabilities increased to Rs. 63 Bn. from Rs. 61 Bn in 2020.

RATIO

Equity to total assets ratio is computed as 10% for the year under review.

MARKET CAPITALISATION

The bank's market capitalisation reduced by 14% to Rs. 1.97 Bn. from Rs. 2.3 Bn. in 2020. The reduction is a result of the drop in the Bank share price in 2021. Share price at the end of the year stood at Rs. 30.50, a drop of 16% when compared to Rs. 36.20 from 2020. Basic earnings per share also declined to Rs. 8.46 by 23% from Rs. 10.94 in 2020.

CAPITAL POSITION

We have fulfilled Rs. 6.71 Bn. from the total statutory minimum required to ensure increased financial strength of the Bank, with an additional Rs. 782 Mn. to be fulfilled in 2022. In this regard, a perpetual bond in the amount of Rs. 750 Mn. – Rs. 1 Bn. will be declared in 2022.

RATIO

Our capital adequacy ratio stood at 23.02%, maintained well above the statutory minimum of 12.5%. At the end of the financial year 2021, our risk adjusted capital ratios stood as follows - all demonstrating above minimum levels.

Risk Adjusted Capital Ratios	2021	2020	2019
Common Equity Tier 1 Capital Ratio	21.51%	19.34%	18.21%
Tier 1 capital	22.38%	20.20%	19.14%
Tier 2 capital	23.02%	20.67%	19.14%

SHARED VALUE CREATION – INTERDEPENDENCIES

Financial capital has a strong association with other resources and capitals of the Bank, as it is a key input which facilitates value creation. Therefore, the growth of other capitals and the level of value created through them have the potential to enhance or erode funds and investments, over time.

- Interest income Rs. 5.4 Bn.
- Rs. 1.17 Bn. investment income
- Rs. 547 Mn. in Profit after removing taxes and dividends

- Investments and expenditures related to other capital resources are considered as imperative to creating value for our stakeholders. In addition, such investments and costs enable us to expand operations and increase opportunities for growth in revenue. Here are a few of the key cost-intensive components, which are valuable investments for future growth and value creation.

- Investments in human capital growth
- Technology-based investments, which impacts long-term value creation.
- Investments in channel expansions.
- Costs incurred in acquiring PPE.
- Cost of investment in renewable energy.
- Costs incurred in delivering financial value to stakeholders

STRATEGIC OUTLOOK

We have placed immediate priority on fulfilling the minimum capital requirement, with an aim of reaching an additional Rs. 750 Mn. by the end of 2022.

In addition, we have planned several strategic initiatives in the arenas of digitalisations and manufactured capital, which will require considerable fund infusions.

01

02

03

04

05

06

07



CAPITAL MANAGEMENT REPORTS: HUMAN CAPITAL



Management Discussion and Analysis

CONTRIBUTING TO A UNIQUELY COMPETENT WORKFORCE

The HDFC Force reinforces strong professional commitment in an era where loyalty and dedication dissipate amidst challenges. Our team is the force behind its the Bank's stability and growth, and represents integrity and resilience which underpins the Bank's values as a public entity.

Value Delivered

- Rs. 1,387 Mn. in total employee remuneration and benefits
- 16,271 additional training hours

THE HRM APPROACH

Using a number of applicable laws, frameworks and regulations, our HR team ensures effective and relevant application of policies that nurtures employees from within the institution. Keeping employee growth aligned with strategic goals and objectives, the Bank's HR department reviews and revises its approaches to managing HR functions.

INTERNAL HR POLICIES

Building a competent team requires a coordinated effort, which follows exemplary guidelines. The Bank has in place a set of fundamental policies, both from an HRM perspective and specified by HDFC Act.



37%

A higher proportion 37% of employees has joined the bank in the last 5-10 years, while 14% of employees have remained with the Bank for more than 25 years.



Human Capital

01

02

03

04

05

06

07

THE HDFC FORCE – REPRESENTING INCLUSIVITY, EQUALITY AND DIVERSITY

Our team is formed by individuals with diversities in gender, age and professional capacities. We follow a strict policy of non-discrimination, against any social demographic and strive to constantly ensure a culture that respects each and every team member.

APPLICABLE LAWS AND REGULATIONS

HDFC Bank honours the following labour/employment-based laws and regulations, including amendments.

Shops and Office Employees Act No. 19 of 1954

Employment of Women, Youth and Children Act No. 47 of 1956

POLICIES IN EFFECT

- Training and Development Policy
- Recruitment Policy
- Grievance Handling Policy
- Transfer Policy
- Succession Plan
- Remuneration Policy



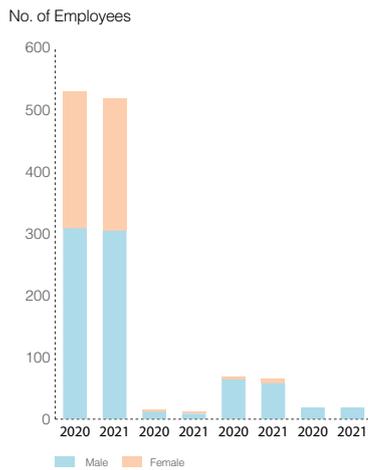
CAPITAL MANAGEMENT REPORTS: HUMAN CAPITAL

POLICIES REVIEWED AND PENDING APPROVAL

- Disciplinary code
- Palmtop policy (new)
- Recruitment policy

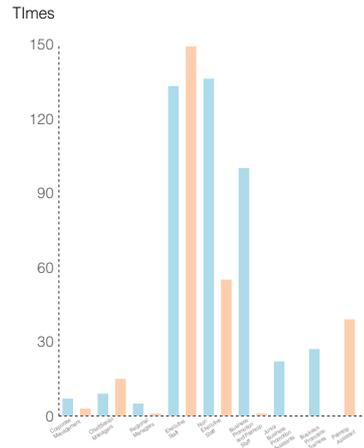
TOTAL WORKFORCE

The team includes 614 unique and diverse individuals. During the year, the company recruited 18 new individuals, while the total workforce reduced by 19 members between 2020 and 2021. Moreover, over half of new recruits joined the Bank as executive and non-executive staff.



Each year, due to causes such as retirements, promotions and cross-functional work schedules, employees of each category underwent fluctuations; nevertheless, given the relative need for a much larger staff for administrative and middle managerial work, the Bank's executive staff remains comparatively higher, followed by non-executive staff and business promotion and palmtop staff.

Workforce - Job Level



GENDER VIEW

Category	2021	2020	2019
Employees on Maternity leave	17	12	23
% which joined after maternity leave	100%	100%	100%

As seen in the job category analysis, the Bank's executive staff and Chief/Senior management categories have a larger proportion of female co-workers, while male non executive and business promotion staff exceed female counterparts. – demonstrating a healthy gender distribution across the hierarchy. Overall, 64% of male employees followed by 36% of female employees form the Bank's workforce.

Stepping into motherhood, 17 employees were granted paid maternity leave; at the end of which all re-joined the Bank resuming their respective job functions.

Employees (Function Wise)	2021	
	Female	Male
ADMIN DIVISION	9	5
BANK / BOARD SECRETARIES DIVISION	2	1
BUSINESS DEVELOPMENT DIVISION	2	4
CALL CENTRE	3	0
CHAIRMAN'S OFFICE	1	1



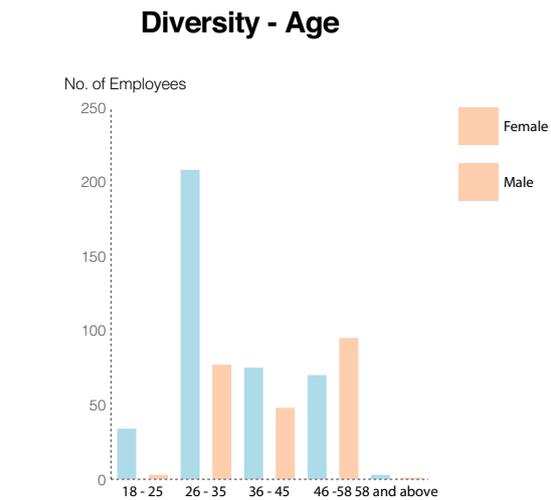
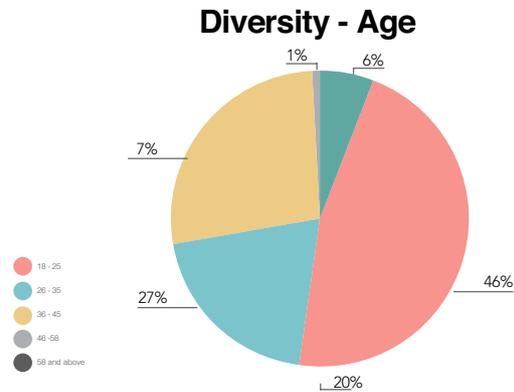
Employees (Function Wise)	2021	
	Female	Male
COMPLIANCE DIVISION	2	3
COO DIVISION	1	2
CREDIT ADMINISTRATION DIVISION	1	2
CREDIT DIVISION	3	8
CORPORATE & DEVELOPMENT FINANCE	1	2
CFO OFFICE	0	2
FINANCE & TREASURY BACK OFFICE UNIT	3	2
GM'S OFFICE	1	2
GOLD LOAN	1	0
HUMAN RESOURCES DIVI.	6	1
"INTERGRATED RISK MANAGEMENT DIVISION"	2	2
INTERNAL AUDIT DIVISION	3	5
IT DIVISION	2	11
IS DIVISION	1	1
LEASING UNIT	1	1
LEGAL DIVISION	8	4
MARKETING DIVISION	2	1
OPERATIONS DIVISION	6	2
MIS & ACCOUNTS CONTROL UNIT	4	2
RECOVERIES DIVISION	3	6
TECHNICAL DIVISION	2	14
TREASURY DIVISION	1	1
PAYMENTS DIVI.	4	2
TOTAL EMPLOYEES OF HEAD OFFICE	75	87

DIVERSITY IN EXPERIENCE

A higher proportion 37% of employees has joined the bank in the last 5-10 years, while 14% of employees have remained with the Bank for more than 25 years.

AGE MIX

Striking a balance between new age mindsets and invaluable expertise, Bank employees represent all generational cohorts including a wide proportion from Gen X (36-54) and Gen Y (22-35).



REGIONAL DISTRIBUTION OF STAFF

The bank's branches are segregated according to regions, which comprises several provinces and a mix of branches.

Region	Staff	
	Male	Female
Region 1	45	27
Region 2	42	25
Region 3	46	32
Region 4	61	30
Region 5	47	11
Region 6	62	24
Head Office	87	75

01

02

03

04

05

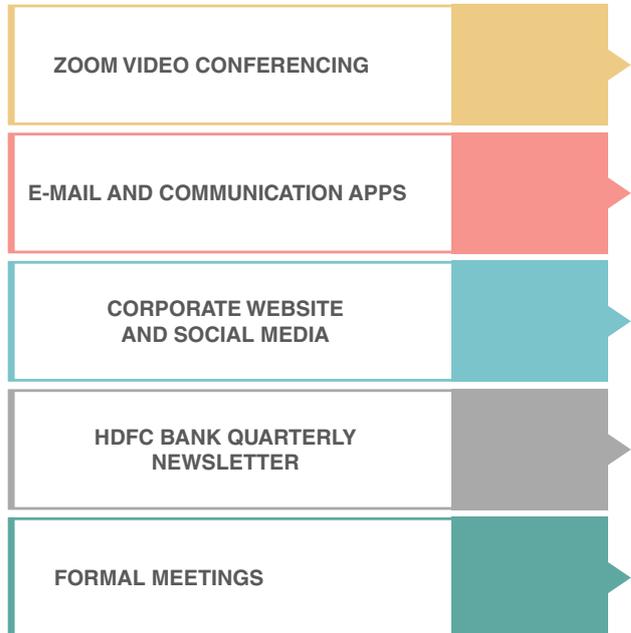
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07



CAPITAL MANAGEMENT REPORTS: HUMAN CAPITAL

Provincial	Staff	
	Male	Female
Northern	11	4
North central	14	5
North western	39	16
Eastern	22	3
Central	51	27
Western	164	132
Uva	20	20
Sabaragamuwa	21	21
Southern	48	48



EMPLOYEE ENGAGEMENT

We adopt several alternatives for engagement purposes, of which communication, training and meetings takes priority. However, the pandemic shifted routine channels to more virtual methods and digital communication channels. Due to restraints, trainings were mainly conducted via zoom and while video conferencing was used for virtual meetings. E-mails and digital communication apps remained widely used between management and staff both during and after lockdowns. Annual excursions and gatherings were discouraged throughout 2021, due to health concerns of staff and family members.

Employee meetings with management:



TALENT MANAGEMENT

Each year, we attract, employee and retain professionals identified for their potential to add value to banking activities and create a high-performing team.

Several routes are followed in achieving this objective, beginning with planning recruitment requirements for the year, while assessing gaps in the existing workforce.



RECRUITMENT 2021

The HRM team conducts the hiring process as per the recruitment policy. In 2021, 18 new recruits got on board the Bank team, filling vacant positions due to retirements and resignations. Given the low attrition rate, yearly recruitments remain low.

Process: Priority was given to internal recruitment in filling vacant positions. However, when internal talent could not fulfil requirements, the process of recruiting externally was initiated. Vacancies were advertised on the intranet, corporate website, newspaper and popular online job sites. Recruitments were done based on the results of an evaluation paper and an interview with a panel of management leaders.



SUCCESSION PLANNING

The succession plan of the Bank enables the HR department to initiate actions in ensuring the proper fulfilment of competent professionals to roles of operational leadership. The succession policy was reviewed during the year.

Training: Branch management and corporate management receive training in enhancing their knowledge and managerial capabilities. During the year, they received training in technical areas and leadership development.

Talent Advancement: Preliminary work for recruiting management trainees was initiated; however, testing of shortlisted applicants was not completed due to COVID-19 concerns. The management trainee program will enable the Bank to add fresh blood to its cadre while adding a new layer of employees geared towards succession.

REWARDING COMMITMENT AND PERFORMANCE

Providing fair and gratifying benefits while honouring employees with due recognition, the management takes several directions in adding value to employees' financial and professional growth.

KPI BASED PERFORMANCE EVALUATION

Across each branch and division, a KPI based performance measurement model is established and continues to be updated each year. Evaluating performance against KPIs entitles employees to receive performance based rewards and increments.

The KPI-based performance evaluation system was introduced in 2019, making it the central point in benchmarking employee performance.

REMUNERATION AND BENEFITS

Over the years, the Bank has maintained mandatory financial obligations, while consistently providing voluntary financial benefits. Employees enjoy competitive benefits in comparison to non-state banks in the sector.

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	√	√	-	-

01

02

03

04

05

06

07



CAPITAL MANAGEMENT REPORTS: HUMAN CAPITAL

EQUITABLE EMPLOYEE RECOGNITION

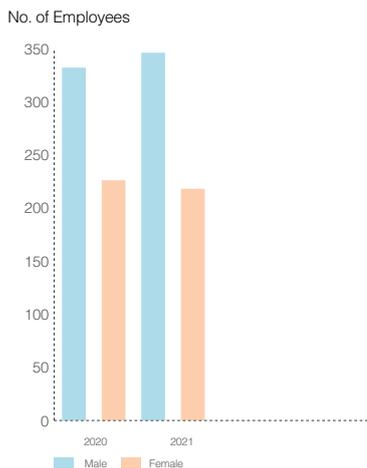
Exemplary service is found at all levels, prompting us to take measures to reward and recognise employees with service dedication, irrespective of job role. Demonstrating this aptly, the Bank rewarded and recognised employees with notable achievements. We rewarded the Security officer at the Hyde Park Corner branch as a token of appreciation, for his commitment to welcoming and assisting customers exceptionally.

TRAINING AND DEVELOPMENT

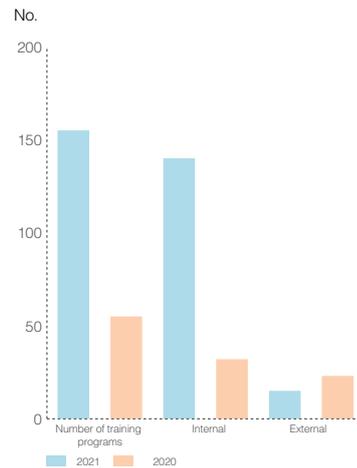
A core avenue of growth for all our employees, we invest considerably in training and development. This was exemplified in 2021, as we increased our training endeavours, especially in the volume of hours invested for training purposes.

During 2021, physical training sessions were replaced with zoom-based training sessions; with the exception of a few on-site training workshops; pandemic-based mobility restrictions made it necessary to conduct virtual trainings. A total of 20,399 hours were invested in training sessions, which is a significant increase compared to 2020.

Number of employees trained



Number of Programs



Rs. 5.41 Mn
Invested in
Training

92%
of Employees
Trained

20,399
Training Hours

*No. of female employees trained are in relation to the total number of female employees within the workforce (female – 224 : male – 390).

Trainings (Job-category)	2021	
	Male	Female
Corporate management	8	4
Chief / senior managers	8	14
Regional managers	5	1
Executive staff	133	149
Non-executive staff	92	49
Business promotion assistants	12	1
Junior business promotion assistants	22	-
Trainees – Business Promotion	27	-
Palmtop assistants	39	-

The impact of these training programs translates into having a group of empowered and technically adept professionals, who are well-groomed and well-informed to perform with confidence and motivation.



TAILORED TRAINING AND DEVELOPMENT PROGRAMS

During the year, the Bank designed and conducted programs based on identified training needs and based on gaps in knowledge and service levels. Training programs covered all levels of employees - providing both technical and non-technical expertise.

Employee Category	No. of Programs	Areas covered
All	9	<ul style="list-style-type: none"> • Motivation and customer care (1) • Pandemic related (2) • Positive thinking (3) • Payment platforms (1) • Disciplinary code (1) • Customer identification (1)
Board Secretary and Court Clerks	2	<ul style="list-style-type: none"> • New SEC Act No. 19 of 2021 • Duties & Responsibilities of Court Clerk
Branch Management and Staff	14	<ul style="list-style-type: none"> • Managerial role and responsibilities (2) • Credit and documentation (3) • Valuation procedures (1) • Legal aspects of recoveries (2) • Positive thinking (1) • Leadership (2) • Operational matters (1) • Information Security (1) • Currency notes and identification of forged notes (1)
Compliance	3	<ul style="list-style-type: none"> • General Compliance (2) • Anti Money Laundering / Countering the financing of terrorism (1)
Corporate Management	2	<ul style="list-style-type: none"> • Sri Lankan economy • Corporate governance for LSBs
Credit Officers	4	<ul style="list-style-type: none"> • Credit & Corporate Development • Pawning • Credit
Development Assistant	2	<ul style="list-style-type: none"> • System- CBS
Finance	1	<ul style="list-style-type: none"> • LKAS & SLFRS
HR	4	<ul style="list-style-type: none"> • Transfers & Secondments • IT Integrated Remote Work Culture • Payment of EPF, ETF, and gratuity • Strategic HR
Internal Audit	1	<ul style="list-style-type: none"> • Internal Controls & Auditing
IT		<ul style="list-style-type: none"> • ISO 2700 • Digital Banking
Legal Officers	1	<ul style="list-style-type: none"> • Conveyance
Managers & Above	1	<ul style="list-style-type: none"> • Leadership
Office Assistants	1	<ul style="list-style-type: none"> • Attitude development
Operation and Legal	2	<ul style="list-style-type: none"> • AML/ CFT Compliance For Financial Institutions • Operational & Legal Aspect
Palmtop Officers	2	<ul style="list-style-type: none"> • EPF Loan Procedures • Improvement of Palmtop Target Achievements
Recovery Officers & Branch Staff	2	<ul style="list-style-type: none"> • Microsoft Excel • Delinquency Management System
Risk/ Loan Admin	1	<ul style="list-style-type: none"> • Risk Functions
Selected HO Staff	1	<ul style="list-style-type: none"> • Advance Excel
Treasury	2	<ul style="list-style-type: none"> • Treasury Operations • Treasury Operations, Assets & Liability Management

01

02

03

04

05

06

07



CAPITAL MANAGEMENT REPORTS: HUMAN CAPITAL

EMPLOYEE SATISFACTION AND WORK-LIFE BALANCE

Our management takes timely decisions to drive a motivating and pleasing work environment - fostering a self-committed and focused work ethic amongst staff.

Flexi-time arrangements: In setting the tone for a balanced work-life experience, the management initiated flexible work arrangements. Office hours were arranged into three 8-hour sets, beginning and ending at three different time groups, for the convenience of staff and management.

Job Rotation: Preventing burnout, while expanding scope of employee knowledge and capabilities, the Bank provides employees with job rotations. Staff is temporarily assigned to cross-functional positions.

GRIEVANCE HANDLING AND NON-DISCRIMINATION

A grievance handling policy is in place to manage and bring a resolution to employee grievances. The policy ensures impartiality in handling concerns and unfair treatment.

Discriminatory behaviour is not tolerated at any level of the Bank; this maybe gender, job role biases or partialities towards religion, age or social caste.

UNION RELATIONS – COLLECTIVE AGREEMENT

As a responsible employer we honour our duty towards employee expectations. Maintaining cordial relations in eliciting mutual respect, we have built a good rapport with the Ceylon Bank Employees' Union or CBEU.

In 2021, we renewed the collective agreement for 2021-2023, which ensures salary and non-salary benefits for its employees. The collective agreement renews for three years.

Union Membership

81% from total cadre

499 employees

Covers Permanent, Probation and Contract employees

Including Corporate Management

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

EFFECTIVENESS OF MANAGEMENT APPROACH

Other Information	2021	2020
Retention Rate	96.85	97.4
Revenue per employee (Rs. Mn.)	11.41	12.41
Cost per Employee (Rs. Mn.)	2.26	1.85
Average period of service	13.08	12.31

RETENTION

Our retention rate was at 96.85% in 2021, dropping only marginally since 2020. This high retention rate gives the Bank a low attrition rate at 2.57%. This resembles our success in how we take care of our employees workforce – proving the efficacy of steps taken to ensure both professional and financial growth.

AVERAGE SERVICE PERIOD

Meanwhile, average employee service period amounted to 13.08 years in 2021, increasing from 12.31 in 2020.

COST AND REVENUE PER EMPLOYEE

Based on an increase in salary increments due to fulfilment of collective agreement in 2021, the cost per employee increased to Rs. 2.26 Mn. by Rs. 0.41 Mn. The revenue per employee has declined to Rs. 11.41 Mn. in 2021 from Rs. 12.41 Mn. in 2020.



SUPPORT DURING THE PANDEMIC

Ensuring the safety and stability of employees, we continued to provide necessary resources and solutions to help them adjust to pandemic-based changes. The management along with the coordination of the administrations department ensured that employees were provided with the following:

Financial support

- Timely salary payments in addition to bonus and other monetary benefits
- Rs. 15,000 goods basket for affected employees
- Rs. 25,000 for contract staff receiving a salary less than Rs. 25,000 (Mainly palmtop staff)
- Paid leave for affected employees
- Rs. 841,096/- in COVID provisions

Safe working environment

- Provide sanitization equipment at Head Office and branches
- Separate counters with translucent sheeting to maintain distance
- Testing for the infected
- Follow regulatory health guidelines

Adaptive Work Arrangements

- Work from home arrangements
- Technological resources to facilitate remote work
- Job rotation to temporarily fill positions of those infected

Transportation

- Bank's vehicles and organised transportation for employees without personal vehicles.
- Allowance for employees using personal transportation.
- Work from home arrangements during lockdowns.

SHARED VALUE CREATION

Value Creation

- Increasing financial expenditure in remuneration, increments and other monetary benefits
- Financial investment in training

- Training improves efficiency and enhances customer service and enhances customer relations.
- Continuous learning increases employee knowledge and capabilities, thereby, enhancing intellectual capital.
- Investment in physical and technological infrastructure support working environment
- *Investments on employee growth can help to educate them in sustainability and ESG, in making positive impact on the society and environment.

Value Creation

STRATEGIC OUTLOOK

While taking care of personal and professional growth of employees, we are committed to honouring the Union's collective agreement in providing increments, which will be renewed in 2022 for another three-year term. As inflation continues to be a concern, the Bank will consider gradually increasing monetary benefits based on performance for all employees.

Fostering employee growth, the Bank will continue to gradually increase training initiatives, while exploring solutions to establishing a staff learning portal with access to internal and external learning material.

The management trainee program, which is in its preliminary stage, will be fully implemented in 2022, with the recruitment of an appropriate number of candidates to work across the Bank network.

01

02

03

04

05

06

07



CAPITAL MANAGEMENT REPORTS: SOCIAL AND RELATIONSHIP CAPITAL



Social and

Management Discussion and Analysis

BUILDING SHARED VALUE AND LASTING PARTNERSHIPS

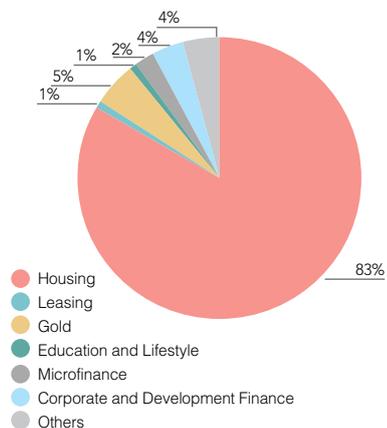
We believe in building relationships that creates a lasting impact. Based on our understanding of our stakeholders and our knowledge of their expectations, we strive to create value through our business activities, while engaging in ethical and transparent transactions. Our highest priority is in providing value that adds to the growth of all our stakeholders.

CUSTOMER RELATIONS

Value Delivered	
Deposit interest	Rs.3,125 Mn.
New loan approvals	Rs. 17,508 Mn.
Debt moratoriums	Rs. 460 Mn.

Relative to our capacity as a smaller bank, we work with a smaller number of clients in comparison to larger state-run banks. In total, our client base includes 472,805 customers.

Loans and Advances





During the year, we have maintained compliance to all statutory requirements including a capital adequacy ratio of 23.02%.

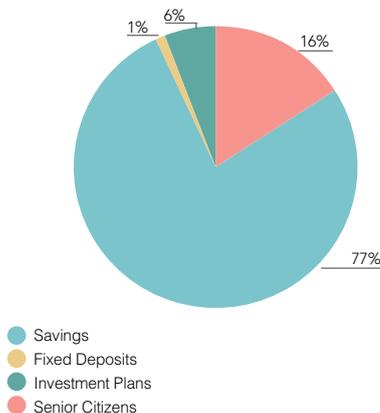
23.02%



Relationship Capital

- 01
- 02
- 03
- 04**
- 05
- 06
- 07

Deopsit and Savings





CAPITAL MANAGEMENT REPORTS: SOCIAL AND RELATIONSHIP CAPITAL

UNDERSTANDING CUSTOMER NEEDS

By serving a larger proportion of clients with financial vulnerabilities, we have made it our responsibility to guide their financial decisions, while being a stepping stone to their housing and enterprising aspirations.

For years, we have been a financial partner to our customers, and a majority of our solutions have always been based on the needs of those at the grassroots. Our financial products are designed to unburden our customers from financial limitations, while providing services such as palmtop banking (doorstep banking) that break barriers in accessibility.

INCLUSIVE SOLUTIONS



LOAN SCHEMES



Management Discussion and Analysis



SAVINGS

The infographic displays eight different savings products offered by HDFC, each represented by a house-shaped icon with a ring at the bottom. Below these icons are four larger boxes providing detailed descriptions for four of the products.

- PRATHILABA**: Represented by a house icon with a percentage sign and an upward arrow.
- HDFC Vishrama Rakawarana**: Represented by a house icon with a family silhouette.
- HDFC SET for LIFE**: Represented by a house icon with the text "The Best Investment Plan for Smart Youth".
- அரும்து** (Arumthu): Represented by a house icon with colorful letters and the text "அரும்து - மலரும் எதிர்காலம்".
- HDFC Vishrama Udana**: Represented by a house icon with a red bird-like logo and the text "விலாமி சூழல்".
- திலிதா** (Thilitha): Represented by a house icon with a sun and a book.
- திலிதா thilina**: Represented by a house icon with a sun and a book.
- HDFC கமர்சி யேலக** (Kamarchi Yelaga): Represented by a house icon with a yellow arrow pointing right.

Below the icons, four boxes provide detailed information:

- EPF Loans**: 75% of loan amount provided on EPF balance.
- HDFC Vishrama Rakawarana**: A retirement plan targeting youth.
- HDFC Leasing**: Leasing facility with speedy service and lowest rentals. Lessee is not required to be an HDFC account holder.
- HDFC Gold Loans**: Convenient loan facility against any amount of gold.

- 01
- 02
- 03
- 04
- 05
- 06
- 07



CAPITAL MANAGEMENT REPORTS: SOCIAL AND RELATIONSHIP CAPITAL

UNIQUE SERVICES

PALMTOPIK BANKING UNIT

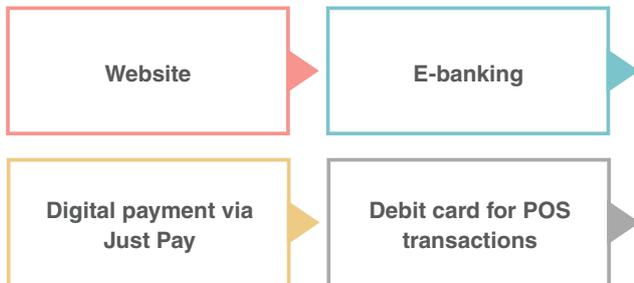
A ground team of 100+ personnel, our palmtop bank officers reach customers at their doorsteps, enabling transactions which eliminate the need for branch visitations. Our team accepts loan repayments, deposits as well as utility bill payments, which are updated through the palmtop banking software at the customer's unique location. The palmtop team covers over 140 towns and reaches both retail and business customers.

DOORSTEP LOANS

In the coming financial year, we will be revamping three products – Gurusevana, Virusara, Suwasara, redesigned to provide doorstep services for customer on-boarding and loan initiation.

FRESH DIGITAL AND ONLINE SOLUTIONS

With a relatively late entry into the industry's tech based offerings, we have now adopted several digital and web-based solutions, based on providing diversified service channels for customer convenience.



HDFC DEBIT CARD AND POS TRANSACTIONS

Enabling cashless point of sale transactions, we launched our debit card in 2021 for essential transactional convenience. The card is an international EMV-chip based card, developed in collaboration with JCB and Lanka Clear and enables POS transactions at selected locations.

DIGITAL TRANSACTIONS THROUGH JUSTPAY

In the recent past, we joined this common payment platform, enabling our customers the convenience of digital transactions. By investing in the platform, we were able to fast-track our offering of a digital application without incurring a significant initial investment in developing a bank-specific solution for customers. Our 'Prathilaba' account holders can enjoy the benefits of the payment platform and conduct daily transactions up to Rs. 50,000.

New value additions in the recent past

- Co-branded Debit card
- Foreign transactions
- E-banking utility payments and third-party fund transfers
- Digital payments up to Rs. 50,000/- through JustPay

E-BANKING THROUGH HDFC CLICK

Our e-banking portal enables faster, convenient online transactions, with the assurance of data security and safe access. Ensuring safety we provide customers with several modes of authentication including e-mail and SMS.

HDFC Click –Main E-banking facilities

- Account balance checking
- Funds transfers between own and third-party accounts
- Bill payments
- Safe transactions

SOCIAL MEDIA ENGAGEMENTS

While we maintain direct contact with customers through our branches and head office, we also engage with them on digital platforms.

Social media – FaceBook is our primary social media platform when engaging with customers and in promoting products and services.



SOCIAL MEDIA STATISTICS

		Reach	Growth in reach
	Total New visits	1,339,527 accounts 21,675	116.8%
	New visits	350 profiles	49%
	Paid advertising: New audience	3,475,333 audience	32.9%

ENSURING DATA SAFETY AND PRIVACY

Whether it's an in-branch or online transaction, we ensure that customer details remain accessible only to authorised personnel. Our branch network is secured through relevant safety procedures including firewalls, system and software upgrades and hardware changes. In addition, IT audits are conducted internally, whilst CBSL has also evaluated our technological compliances according to Baseline Security Standards (BSS). Collectively, these measures help to ensure security against cyber hacks and unauthorised accesses.

BRANCH NETWORK

Dispersed across the island, we operate a branch network of 39 locations across six regions. These branches undergo selective enhancements for improved in-branch experiences, in addition to improved visibility. Further, new branches will be opened in the future, expanding our network to more districts and towns. During the year, the refurbished Tissamaharama branch was inaugurated with the objective of providing efficient and friendly service to customers with sophisticated facilities.

INITIATIVES DURING THE PANDEMIC

We ensured the safety of our customers throughout the peak times of the pandemic – from both physical and financial perspectives.

PHYSICAL HEALTH AND SAFETY

Across our branches and Head Office, we took all measures to assure customer safety. Complying with all health protocols, we equipped all offices with sanitisation resources, in addition to ensuring social distancing during employee and customer interactions. Regular temperature checks of staff were done to ensure that the safety of customers was not compromised. Walk-in customers were also screened for temperature spikes.

ENGAGING DURING THE PANDEMIC

Fast tracking our e-banking portal became imperative in providing continued services during and after lockdowns. As a result, we advanced our e-banking portal to enable customers to perform vital transactions.

How we engaged with customers during lockdowns:



In addition, our palmtop banking officers, visited customers who were unable to visit branches physically and provided safe doorstep banking, while adhering to social distancing. As usual our call centre operated during lockdowns, with our representatives dedicating their time and resources to work remotely, while providing trilingual customer service.

Communicating with customers on a regular basis, we uploaded notices on moratoriums on our website and on our FaceBook account. In addition, a new e-mail ID was provided for customers to send applications for working capital loans and a hotline number for inquiries. Digital signage boards at branches were also utilised to convey information.

FINANCIAL ASSISTANCE

Given the relatively lower earning potentials of our customers, it was imperative to offer financial relief during periods of mobility restrictions. As a result, we provided both moratoriums and working capital loans, for those who sought assistance.

Under 'Saubhagya' COVID-19 renaissance working capital loan scheme, we provided funds to 73 businesses in 2020 and 19 businesses in 2021. Collectively, we disbursed a sum of Rs. 83 Mn. in total working capital loans in 2020 and 2021, excluding those provided under our loan schemes.

FINANCIAL RELIEF DURING THE PANDEMIC

	2021	2020
Saubhagya - Working capital loans (Rs. Mn.)	11	56
Saubhagya - Working capital loans (No.)	19	73
Restructured loans (Rs. Mn.)	69	94
Restructured loans (No.)	101	262
Moratoriums for the year (Rs. Mn.)	17	2

- 01
- 02
- 03
- 04
- 05
- 06
- 07



CAPITAL MANAGEMENT REPORTS: SOCIAL AND RELATIONSHIP CAPITAL

VARYING MORATORIUMS PROVIDED

Credit Type	2021	2020
Cash Back	Rs. 171 Mn - No. of - 438	Rs. 602 Mn - No. of - 1,366
Home loans	Rs. 3,794 Mn - No. of - 4,131	Rs. 12,678 Mn - No. of - 16,808
Leasing	Rs. 318 Mn - No. of - 224	Rs. 881 Mn - No. of - 735
Lifestyle loans	Rs. 255 Mn - No. of - 429	Rs. 1,300 Mn - No. of - 2,362
SME	Rs. 1,124 Mn - No. of - 771	Rs. 2,471 Mn - No. of - 2,376
Fee waivers (Rs.)	Rs. 75.0 Mn	Rs. 50.4 Mn

SOCIAL MEDIA CAMPAIGNS

By utilising FaceBook we conducted promotions on various credit schemes and savings plans, while also engaging with responsive customers on a daily basis. Apart from this, we also conducted seasonal campaigns targeting niche customer segments.

2021'S MOST HIGHLIGHTED SOCIAL MEDIA CAMPAIGNS



MARKET COMMUNICATIONS

During the year, we conducted several physical promotional campaigns and customer reward programs.

BRANCH PROMOTIONS

Several branches conducted promotions in and around respective branch offices. Branches conducted over 116 street promotions and distributed product leaflets amongst the general public. Each of our 39 branches conducted promotions during the year.

INSTITUTIONAL PROMOTIONS

During the year, we conducted promotions and awareness building campaigns in many public and private companies to promote several of our loan products including EPF loans and guarantor loans, and savings products were also promoted through these programs.



COMMUNICATION CAMPAIGNS

We connected with the pension department for personalised messages. A SMS campaign was conducted to promote Diriya and Viru Diriya (special loan schemes for pensioners).





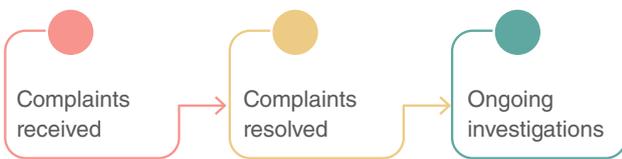
Promotion	Description
HDFC Bank Valentine's Day giveaway	A chance to win a luxury dining experience to celebrate the month of love and a Smart Goals savings plan to discover dreams.
ଝୋଟି ଚିତ୍ରାଙ୍କଣ - HDFC Thilina Art competition	A chance for parents to showcase kids' artistic talents to the world. The best drawings from each age group got a chance to win exciting gift packs to enjoy the Avurudu vacation!
HDFC ରଘୁଙ୍କ ଚିତ୍ରାଙ୍କଣ Vesak Festival	Invited customers to send in creative 'raban pada' during new year. Customers were invited to send photographs or video clips of how they celebrated Vesak festival safely at home as responsible citizens with their loved ones.
SME	Invited budding entrepreneurs of small and medium enterprises to comment their business's website link, or any social media account link so that the bank can contact them.

GIFTS AND REWARDS

Each year, the bank conducts gift giveaways intended to increase customer retention and enhance relationships. Rewards distributed are based on the amounts deposited by customers into fixed deposits and savings accounts. In addition, a play house was gifted for children's account deposits during the year.

CUSTOMER COMPLAINT MANAGEMENT

We manage customer complaints swiftly, resolving grievances in a professional manner. Complaints are received through the company's call centre, through our FaceBook page and through visits. In addition, we train and guide our staff to conduct processes and transactions with professionalism and respect, and we also provide training to improve their knowledge on technical areas and products.



PARTNER RELATIONS

Our relationship with our partners is based on an understanding of expectations and years of trust, as well as on shared gains through business transactions.

SERVICE PROVIDERS AND MERCHANT PARTNERS

SERVICE PROVIDERS

- ICT services and digital solutions
- Banking
- Insurance
- Security
- Maintenance
- Food and Beverages
- Utility services
- Materials
- Transport providers

MERCHANTS

- Furniture and fittings
- Stationers
- Machineries
- IT hardware
- Consultants
- Social media

01

02

03

04

05

06

07



CAPITAL MANAGEMENT REPORTS: SOCIAL AND RELATIONSHIP CAPITAL

SCREENING

Initially, a tender process is established, where the general public is informed through the corporate website or newspapers. Partners are then selected through a formal screening process, based on their ability to meet criteria and requirements. All selected partners are required to provide a Business Continuity Plan (BCP).

We expect our partners to maintain sustainable and ethical business practices as responsible corporate citizens.

ENGAGEMENT

We maintain amicable and professional relations with our suppliers and service partners, with frequent interactions via e-mail communications and through one-on-one interactions such as meetings and site inspections, as and when required.

INSTITUTIONAL PARTNERS

While we pursue new business opportunities, we also create the ability for other institutions, their members and customers to pursue inclusive financial products. We maintain partnerships with several state and non-state institutions including the Industrial Development Board. Our partnership with the Industrial Development Board of Ceylon involves providing financial assistance to micro, small and medium enterprises (MSME).

INDUSTRY MEMBERSHIPS

As a financial intermediary, we are part of several associations, which opens pathways to adopting high standards in banking and business. We are part of the Association of Compliance Officers of Bankers Sri Lanka and the National Chamber of Commerce of Sri Lanka.

AUDITING AND FINANCIAL SERVICES PARTNERS

We maintain frequent correspondence with our financial service partners, while engaging their services on a regular basis. Our banking partners enable us to conduct transactions as per our financial requirements, while our auditing firm provides an invaluable service in ensuring our conformance to accounting standards and regulations.

VALUE ADDED SERVICES

We invest in partnerships to bring value added services to customers, and insurance remains one such arena. Our partner insurance companies provide several solutions, while receiving the opportunity to expand business.

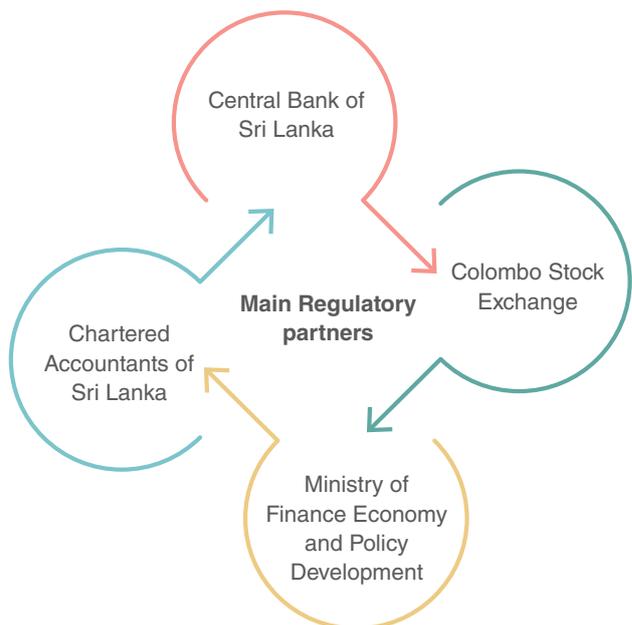
We have partnered with insurers to conveniently connect our customers with insurance solutions for home loans and leasing. We have also partnered with an insurance brokerage to provide title insurance, which provides protection from irregularities in titles. Moreover, customers can also obtain a blanket fire insurance policy ensuring financial indemnity from fire, lightning, floods and other natural perils.

REGULATORY PARTNERS

As a licensed specialised bank registered under CBSL, we have direct accountability towards maintaining transactional transparency. As a financial intermediary we are expected to maintain compliance to external governance and operational frameworks, laws and regulations. During the year, we have maintained compliance to all statutory requirements including a capital adequacy ratio of 23.02%, and have not incurred any fines or violations.

We also maintain compliance through periodic submissions and communications with the SEC and CA Sri Lanka and comply with all governance and reporting requirements.

(More information on governance and compliance in pages 120 to 166)



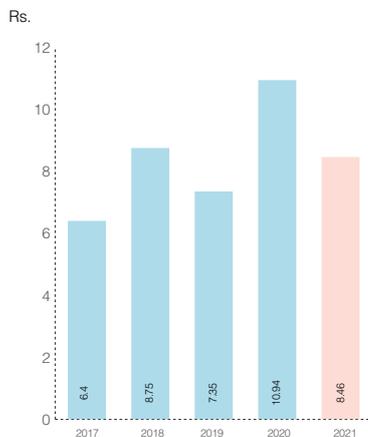


VALUE FOR SHAREHOLDERS

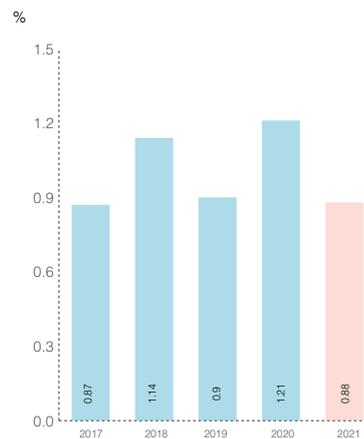
By increasing financial returns by optimising revenue streams and minimising costs, we strive to provide our shareholders with increasing value. During the year under review, we achieved a dividend pay, after a hiatus of five years. Our positive financial performance including the reduction of our non-performing loans, paved the way for this value creation. However, dividend per share was Rs. 0.25.

Value delivered	
Dividend (Based on 2020 Profit)	Rs. 16 Mn.
EPS	Rs. 8.46
Return on shareholders' fund	9.02%
ROA	0.88%
Net assets per share	Rs.98.18
Price earnings ratio	3.61
Total assets to shareholders' funds	10%

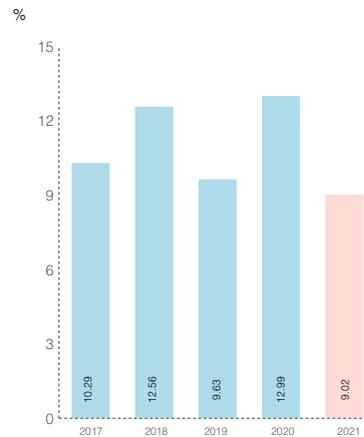
EPS



ROA



Return on Shareholders' Funds



01

02

03

04

05

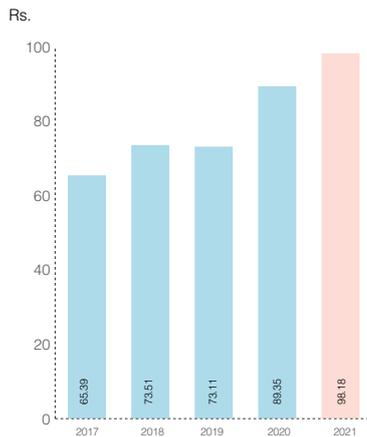
06

07

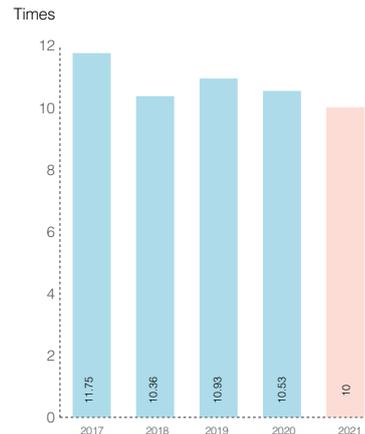


CAPITAL MANAGEMENT REPORTS: SOCIAL AND RELATIONSHIP CAPITAL

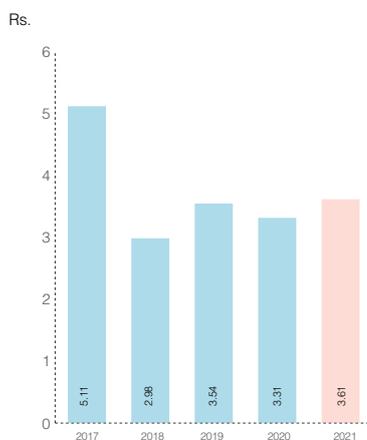
Net Assets per Share



Total assets to shareholder funds



Price Earnings Ratio



SHAREHOLDER ENGAGEMENT

Engagement with our shareholders is done through several methods, of which the Annual General Meeting remains the primary mode of communication and interaction. (Please refer stakeholder engagement, pages 30 to 32)

COMMUNITY RELATIONS

At present, our relations with the wider community remain relatively low and lack concentrated efforts. However, we have exercised our duties towards community development through inclusive solutions for Micro, Small and Medium scale enterprises and entrepreneurs. Moreover, with the fulfilment of the minimum statutory capital requirement, we aspire to adopt an increased focus on CSR activities and environmental sustainability initiatives.

Value Delivered (2021)

Development credit scheme for Corporate and MSMEs	>Rs. 325 Mn.
Swashakthi Loan Scheme	Rs. 5.6 Mn.
Saubagya Loans	Rs. 9 Mn.
Agriculture development credit	Rs. 97.6 Mn.
Service based development credit	Rs. 34.46 Mn.
Industry based development credit	Rs. 182.1 Mn.
Other development credit	Rs. 25.7 Mn.



SHARED VALUE CREATION

The shared associations between value creation for stakeholders and other capitals are demonstrated below.



STRATEGIC OUTLOOK

Honouring our commitments, we will continue to create increasing value for stakeholders, in accordance with their interests and in line with our strategic plan.

CUSTOMERS

- Improving services as a key driver of customer retention and loyalty
- Developing and revamping products with competitive services
- Gradually introducing other digital channels for faster, convenient service that matches the lifestyles of the tech-savvy.

PARTNERS

- Increase financial value to match inflationary pressures.

REGULATORS

- Support the financial regulator in financial and monetary policies aimed at economic progress
- Further enhance governance and risk management by identifying gaps
- Identify gaps in our adherence to financial standards, other regulatory laws and regulations
- SLFRS 17 timely adoption and full compliance

SHAREHOLDERS

- Generate value through revenue growth and better profits.
- Innovate and improve efficiencies to boost growth outlook, and boost investor sentiments.

COMMUNITY

- Share the benefits of our financial growth through CSR initiatives.
- Increase community development efforts through financial literacy programs.
- Partner with MSME and smallholder business owners to provide increasing financial support.

01

02

03

04

05

06

07



CAPITAL MANAGEMENT REPORTS: INTELLECTUAL CAPITAL



Management Discussion and Analysis

GROWING IN KNOWLEDGE AND INNOVATIONS

The knowledge we possess represents our intellectual capital. As a Bank with a unique market position, the knowledge we possess is exclusive to what we offer and how we operate. The depth of our intellectual capital is further amplified by our unique digital and technological infusions, brand identity, and our work culture, which increases the value of our intellectual capital.

Value Created in 2021

- Rs. 5.3 Mn. investments in powering digital and electronic transactions
- Rs. 37 Mn. to increase efficiency in core banking system
- Rs. 6 Mn. investment to increase the ATM network by 04 ATMs

ORGANISATIONAL KNOWLEDGE - UNIQUE PROPOSITIONS

Housing Loans

EPF-Backed Loans

Palmtop Banking (Doorstep Service)



Housing Loans

As a Bank that specialises in financing realty and housing needs for nearly four decades, we have amassed a wealth of knowledge and experiences in these arenas. Our repository of processes and knowledge also includes the intellectual experiences and expertise in providing credit to low and middle-income customers with varying livelihoods, within wide-ranging income brackets.



Over the years, the 'HDFC Bank' brand and the growth we have achieved has positioned us as one of the top 100 consumer brands in Sri Lanka.



Intellectual Capital

01

02

03

04

05

06

07



EPF-Backed Loans

We are one of four financial entities authorised in providing EPF-backed housing loans to the public. This has given us immense leverage and a competitive advantage in attracting professionals from the public and private sectors of the country. It not only gives us access to a wider market base, but also ensures a reliable and legitimate security over borrowed sums.

Palmtop Banking (Doorstep Service)

Our field team of palmtop banking assistants is an invaluable part of the Bank's unique proposition. A direct channel that reaches customers in their respective homes and workplaces, our 100+ palmtop banking team undertakes important banking transactions, and accepts payments for utilities and loan repayments.

All of this is made possible through the palmtop software, developed specifically to suit the team's requirements. During the year, the software was upgraded to enhance efficiency.



CAPITAL MANAGEMENT REPORTS: INTELLECTUAL CAPITAL

OTHER UNIQUE SOLUTIONS

Given the mostly housing-related background of our financial services, our portfolio has products designed around this aspect. In addition, we are the first bank to design a children's' savings plan titled 'Arambu', exclusively for the Tamil speaking community.

In 2021, we initiated development measures to revive three existing products under the brand names – Guru Sevana, Virusara and Suwasara. These new products will be launched in 2022.

Solutions exclusively for our target clientele:



DIGITAL SOLUTIONS

Enhancing our digital trail is a strategic focus; and in this regard, our efforts include creating services that address the needs of our customers. Digital solutions are adopted and implemented to provide non-conventional banking options to customers who prefer innovations that enhance their lifestyle. This is done gradually and at a steady pace, while making them unique to customer needs and our capabilities.

ENHANCING OUR DIGITAL FOOTPRINT

CORPORATE WEBSITE

Our website www.hdfc.lk is our primary digital source and a repository of information useful for all our stakeholders, from customers to shareholders. During the year, we began reworking the website with attractive features at a cost of Rs. 2.9 Mn.

INTERNET BANKING

Internet banking was revamped during the year to provide additional functionalities to customers, alongside enhanced back-end data security. We conducted revamping measures at an investment of nearly Rs. 3Mn.

JUSTPAY

At the beginning of 2021, we enabled the LankaPay JustPay platform for our customers to make retail payments using smart mobile devices by linking their savings account.

ADDITIONAL DIGITAL TRANSACTION CHANNELS

POS

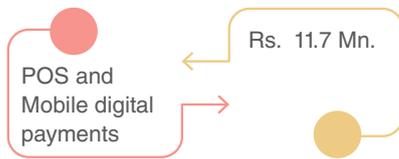
In 2021, we facilitated POS transactions through the HDFC debit card – opening-up services to a new phase of convenience.

HDFC DEBIT CARD

We introduced a co-branded debit card exclusively for our loyal customers, which can be used at JCB certified point-of-sale terminals across Sri Lanka.

ATM POINTS

Our customers can access a network of 5,526 ATMs across the island; with an additional 4 ATM's added during the year; through an investment of Rs. 6.8 Mn.



SHARED VALUE

Our partnership with Lanka Clear enables us to increase our digital footprint through POS payments and the JustPay digital payment application.

Our investment in this partnership has reached Rs. 11.7 Mn. in 2021.

TECH INFRASTRUCTURE FOR DIGITALISATIONS

We invest in back-end architecture, which helps to assimilate new digital solutions and digitalisations. During the year, we carried out several investments and measures to enhance our core banking infrastructure.

Change	Description	Investment
Core banking application change	Core banking application changed based on Oracle database upgrade to version 19c	Rs. 32Mn.
Hardware change for core banking system	Core banking hardware changed to use application more efficiently	Rs. 21 Mn.

OPERATIONAL SYSTEMS

Supporting operational efficiencies, we have invested in several solutions, which contribute to making our core banking system comprehensive.

LOAN MANAGEMENT AND ORIENTATION SOLUTION

Making the entire loan management system efficient and digitally accessible to staff members, the loan management and origination solution is enhanced each year. It was implemented in 2020, subsequent to a regional pilot test in 2019.

DELINQUENCY MANAGEMENT SYSTEM

With the implementation of the DMS system, we have made a substantial value addition to the entire loan management process. Launched in 2020, the system was adopted at a cost of Rs. 9.9 Mn. to streamline and document loan repayments, effectively. Special functionalities of the DMS:

- Access to NPL information plus collection and recoveries related data and reports
- Sending timely reminders on loan payments

DATA AND NETWORK SECURITY (E-BANKING, DIGITAL TRANSACTIONS)

While revamping our website during the year, we also strengthened the security aspect of our online banking portal (HDFC Click). Moreover, customers can access accounts securely through OTP token method or by opting for e-mail codes. All in all, fundamental security protocols are in effect.

Furthermore, the safety of our online banking system is assured through security certifications such as SSL certificate, which ensures an encrypted connection. PCI certification assures infrastructure safety in debit card transactions, safeguarding sensitive customer data and information. We have adopted all common best practices in ensuring safety of our network through firewalls, encryption and anti-virus software.

- 01
- 02
- 03
- 04
- 05
- 06
- 07

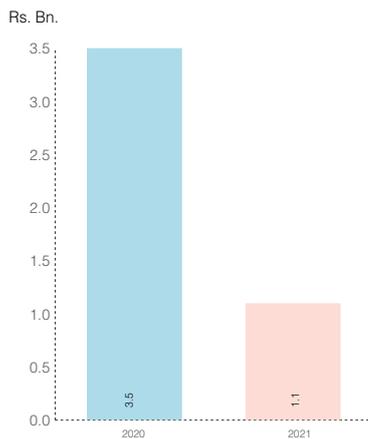


CAPITAL MANAGEMENT REPORTS: INTELLECTUAL CAPITAL

CORE BANKING SYSTEM

Our Core Banking Solution (CBS) was introduced in 2017 and is the central platform which powers key banking services and processes, including loan management, deposit mobilisation, customer relationship management, collection and recoveries, account management and payment processing, in addition to several other critical internal functions. The CBS was enhanced with a Document Upload feature, which was completed in 2021, enabling efficiency increases, while reducing paper-based processes.

DMS Expenditure



At the time of compiling the report, we have entered the final phases of bringing in litigation management and report generating functions, with completions targeted before the end of 2022.

BRAND CAPITAL

Over the years, the 'HDFC Bank' brand and the growth we have achieved has positioned us as one of the top 100 consumer brands in Sri Lanka. In 2021, we were placed at the 78th position by the annual edition of LMD 100 - Sri Lanka's Leading Listed Companies.

Enhancing brand awareness and visibility during the year, we carried out mass media campaigns, regional promotion campaigns and branch campaigns in promoting financial products. Overall, 116 street promotional campaigns were conducted.

HDFC BANK – A CULTURE TRUE TO ITS VALUES

All 614 of our employees work as one team with respect for corporate values, and in complete agreement that we are duty-bound to all our stakeholders, especially to our customers who seek financial assistance.

Ethical

- We conduct all financial transactions ethically. This is ensured across the organisation through internal controls and centralised credit approval, which undergoes strict scrutinisation.

Agile

- By adopting new technologies we are pursuing human and technological agility.

Resilient

- Our highly competent management team takes prudent decisions that ensure business continuity and profitability amidst unprecedented volatilities

Respect for Diversity

- Given our exposures to financially vulnerable customers, we have an in-built acceptance of diversity and respect for people from all demographics.

Transparent

- We take accountability in maintaining financial transparency, adhering to internal protocols and external regulations in accounting and financial reporting.



SHARED VALUE CREATION - CAPITAL INTERDEPENDENCIES

By increasing our intellectual capital, we create positive effects as well as trade-offs with other capitals.

Value Creation

- Growing tech adoptions lead to increased digital services and process efficiencies.
- Increases employee productivity and provides convenience.
- New technologies reduces use of material resources such as paper and stationery; thereby controls wastage and minimises the impact on the natural environment.
- Digital services increase customer convenience, thereby enhancing social and relationship capital.
- Digitisations provides the management transparency over key operational processes, while core system enables quick decision-making.
- Inclusive solutions enhances relationship capital by addressing customer financial needs.
- Business partnerships through new innovations adds value to relationship capital.
- Increasing brand recognition gives potential to enhancing relationship capital.

Value Erosion

- Investing in new technologies requires financial allocations, which impacts financial capital.

STRATEGIC OUTLOOK

In increasing our intellectual capital and collective knowledge base, we will continue to bring on board new automations, unique to bank operations. Through the services of vendors, we will continue to annex new modules to the core banking system, while tweaking and enhancing existing modules, in addition to strengthening network security and back-end architecture.

Ensuring that our employees are fully aware of solutions and technical know-how to work effectively, we will continue to invest in training programs, giving the proper exposure to new products, systems and bank operations (Please refer Human Capital report for training information).

01

02

03

04

05

06

07



CAPITAL MANAGEMENT REPORTS: MANUFACTURED CAPITAL



BUILDING POTENTIALS

A key input of our business model and value creation framework, physical assets and technological infrastructure enhances our ability to provide better services to customers, alongside the ability to increase business and expand our reach. Our property, equipment and technological infrastructure play a vital role in fulfilling these aspects, while providing our staff with a supportive work environment.

MANAGEMENT APPROACH

Adopting the route of cost optimisation, we took a temporary pause in opening new branches in the year under review. This approach was taken as a result of moratoriums and the need to fulfil the Bank's remaining capital requirement, which called for great restraints in capital expenditures and infrastructure investments.

Value Creation in 2021

- Rs. 180 Mn. average per branch revenue
- Refurbishments worth Rs. 2.7 Mn
- Tech infrastructure that supports efficient processing and increased transactions



24%

PPE acquisitions, which increased by 24% to Rs. 68 Mn. from Rs. 55 Mn. in 2020.

Manufactured Capital

01

02

03

04

05

06

07

BRANCHES

Branches are the primary physical touch point of the Bank, in addition to the head office, and are a vital part of how we increase revenue, while providing value for customers. In 2021, no new branches were opened, keeping the number of branches at 39.

39 Branches

Total space - 138,618 sq.ft.

Collective branch space - 105,774 sq.ft.

Head offices space - 29,344 sq. ft.

Warehouse space - 3500 sq. ft.

BRANCH ENHANCEMENTS

During the year, the Tissamaharama branch was renovated and refurbished at a cost of Rs. 2.7 Mn., for enhanced appearance and an improved working environment for staff.



CAPITAL MANAGEMENT REPORTS: MANUFACTURED CAPITAL

BRANCHES REGION WISE

Our branch structure takes on the form of regions. All 39 branches are segregated according to regions, overseen by a dedicated Regional Manager.

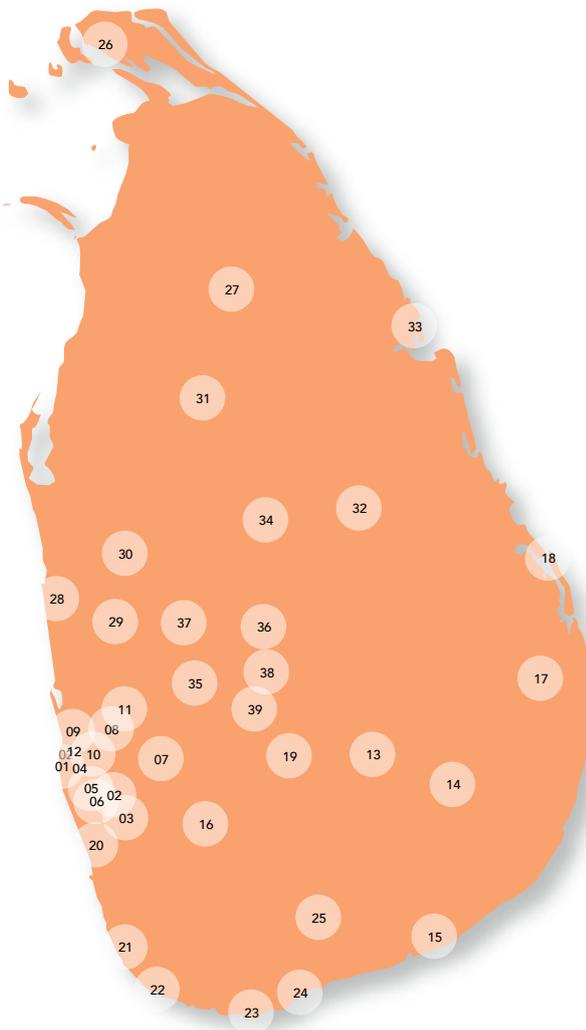
Region 1	Region 2	Region 3	Region 4	Region 5	Region 6
Ja ela Colombo Hyde park corner Peliyagoda Kiribathgoda Chilaw	Piliyandala Avissawella Homagama Horana Nugegoda Ratnapura	Kegalle Gampaha Kuliyapitiya Kurunegala Nikaweratiya Nittambuwa	Galle Ambalangoda Embilipitiya Kalutara Matara Tangalle Tissamaharama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

BRANCHES PROVINCIALY

Our existing branch network covers the following provinces. We expect to add another 11 branches in the next several years; further expanding our regional presence.

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

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



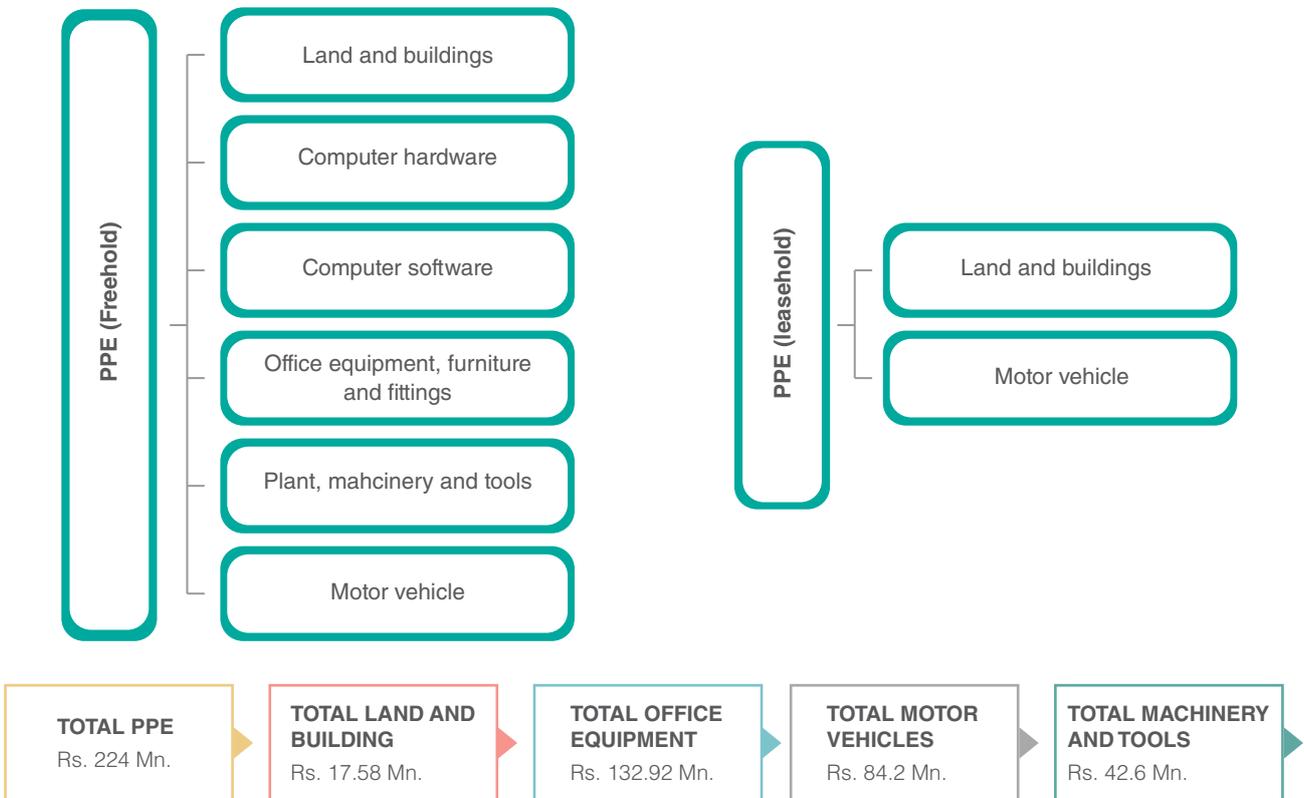


BRANCH OPERATIONS DURING LOCKDOWNS

During months of lockdown in 2021, we were able to keep branches open, with branch working hours limited according to regulatory mandates. We maintained 50% of staff capacity, in branches which remained active – providing essential financial services to customers.

PROPERTY, PLANT AND EQUIPMENT

Our PPE grew during the year to a total of Rs. 224 Mn. including new PPE acquisitions, which increased by 24% to Rs. 68 Mn. from Rs. 55 Mn. in 2020. The total stock of PPE is essential for the services we provide and for operational purposes.

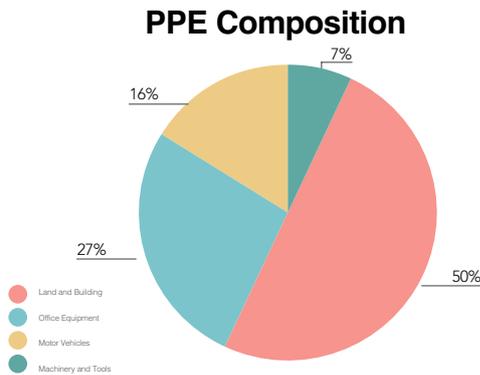


- 01
- 02
- 03
- 04**
- 05
- 06
- 07



CAPITAL MANAGEMENT REPORTS: MANUFACTURED CAPITAL

The following demonstrates the composition of our property, plant and equipment.



CAPITAL EXPENDITURE

Out of new PPE acquisitions made during 2021, computer equipment took on a higher proportion of the total capital expenditure. Moreover, by acquiring Rs. 32 Mn worth computer equipment helped fulfil the need for Technical and Information technology enhancements.

TECHNOLOGICAL INFRASTRUCTURE

Across 2021, we continued to invest in technological infrastructure, which facilitated the growth of our operations and strategies in digitalisation. These new solutions are critical for future growth, as we continue to expand our physical and digital footprints.

Point of Sale infrastructure	Justpay mobile payment platform	Core Banking System	SD-WAN System
Partnership with Lankapay's common POS switch as an issuer facilitates debit card payments through JCB certified POS terminals.	By partnering with Lankapay on its mobile payment platform, we now have access to an infrastructure which facilitates mobile banking transactions and provides convenience to both the Bank and customers.	During the year, the core banking hardware was changed in order to use the system more effectively.	In 2020, we implemented the new SD-WAN system (software defined wide area network), which seamlessly connects our Head Office with all branches.

ATM NETWORK

During the year we invested in adding four more ATMs through an investment of Rs. 6 Mn. This has further broadened our ATM touch points across the island. With connectivity to the Common ATM Switch, our customers can access any ATM from a national network of over five thousand ATMs.

Investment in 2021 Rs. 6 Mn. in new ATMs	ATMs Added 4 new ATMs	Full ATM Access 5,526
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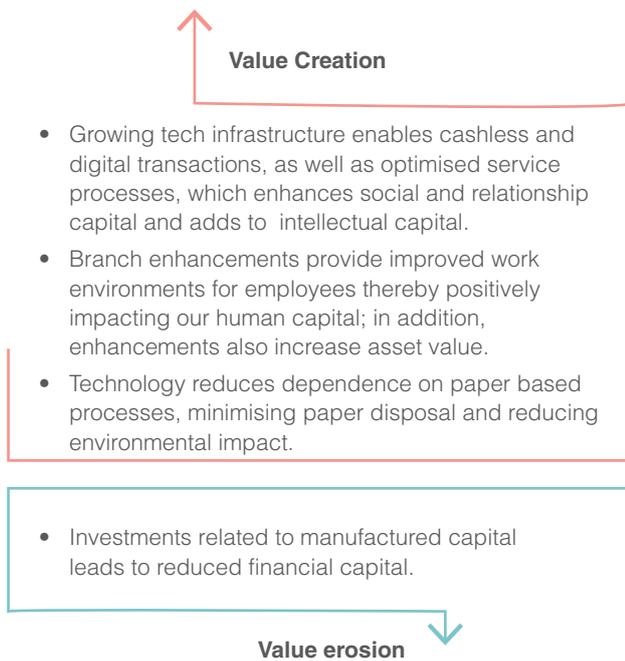
The following were carried out during the year in increasing our service offering to customers and increasing accessibility and convenience. (See pages 104 to 109 under intellectual capital for more details).

- Revamped internet banking
- Developments in the delinquency management system
- Provision of access to third party mobile apps through JustPay platform



SHARED VALUE CREATION - CAPITAL INTERDEPENDENCIES

Activities in enhancing manufactured capital (physical assets and technology) carry an impact on other resources of the Bank.



STRATEGIC OUTLOOK

Our objective is to expand service channels in enhancing visibility and accessibility for customers across the island. We have a medium term vision of opening 15 new branches in the next few years once the minimum capital requirement is met fully.

Our objective is to continuously add to a growing high-quality asset portfolio, which enables us to expand operations, while investing on physical assets that bear financial returns and increasing value in the long term.

01

02

03

04

05

06

07



CAPITAL MANAGEMENT REPORTS: NATURAL CAPITAL



To operate effectively on a day-to-day basis, the use of resources such as water, power sources and fuel is imperative. How we manage consumption of these resources impact the value we place on natural capital.

As a responsible service provider, we continuously strive to minimise our impact on the environment through our management of waste as well as through careful consumption of non-renewable resources. In addition, through process automations, we are gradually moving towards digitised documents and digitalised processes in reducing our consumption of paper and related material resources.

Value Creation and Preservation



- Conserving energy and adopting mindful consumption
- Recycled and re-used papers
- Use of technology to minimise dependence on material resources

CONSERVING ENERGY AND MINDFUL CONSUMPTION

Across our Head Office and branches, we have taken measures to ensure that our use of electricity is done in an efficient manner. At our Head Office, we have deployed a centralised power management mechanism, which limits use of air conditioners, desktop computers and lighting after office hours.



Due to zero dependence on energy from the national power grid at our Hyde Park branch, the investment in renewable energy can be recovered through long-term cost savings.



Natural Capital

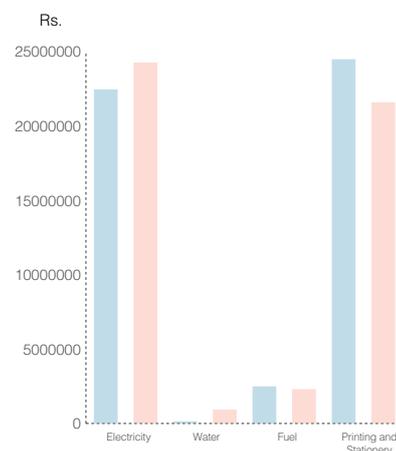
- 01
- 02
- 03
- 04
- 05
- 06
- 07

Air conditioners	Lighting	Fuel
Operates at the ideal energy efficient temperature of 24 degrees	LED bulbs are used in optimising energy consumption and striving for cost savings	We have reduced transport distances to minimise fuel usage

CONSUMPTION AND COSTS

There is a visible reduction in the cost of electricity and water due to careful consumption and due to reduced usage as a result of limited staff capacity during lockdowns. However, costs related to printing and stationery have gone up as a result of both consumption related and inflationary reasons.

Costs





CAPITAL MANAGEMENT REPORTS: NATURAL CAPITAL



Renewable Energy Usage

Our branch in Hyde Park Corner is powered entirely by solar power through an 84-panel installation. It was implemented in 2019 as an experimental project and was replicated in our Kalutara and Ampara branches in 2021. The project amounts to a cost of Rs. 3 Mn.



Waste Management

Taking optimum use of paper materials, we recycle newspapers and used papers, in addition to re-using papers with only one used side. Cartridges are also recycled, while ensuring proper disposal.



Waste Curbing Technology

In the year under review, we completed an on-line Loan Origination System, interfaced to the core banking system – reducing use of paper across loan operations.

Meetings - In 2020, we adopted an e-meeting solution, reducing document printing and delivering for Board as well as Management meetings. In addition, the use of video conferencing during 2020 and 2021 has reduced our dependence on certain physical resources, including fuel for transport and electricity.

Approvals – E-mails are used in obtaining approval for key operational functions such as cost approvals, approval for credit and deposit related activities.

Loan origination system -Launched in 2020, the system has allowed us to eliminate transportation and courier services when exchanging documents. This eliminated use of transportation contributes to zero-emissions in relation to vehicle movements.

Continuous automations – As we continue with our technological drive, we will adopt systems and solutions that will drastically reduce our dependency on manual processes, which rely on the use of paper and other related resources.

SHARED VALUE CREATION - CAPITAL INTERDEPENDENCIES

Measures adopted in minimising our impact on the environment and natural resources such as investments in renewable energy and automations create an impact on other capital resources.

Value creation

- Energy efficiency based cost reductions increase value of financial capital.
- Use of renewable energy contributes to reducing carbon emissions and dependency on natural resources, while also reducing costs.
- Reminders of consuming energy efficiently creates accountability amongst employees.

- Investments in renewable energy, automations and digitisations require heavy initial investments.
- Increased use of tech infrastructure has a potential to create more e-waste.

Value erosion

**Due to zero dependence on energy from the national power grid at our Hyde Park branch, the investment in renewable energy can be recovered through long-term cost savings.*

STRATEGIC OUTLOOK

Moving forward, we aspire to focus more on environmental governance. As a result, we plan to adopt several measures to increase direct contributions to the natural environment, as well as enhance best practices that are followed at present. Our focus will also move towards measuring and recording our consumptions, in the aim of considerably reducing the amount of electricity, water, fuel and paper usage, across our physical infrastructure.

Corporate
Governance



& Risk Management



CHAIRMAN'S STATEMENT ON COMPLIANCE

It is with great pleasure, that we present our Corporate Governance Report for the year 2021.

OUR APPROACH

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

The stewardship exercised by the Board, 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 challenging business environment. Industry regulations and internal policies, underpin the governance framework, which is regularly reviewed to adapt to internal developments and benchmarked against international best practice.

REPORTING

Accordingly, the HDFC Bank, on mandatory basis, adopted the Banking Act Direction NO. 12 OF 2007, (and subsequent amendment thereto) as applicable to the Licensed Specialized Banks, issued by Central Bank of Sri Lanka. Our compliance status is reported, in Section One of the Corporate Governance Report.

In addition, we have 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, and our compliance status is reported in Section Two of the Corporate Governance Report.

Further, our compliance status for 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 findings of the factual findings report of the auditors, issued under the 'Sri Lanka Standard on Related Services Practices Statement 4400,' have been incorporated into this report.

R. M. R. W. Manchanayake
Chairperson

Colombo, Sri Lanka
24th May 2022



CORPORATE GOVERNANCE

As a majority state-owned specialised licensed Bank, HDFC Bank's responsibilities are manifold. Primarily accountable to the Government of Sri Lanka as well as its private sector shareholders, the Bank holds an even greater sense of accountability to its customers, whose financial interests are entrusted to the Bank's capabilities and strengths.

As a stakeholder in the country's financial system, the Bank is further entrusted with financial stability and sustained value creation. Backed by this responsibility, the Bank places tremendous significance on financial liability and sound operational performance against a backdrop of well-established protocols driven by a team of competent leaders; And at the heart of the Bank's prudential leadership is its corporate governance framework – a model which underpins integrity, accountability and ethical business conduct.

PURPOSE

Corporate governance sets the Bank in the right direction, with a set of firmly established rules and procedures, governing every action and decision of the Company, in continuously achieving value creation for stakeholders.

The Bank's corporate governance framework and structure strikes a sound balance in the interests of its stakeholders as well as the direction of its strategic objectives.

MODEL OF CORPORATE GOVERNANCE

The Bank's governance framework and governance structure, underpins what needs to be complied with, while addressing levels of authority in ensuring adherence. Both the framework and structure relays clearly as to how governance related matters should be managed, while creating room for extensions and retractions in accommodating stakeholder expectations.

THE BOARD CHARTER

Adopted in 2020, the Charter sets out in detail, the scope of authority pertaining to the Board, Sub Committees and Key Management Personnel, with focus on the separate and distinct functions of each level of the higher leadership.

Whilst their level of authority may differ, all three parties are expected to work towards achieving the Bank's strategic objectives, in the aim of reaching its corporate vision, and meeting stakeholder interests.

GOVERNANCE FRAMEWORKS

As set out in the Board Charter, the Bank maintains compliance to both relevant internal and external regulatory frameworks. The Bank has ensured compliances to all applicable rules and regulations, without incurring any violations during 2021.

EXTERNAL

- Companies Act No. 7 of 2007
- Guidance for Directors of Banks on the Directors' statement on Internal Controls by CA Sri Lanka
- Provisions of Banking Act No. 30 of 1988
- Banking Act Direction No. 12 of 2007 on Corporate Governance for LSBs
- Code of Best Practice on Corporate Governance by CA Sri Lanka
- Sustainable Banking Principle (SLBA)
- Listing rules of the Colombo Stock Exchange

INTERNAL

- HDFC Act No. 7 of 1997 and amendments
- Board Charter
- Terms of reference
- Internal controls and processes

KEY POLICIES

The Bank follows several key policy frameworks in ensuring that operational goals are aligned with strategic objectives and are done in a structured manner. These policies also enable the achievement of operational and strategic stability and growth objectives.

Policies are regularly reviewed and revised to complement change in financial goals and operational plans, as well as in accommodating the impact of changes in the external operating environment. Key policies include the following but not limited to:



01

02

03

04

05

06

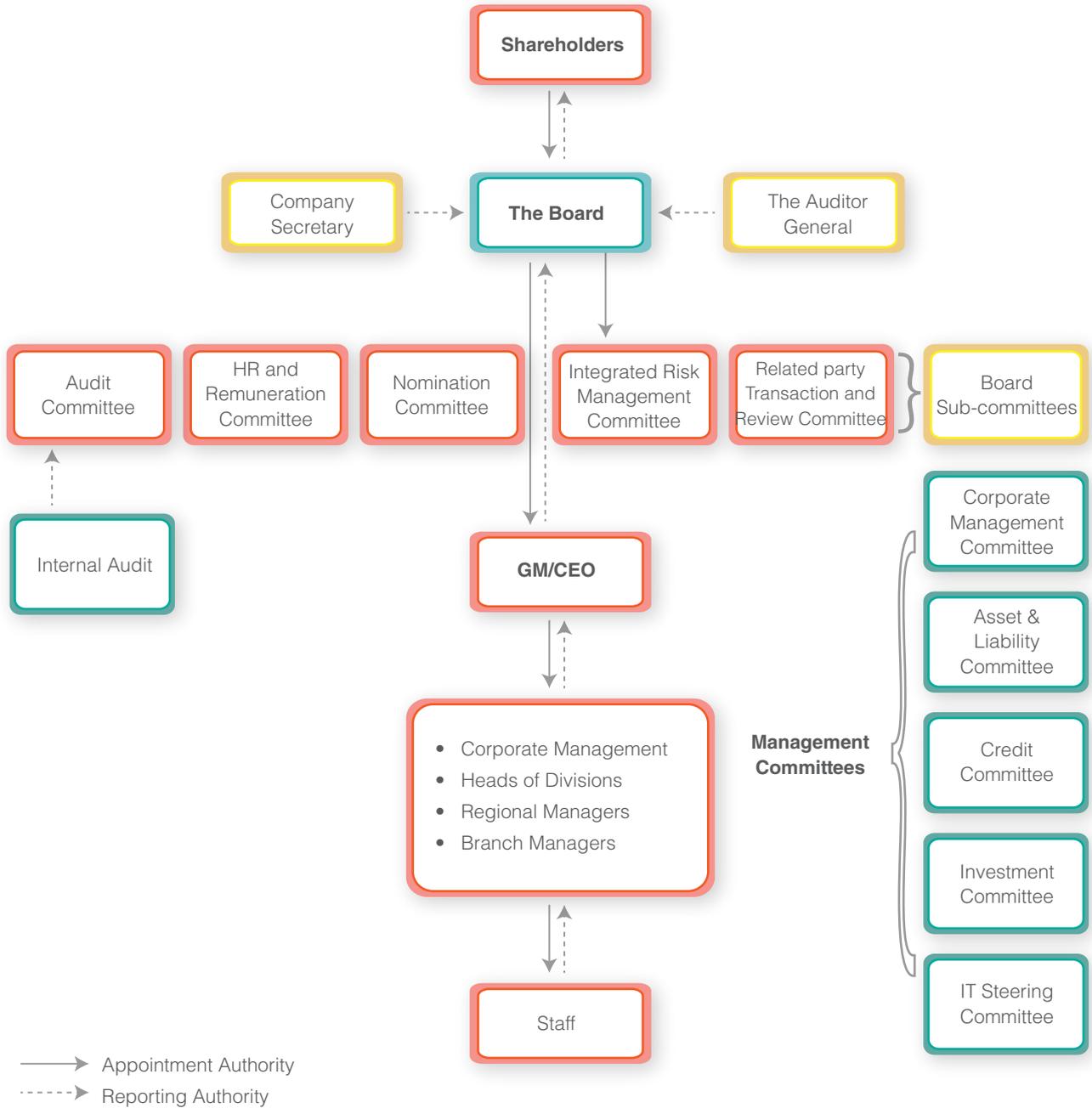
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CORPORATE GOVERNANCE

THE STRUCTURE OF GOVERNANCE

The Bank operates through a clear governance structure, which has a top-down approach, with overall oversight resting on the Board of Directors. The GM/CEO heads the executive operations of the Bank.

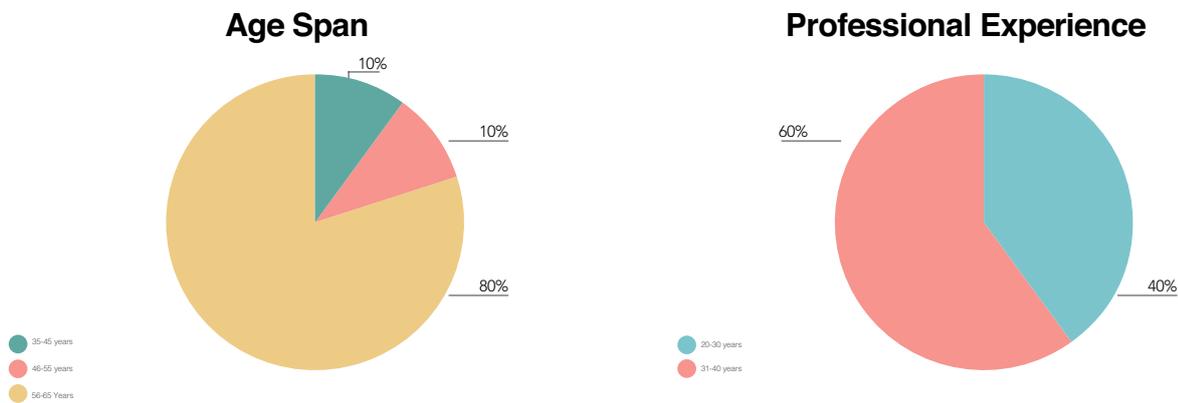




THE BOARD

COMPOSITION OF BOARD

The Board is formed entirely of Non-Executive Directors engaged in strategic decision-making for the Bank. At the end of 2021, the Board consisted of ten members, appointed under the guidelines of the HDFC Act. Three new Directors joined the Board, replacing four Directors who retired in 2020 and one Director in 2021.



ROLES AND RESPONSIBILITIES OF THE BOARD

As outlined in the Bank's Board Charter, roles and responsibilities of the Board culminates towards achieving strategic objectives. The Board also fulfils its responsibilities through Board Sub-Committees with duties delegated under the provisions of the HDFC Act. The Board has authority over the following areas.



Based on the principles of accountability and effective leadership, the Board ensures compliance to governance procedures and regulatory frameworks, acting responsibly towards the Bank's performance and ultimately to shareholders.

KEY AREAS OF RESPONSIBILITY:

- Approve and establish a set of strategic objectives and corporate values.
- Oversee and approve Bank's business strategy, relevant goals and approve relevant policies and procedures.
- Assess and implement mechanisms to control risks and manage exposures.
- Review and ensure proper mechanisms to preserve the soundness of internal controls and management information systems, and regularly review policies.
- Maintain consistent communication and ensure cordial relations with regulators, shareholders and other stakeholders.
- Nominate and assign suitable key management personnel (KMPs), complying with regulatory requisites.
- Establish areas of responsibility and define job roles for peer Directors and KMPs; and separate authority between Chairman and GM/CEO.
- Ensure adherence to Board policy by KMPs on operational and strategic matters.
- Periodically evaluate Board's own performance and take measures to enhance governance practices.
- Follow proper measures in appointing external auditors.

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

BOARD MEETINGS

A total of 13 Board meetings were conducted in the operational year. Meetings are conducted monthly, with prior notices given to all board members.

Attendance at Board Meetings - 2021			
Names	Directorship Status as at 31/12/2021	Number of Meetings Entitled	Meetings participated
Mrs. R.M.R.W. Manchanayake	Non-Executive, Independent Director, Chairperson of the Board	13	13
Dr. S.N. Morais	Non-Executive, Independent Director	13	12
Mr. P.A.S.A. Kumara	Non-Executive, Independent Director	13	13
Mr. L.E. Susantha Silva	Non-Executive, Independent Director	13	13
Senior Prof. A. Jayamaha	Non-Executive, Independent Director	13	13
Mr. D.M.A.K. Dassanayake	Non-Executive, Non-Independent Director	13	10
Newly Appointed			
Mr. M.P.D.U.K. Mapa Pathirana (w.e.f. 14th December 2020)	Non-Executive, Independent Director	12	10
Mr. W.M. Ananda (w.e.f. 24th February 2021)	Non-Executive, Independent Director	08	08
Mr. P.A. Lionel (w.e.f. 17th September 2021)	Non-Executive, Independent Director	03	03
Mr. D.M.M.M. Wijayarathna (w.e.f. 7th December 2021)	Non-Executive, Independent Director	01	00
Retired			
Senior Prof. K.D. Gunawardana (w.e.f. 29th June 2021)	Non-Executive, Independent Director	05	05

AGENDA

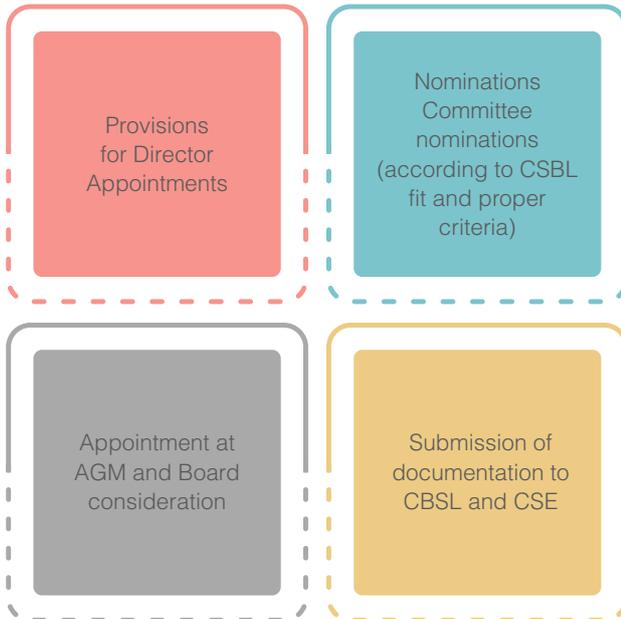
Board members are supplied with an agenda of matters to be taken up at Board meetings, alongside relevant documentation. 14-day prior notice is given to members through relevant communication channels, excluding meetings which are scheduled due to urgent matters.

The Company Secretary draws-up the Board agenda which will be scrutinised and approved by the Chairman, and subsequently provided to Board Members. The following sums up matters discussed at meetings across 2021.



APPOINTMENT OF NEW DIRECTORS

All appointments are subject to provisions of the HDFC Act and in accordance with the CBSL criteria,



RESIGNATION AND RE-ELECTION

Existing Directors are considered for re-election by the Nomination Committee, based on transparent assessment of performance and contributions to Board responsibilities.

DECLARATION AND CONFLICT OF INTEREST

Prior to assuming duties as a Director, each member must sign a declaration in maintaining strict confidentiality over Bank transactions and related matters.

Directors are also expected to have no conflicts of interest over Bank transactions. Should any conflicts occur the matter is to be taken up by the Board with participation of Directors with no material interest in the transaction. Voting is abstained for any Director who has any interest or has any relation or special interest in any Board resolution.

BOARD PERFORMANCE

As per governance best practices, the board appraises its performance at the time of re-election. A self evaluation is conducted by the board and committees, by reviewing participation, contribution and engagement of each member. This is also taken as the basis for making decisions on re-election.

COMPANY SECRETARY

A Company Secretary has been appointed by the Board in providing professional services and advice related to corporate matters. The Company Secretary engages in providing secretarial services to the Board in compliance with CBSL guidelines, in addition to maintaining minutes of Board Meetings. He or she is responsible for drafting the Board agenda as advised by the Chairman, whilst also being accessible to all Directors.

The Company Secretary is an important link between the Board, its Chairman and Shareholders, especially in effectively organising Bank AGM and EGMs, as he or she assists the Chairman in ensuring that all aspects are set in place. Moreover, he or she also maintains regular communication with regulators on behalf of the Bank.

CHAIRMAN AND GM/CEO

Complying with CBSL requirements, specifications under the HDFC Act and Board Charter, the Bank ensures a balanced separation of authority and duties held by both Chairman and GM/CEO.

CHAIRMAN

The Chairman of the Bank's Board should be a Non-Executive Independent Director, and is appointed from among the Board of Directors. The duties undertaken by the Chairman are separate from those which are handled by the GM/CEO.

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

THE GM/CEO

The General Manager/Chief Executive Officer is appointed by the Board of Directors, based on approval from the related Ministry.

The GM/CEO functions as the Bank's top-most executive, accountable directly to the Chairman and the Board of Directors.

CHAIRMAN - KEY RESPONSIBILITIES

- Holds board leadership, ensuring effective conduct of duties by Board members
- Bringing up relevant matters for Board discussion; approving Board agenda.
- Communicate regularly and effectively with Shareholders

GM/CEO - KEY RESPONSIBILITIES

- Functions as the leading executive overseeing operational aspects
- Delegates and relays responsibilities to key management personnel (KMP)
- Regularly assess functions of KMPs and units in line with operational goals

KEY MANAGEMENT PERSONNEL (KMP)

Key Management Personnel (KMPs) of the Bank are appointed under relevant CBSL directives on corporate governance. They are tasked with duties specified by the Board and job descriptions.

KMPS - KEY RESPONSIBILITIES

- Responsibility over executive functions, relevant to distinct job areas.
- Function within authority levels as determined by the Board - especially in financial transactions.

REMUNERATION

Remuneration for the Directors is based on guidelines by the Ministry of Finance, whilst remuneration of GM/CEO and KMPs are determined by the Human Resources and Remuneration Committee. The Collective agreement with the Ceylon Bank Employees' Union also plays a role in determining remuneration and benefits.

In determining salaries and financial payments, the Committee ensures that the remuneration reflects competitive rewards based on performance. An equitable approach is adopted in remunerating the higher leadership to ensure that their committed work receives the correct incentives and recognition.

REMUNERATION POLICY

The committee adopts the terms of reference of the Human Resource Committee.

SUCCESSION

Succession for key management positions fall under the purview of the Nomination Committee, which evaluates internal staff against set criteria. They are responsible in promoting persons with the right fit for key positions of interest.

BOARD SUB COMMITTEES

Board sub committees are formed in conformance with relevant regulations and functions detailed in the Board Charter. All five Committees report directly to the Board. Each Committee functions in accordance with the Committee's terms of reference, adopted in accordance with relevant mandatory rules and regulations.



BOARD AUDIT COMMITTEE (COMMITTEE REPORT ON PAGE 192)

Chairman	Mr. L.E. Susantha Silva - Non-Executive Independent Director
Composition	5 Non-Executive Independent Directors
Responsibilities	<ul style="list-style-type: none"> Recommend external audit, service period, and relevant aspects Implementation of relevant CBSL guidelines for auditors Apply accounting standards and review Bank's financial reporting procedures Oversee internal audit function; review its scope, resources, internal audit process and performance of internal audit department.
Meetings Held	05

HUMAN RESOURCES AND REMUNERATION COMMITTEE (COMMITTEE REPORT ON PAGE 187 AND 188)

Chairperson	Mrs. R.M.R.W. Manchanayake - Non-Executive Independent Director
Composition	5 Non-Executive Independent Directors
Responsibilities	<ul style="list-style-type: none"> Determine remuneration policy Set objectives for the upper leadership Evaluate performance of CEO and KMPs Revise remuneration and financial incentives
Meetings Held	06

NOMINATIONS COMMITTEE (COMMITTEE REPORT ON PAGE 189)

Chairperson	Mrs. R.M.R.W. Manchanayake - Non-Executive Independent Director
Composition	4 Non-Executive Independent Directors
Responsibilities	<ul style="list-style-type: none"> Oversee selection, appointment, re-election of Directors and higher management personnel Make recommendations for succession planning
Meetings Held	03

INTEGRATED RISK MANAGEMENT COMMITTEE (COMMITTEE REPORT ON PAGE 193 AND 194)

Chairman	Mr. L.E. Susantha Silva - Non-Executive Independent Director
Composition	4 Non-Executive Independent Directors
Responsibilities	<ul style="list-style-type: none"> Make due recommendations to KMPs on behalf of the Board Regularly assess all risks related to credit, liquidity, operations and strategic risks.
Meetings Held	05

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE (COMMITTEE REPORT ON PAGE 190 AND 191)

Chairperson	Mrs. R.M.R.W. Manchanayake - Non-Executive Independent Director
Composition	4 Non-Executive Independent Directors 1 Non-Executive Non-Independent Director
Responsibilities	<ul style="list-style-type: none"> Reviews related party transactions, promoting, ensuring that no unfair or unethical transactions transpire. Work in agreement with Related Party Transaction Policy, complying with CBSL and CSE regulations.
Meetings Held	04

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CORPORATE GOVERNANCE

ATTENDANCE AT COMMITTEE MEETINGS

Board sub-committee meetings were organised under the participation of relevant members. Each member is entitled to an allocated number of meetings. The Chairman ensures that Committee Members participate in meetings.

BOARD AUDIT COMMITTEE MEETINGS – 2021

Names	Number of meetings held - 2021	Number of meetings entitled	Number of meetings participated
Mr. L.E. Susantha Silva	05	05	05
Dr. S.N. Morais	05	05	04
Mr. P.A.S.A. Kumara	05	05	05
Senior Prof. A. Jayamaha	05	05	05
Mr. P.A. Lionel	05	01	0

HUMAN RESOURCE AND REMUNERATION COMMITTEE MEETINGS – 2021

Names	Number of meetings held - 2021	Number of meetings entitled	Number of meetings participated
Mrs. R.M.R.W. Manchanayake	06	06	06
Mr. P.A.S.A. Kumara	06	06	06
Senior Prof. A. Jayamaha	06	06	06
Mr. M.P.D.U.K. Mapa Pathirana	06	04	03
Mr. P.A. Lionel	06	02	02
Senior Prof. K. D. Gunawardana (Retired on 29th June 2021)	06	03	03

NOMINATION COMMITTEE MEETINGS –2021

Names	Number of meetings held - 2021	Number of meetings entitled	Number of meetings participated
Mrs. R.M.R.W. Manchanayake	03	03	03
Mr. P.A.S.A. Kumara	03	03	03
Mr. M.P.D.U.K. Mapa Pathirana	03	02	02
Mr. W.M. Ananda	03	02	02



INTEGRATED RISK MANAGEMENT COMMITTEE MEETINGS – 2021

Names	Number of meetings held - 2021	Number of meetings entitled	Number of meetings participated
Mr. L.E. Susantha Silva	05	05	05
Mr. P.A.S.A. Kumara	05	05	05
Dr. S.N. Morais	05	05	04
Senior Prof. A. Jayamaha	05	05	04
Senior Prof. K. D. Gunawardana (Retired on 29th June 2021)	05	03	03

RELATED PARTY TRANSACTION REVIEW COMMITTEE MEETINGS – 2021

Names	Number of meetings held - 2021	Number of meetings entitled	Number of meetings participated
Mrs. R.M.R.W. Manchanayake	04	04	04
Mr. D.M.A.K. Dassanayake	04	04	04
Mr. L.E. Susantha Silva	04	04	04
Senior Prof. A. Jayamaha	04	04	03
Mr. W.M. Ananda	04	03	03

EXECUTIVE COMMITTEES

Five management level committees oversee several crucial operational areas of the Bank.



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07



CORPORATE GOVERNANCE

SHAREHOLDER RELATIONS

The Bank has a duty towards maintaining adequate engagements with its shareholders. The Bank engages in regular and periodically set communications, while keeping an open line of communication with ministries and other shareholders through formal communication channels, and through the Company Secretary on matters of substance.

HOW WE ENGAGE WITH SHAREHOLDERS

Following are the various modes of engagement and channels of sharing information with shareholders in relation to audited financials and operational developments of the company.

Financial reporting and the annual report – HDFC publishes the reports that provided to relevant State Ministries including the Ministry of Finance; in addition, it is distributed amongst regulators and the CSE.

Interim financial reporting – The Bank publishes interim reports for shareholder awareness and in enhancing transparency and accountability.

AGM – The Annual General Meeting of shareholders is the focal method of engagement with Bank's patrons and is the primary forum in disseminating information and developments of importance. The HDFC Act prescribes guidelines pertaining to engagement with Shareholders, and instances which provides them with certain liberties.

IT GOVERNANCE

The Bank's approach to governing information technology is based on the Baseline Security Standards by the Central Bank of Sri Lanka. Based on recommendations of the regulatory authority, the Bank has undertaken measures to improve cyber security, IT governance, risk management and enhancing employee knowledge on IT.

The IT steering committee plays a central role in evaluating all IT and cyber related developments, especially compliance to the baseline security standards. The committee reports directly to the Board, ensuring effective communication based on periodic reviews.

SUSTAINABILITY

The Bank's focus on sustainability comes from several perspectives. Firstly, the Bank believes in sustainable banking, providing financial services under best practices, corporate ethics and integrity. In addition, the Bank's focus is in helping to create a society that is treated equally, with respect for diversity, inclusivity and equality. The Bank honours the UN SDG framework and the Sustainable Banking Principles by the Sri Lanka Banks' Association (SLBA). (More on the Bank's approach to sustainable development on pages 40 and 41.

COMPLIANCE REVIEW

The Bank has complied with all applicable external regulatory frameworks. Compliance to the Central Bank of Sri Lanka, Chartered Institute of Sri Lanka, Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka is presented henceforth.



ASSURANCE REPORT OF THE AUDITOR GENERAL ON CORPORATE GOVERNANCE



ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No. }

BAF/ 01/C/HDFC/1/21/36

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

24 May 2022

The Chairman
Housing Development Finance Corporation Bank of Sri Lanka.

Auditor General's Report of Factual Findings of Housing Development Finance Corporation Bank of Sri Lanka (HDFC) to the Board of Directors of the HDFC Bank of Sri Lanka on the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka-31 December 2021.

I have performed the procedures enumerated in an Annexure-01 to this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standard on Related Services 4400 (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.

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ASSURANCE REPORT OF THE AUDITOR GENERAL ON CORPORATE GOVERNANCE

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 2021 with regard to the corporate governance frame work 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 25TH MAY 2022)

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

Section	Requirement of Corporate Governance	Level of Compliance
3(1) THE RESPONSIBILITIES OF THE BOARD		
3(1)(I) PROCEDURES TO BE CARRIED OUT TO ENSURE THE BOARD HAS STRENGTHENED THE SAFETY AND SOUNDNESS OF THE BANK.		
	<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>Complied with Strategic objectives and values are incorporated in the board approved strategic plan for the period 2021-2025. 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 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>Complied with 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. Further the Divisional Activity plan for the year 2021 approved by the Board on 31 March 2021 Internal Capital Adequacy Assessment Process (ICAAP), Risk Policy, procedures and mechanisms were included in the overall strategic plan of the Bank.</p>
	<p>c) The appropriate systems to manage the risks identified by the board are prudent and are properly implemented.</p>	<p>Complied with Risk Department and Integrated Risk Management committee was established,</p> <p>Risk Policy adopted by the committee. The Integrated Risk Management Committee setting governance structure for implementing, monitor and manage 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>To Be Complied Board approved communication policy is not in place. However, the Bank has the Banks website and other communication channels to communicate with different stake holder groups of the Bank.</p>

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CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
	e) The board has reviewed the adequacy and the integrity of the bank's internal control systems and management information system;	Complied with Bank audit committee is assisting the board to reviews 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.
	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;	Complied with Board has identified and designated Key Management Personnel as defined in Sri Lanka Accounting Standards. The Bank has identified KMPs as per the CBSL Direction on Corporate Governance in define in Board Charter. Bank has identified the General Manager (G.M) Deputy General Managers, Additional General Managers, Head of IT, Compliance Officer, Chief Internal Officer (CIA and Risk Officer as Key Management of the Bank.
	g) The board has exercised appropriate oversight of the affairs of the bank by Key management personnel, that is consistent with board policy;	Complied with 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;	Complied with The administration and management of the affairs of the Corporation vested in a Board of Directors as per the HDFC Act. Accordingly, the Board is responsible for taking policy decision in this regards. Key Management Personnel targets are connected with the overall budgetary target and respective departmental targets. Accordingly, KPI are available for all Key Management Members for year 2021. Further Key Management personnel are called for Board meeting if any clarification need. Key responsibilities of the KMPs are specified in their respective job descriptions and 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.	Complied with Board has a self-evaluation process and it includes the evaluation of board of directors own governance practices. Self-evaluation of performance of Board is carry out annually assessing it's own governance practices. Self-evaluation for the year 2021 was carried out in January 2022 and a summary was submitted to the Board on 08 April 2022 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 2019.



Section	Requirement of Corporate Governance	Level of Compliance
	j) The board has a succession plan for key management personnel.	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 October 2019. However existing succession plan should have been revised in line with changes in the KMP position that had been taken place during the year under review.
	k) The board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with 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.	Complied with 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.	Complied with According to the Constitution of the country and HDFC Act external auditor is the Auditor General, being a 51% of the ownership of the Bank vested with State-owned enterprise.
3(1)(ii)	The board has appointed the Chairman and the Chief Executive Officer (CEO). The functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.	Complied with The HDFC Act separates the positions of the Chairman and General Manager/Chief Executive Officer to balance of power. Chairman has been appointed in accordance with the HDFC Act. Whilst the General Manager/Chief Executives Officer has been appointed by the Board. Their functions and responsibilities are clearly defined in the HDFC Act. The board has adopted a Board charter 29 January 2020 which defines the Governance Frame work of HDFC.
3(1)(iii)	The board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	Complied with Board meetings are held monthly while special meetings are scheduled on a need basis. 13 Meetings were held during the year 2021 and attendance of board meetings is given in annual report along with number of meeting,
3(1)(iv)	The board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied with 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
3(1)(v)	The board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.	Complied with Notice of the meeting, Agenda and board papers for the board meetings are circulated within the stipulated time.

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CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
3(1)(vi)	The board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	Complied with All the Directors attended the required number of meeting as given in the annual report 2021
3(1)(vii)	The board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied with Attorney at Law had been appointed as secretary to the board with relevant qualifications in compliance with the provisions of Section 43 of the Banking Act No.30 of 1988. She is Responsible for the secretariat services to the Board and to carry out functions specified in the statutes and other regulations. Further Board also has appointed her as the Assistant General Manager – HR with effect from 24 December 2020 addition to her duties as Secretary to the Board.
3(1)(viii)	The process to enable all directors to have access to advice and services of the company secretary.	Complied with All the directors have full access to the advice and service of the company secretary.
3(1)(ix)	The company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Complied with All records are keeping with the company secretary and have access to the past board papers and minutes.
3(1)(x)	The minutes of a board meeting contain or refer to the following: a) A summary of data and information used by the board in its deliberations. b) The matters considered by the board 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; d) The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; e) The understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and f) The decisions and board resolutions.	Complied with Necessary information is given in the Board minute. Such as i) Business decision taken on particular subjects ii) Resolutions passed on special subject iii) Recommendation on Board sub-committee reports iv) Policy decisions on matters and review of performance. v) The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations;



Section	Requirement of Corporate Governance	Level of Compliance
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.	Complied with The Board is free to obtain independent professional advice on need basis.
3(1)(xii)	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. 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. Has he/she been counted in the quorum for the relevant agenda item at the board meeting.	Complied with Related Party Disclosure Policy is in place that details on the conflict of interest and the matters and actions to be taken on such situations
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.	Complied with Authority matrix is in place as adopted in 26.07.2013 initially. Thereafter the authority matrix was reviewed and included in the board Charter.
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.	Complied with There have been no situations where the Bank's solvency has been in doubt. Monthly financial statements submitted to the Board for assure the Bank's position.
3(1)(xv)	The board has the bank capitalized at levels as required by the Monetary board.	Capital Adequacy Ratios were met by the Bank. The bank complied with minimum capital level of Rs. 5 billion. 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. However, it was extended end of 2022.
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.	Complied with 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.	Complied with Self-assessment is done on 08 April 2022 and the Bank has a scheme of self-evaluation of directors in place and the Board Secretary annually obtains the evaluation forms from all the Directors.

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CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
3(2)	THE BOARD'S COMPOSITION	
3(2)(i)	The board comprise of not less than 7 and not more than 13 directors.	Complied with The Board of Directors until 08 December 2021 comprised in 09 directors and as at 31.12.2021 Board comprises of 10 directors.
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.	Complied with None of the directors has exceeded the service of nine years as at the year-end 2021
	b) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	Complied with No Director has exceeded nine years of services 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.	Complied with 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.	Complied with The Board comprises of 10 Directors as at 31.12.2021. The Board comprises 09 independent Non-Executive Directors on the Board to comply with the direction during the current year.
	Check if non-executive directors can be considered independent if he/she:	
	a) Holds a direct and indirect share holdings of more than 1 per cent of the bank;	Not arisen
	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.	Not arisen
	c) Has been employed by the bank during the two year period immediately preceding the appointment as director.	Not arisen
	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)	Not arisen
	e) Represents a specific stakeholder of the bank.	Not arisen
	f) Is an employee or a director or a material shareholder in a company or business organization:	Not arisen
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		
II. In which any of the other directors of the bank are employed or are directors or are material shareholders; or		
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.		



Section	Requirement of Corporate Governance	Level of Compliance
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.	Not arisen There is no such director was appointed
3(2)(vi)	The bank has a process for appointing independent directors.	Complied with 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.	Complied with All the directors of the bank are non-executive. The profile of the Non-Executive directors are detailed in 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.	Complied with Composition of the Board and their information is disclosed in the Annual Report 2021.
3(2)(ix)	The procedure for the appointment of new directors to the board.	Complied with The appointments to the board are made according to sec .03(1)(a)(i) of the HDFC Act No 07 of 1997(amended by Act No.15 of 2003 and 45 Of 2011) 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.	Not arisen Such a situation does not arise.
3(2)(xi)	A director resigns or is removed from office, the board: a) Announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied with 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.	Complied with 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.

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CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
3(3) CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS		
3(3)(i)	<p>Check that the age of a person who serves as Director does not exceed 70 years.</p> <p>(A) The transitional provisions have been complied with.</p>	<p>Complied with There were no directors who reached the seventy years of age during the year under review.</p> <p>Not arisen Such a situation does not arise</p>
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.	Complied With AS per their declarations, the Directors do not hold director ship 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.
3(4) MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD		
3(4)(i)	The delegation arrangements have been approved by the board.	Complied with 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.	Complied with 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.	Complied with The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.
3(5) THE CHAIRMAN AND CEO		
3(5)(i)	The roles of Chairman and CEO are separate and not performed by the same individual.	Complied with 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)	<p>The Chairman is a Non-Executive Director.</p> <p>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.</p> <p>The designation of the Senior Director be disclosed in the bank's Annual Report.</p>	Complied with 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.	Complied with As per the declarations such relationships can be identified and those disclosures are included in the Annual report 2021. 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
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.	Complied with Board has a self-evaluation process. The Chairman provides leadership to the board ensures that board functions effectively to discharging its responsibilities.
3(5)(v)	A formal agenda is circulated by the Company Secretary approved by the Chairman.	Complied with Agenda discussed by the Chairman verbally with the Secretary and finalized before the meeting.
3(5)(vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	Complied with 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.
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.	Complied with Board has a self-evaluation process.
3(5)(viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	Complied with Board has a self-evaluation process.
3(5)(ix)	The Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties.
3(5)(x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied with The AGM is considered as the forum to address shareholder matters.
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.	Complied with GM/CEO is the executive in charge of the day to day management of the bank's operations as per the HDFC Act.

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
3(6) BOARD APPOINTED COMMITTEES		
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>Complied with Bank Has establish following Board Sub Committees which are directly to report to the Board as set out Directions 3(6)(ii) 3(6)(iii), 3(6)(iv) and 3(6)(V) of these directions</p> <ul style="list-style-type: none"> i) Board Audit Committee ii) Board HR and Remuneration Committee iii) Board Nomination Committee iv) Board Integrated Risk Management Committee v) Board Related Party Transaction Committee <p>Committee Minutes are directly submitted to the Board and each Committee report appears in the Draft Annual Report.</p>
3(6)(II) AUDIT COMMITTEE		
	a) The Chairman of the Committee is an independent Non-Executive Director and possesses qualifications and related experience.	<p>Complied with Board has appointed an independent, Non-Executive Director as the Chairman of the Board Audit committee and Chairman of audit committee holds required qualifications experience as indicated under his profile.</p>
	b) All members of the Committee are Non-Executive Directors.	<p>Complied with All the directors are non-executive.</p> <p>The Committee comprises of 5 Non Executive Independent Directors the year 2021.</p>
	c) The Committee has made recommendations on matters in connection with:	<p>Complied with 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>Complied with 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	



Section	Requirement of Corporate Governance	Level of Compliance
	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>Not Applicable 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 the subject of Finance with the concurrence of the Secretary to the relevant Minister of the Minister assigned the respective entity.</p>
	d) The committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with SLAuS.	<p>Not Applicable Since the independence and effectiveness of Auditor General is guaranteed under the Constitution of the country.</p>
	e) The committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	<p>Not Applicable This does not arise since the Auditor General is the Auditor of the bank.</p>
	f) The committee has discussed and finalized, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	<p>Not Applicable 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 Part 1 section 3(i) of the National Audit Act 19 of 2018 also determine the scope of audit in relation to auditee entities.</p>
	<p>The Committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <ul style="list-style-type: none"> 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 	<p>Complied with The committee reviews financial information of the bank when quarterly and annual financial statements presented to the committee. As CEO and CFO participate in BAC meetings clarifications are obtained on these areas when required.</p>

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
	h) The Committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	Complied with 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.	Complied with The Audit committee reviews the External Auditor's management letter annually and Committee has reviewed the management letter for the year 2020 on 11 August 2021 and responses there to.
	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;	Internal Audit Plan for the first 06 months of the year 2021 which contains the scope and resources requirement, was reviewed by the BAC at the meeting held on 10th February 2021 under the minute No. AC/21/(01)06. Internal Audit Plan for the second half of the year 2021 had not been reviewed by the BAC.
	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;	Complied with The Committee reviews the internal audit plan and the results of the internal audit procedures and ensures that appropriate actions are taken for improvements.
	III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	Not complied with Appraisal of the year 2020 Assistant General Manager-Compliance cover up the Chief Internal Audit Function (CIA) will be submitted to Bank Audit committee for review in future.
	IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.	Complied With Assistant General Manager Compliance had been covered up the Chief Internal Audit function (CIA) up to 24 October 2021. Further under review that Chief Internal Auditor was appointed to the internal audit division with effect from 25 October 2021
	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;	Such situation not arisen
	VI. Check that the internal audit function is independent of the activities it audits.	Complied With Internal audit functions are independent of the activities it audits and directly report the Board Audit Committee.
	k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied with The major internal Audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.



Section	Requirement of Corporate Governance	Level of Compliance
	l) Whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Complied with This is not relevant since there are no executive directors in the Board. All committee members are none 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 iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with The "Terms and Reference" of the audit committee covers all these areas.
	n) The committee has met, at least four times and maintained minutes.	Complied with Six (06) Audit Committee had been held during the year 2021 and maintained minutes.
	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 iii) Details of attendance of each individual director at such meetings.	Complied with These details are included in the Audit Committee Report of the Annual Report 2021 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.	Complied with 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.	Complied with 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 this policy needed to be reviewed in future.

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
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3(6)(III) DOES THE FOLLOWING RULES APPLY IN RELATION TO THE HUMAN RESOURCES AND REMUNERATION COMMITTEE:

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.	Complied with Remuneration of the directors are decided based on the guidelines set up by the Ministry of Finance. The Remuneration of CEO/GM and KMP's is determined by the Human Resources/ Remuneration Committee on the basis of the Collective 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. However, Bank has failed to set out individual KPI for Key Personnel Managers.
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.	Performance of the CEO and key management personnel against the set targets should evaluate beginning of the every year .However, there is a delay in submitting performance evaluations of KMPs to Board Human Resource and Remuneration Committee.
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.	Complied with TOR of the HR Committee addresses this requirement. The General Manager/CEO attends all meeting of the Committee, except when matters relating the General Manager/CEO are being discussed.

3(6)(IV) DOES THE FOLLOWING RULES APPLY IN RELATION TO THE NOMINATION COMMITTEE

a) The Committee has implemented a procedure to select/appoint new Directors, CEO and key management personnel.	Complied with The appointments to Board to be made according to provisions of the HDFC Act. Further Board Charter is also applicable. According to the Recruitment Policy, it is included selection procedure for General Manager/CEO and as per part III of 14 (1) HDFC Act. Recruitment Policy is applicable for the selection and appointment for Key Personnel Managers and Board of Directors appoints KMPs with the recommendation of board Nomination Committee.
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Section	Requirement of Corporate Governance	Level of Compliance
	b) The Committee has considered and recommended (or not recommended) the re-election of current directors.	Complied with According to section 3(4) (e) of the HDFC Act no 07of 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 situation not arisen.
	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.	Complied with 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 2021 as per the section 5.2 of the Banking act direction dated 19 December 2019.
	e) The committee has considered a formal succession plan for the retiring directors and key management personnel.	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 October 2019.However existing succession plan should have been revised in line with changes in the KMP position that had been 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.	Complied with Committee consists of chairman of committee and Two Non-Executive independent directors. CEO shall participate meeting by invitation.

- 01
- 02
- 03
- 04
- 05
- 06
- 07



CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
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.	Complied with 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 and Risk Officer .Risk Officer supervising broad risk categories ,ie 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.	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.	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 Effectiveness assessments on Managements on Management Committees were conducted in November 2021 and submitted to IRMC Meeting.
	d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with 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. Having implemented a Risk appetite framework, all risks beyond the tolerance limits is being reviewed.
	e) How many times the committee has met at least quarterly.	Complied with The committee meets on quarterly basis and BIRMC has held five (05) meeting during the financial year 2021. Details of meetings and attendance are given in the Annual Report.
	f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Complied with No such situation has arisen
	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.	Complied with Detailed minutes of the meetings are submitted to the Board immediately after the Committee Meeting.



Section	Requirement of Corporate Governance	Level of Compliance
	<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>	<p>Complied with 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>
<h3>3(7) RELATED PARTY TRANSACTIONS</h3>		
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> <p>a) Any of the bank's subsidiary companies; b) Any of the bank's associate companies; c) Any of the directors of the bank; d) Any of the bank's key management personnel; e) A close relation of any of the bank's directors or key management personnel; f) A shareholder owning a material interest in the bank; g) A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.</p>	<p>Complied with There is 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 had conducted in 2019. There was no any amendment in 2021.</p>
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> <p>a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation. b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments. c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank. d) 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.</p>	<p>Complied with The Related Party Transaction Policy approved by the Board and covered the (a), (b), (c), (d) transactions .Related Party Transactions can be identified through the system.</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>	<p>Complied with The Related Party Transaction Committee was established and there in control if such event arises.</p>

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
	<p>a) 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:</p> <p>i) “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>ii) 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.</p>	
	<p>b) 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.</p>	
	<p>c) 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;</p>	
	<p>d) Providing services to or receiving services from a related-party without an evaluation procedure;</p>	
	<p>e) 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.</p>	
3(7)(iv)	<p>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.</p>	<p>Complied with</p>
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>Complied with Process is available and no accommodation will be given without a security</p>



Section	Requirement of Corporate Governance	Level of Compliance
	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.	
	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.	
	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.	
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.	Complied with
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.	Complied with During the year no any favorable treatment was offered to any related party has disclosed under Note of Financial Statements.
3(8) DISCLOSURES		
3(8)(i)	The board has disclosed, a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with Annual Audited Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable Accounting Standards.
	b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with Quarterly financial statements have been published in the newspapers in abridged form, in Sinhala, Tamil and English.

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

Section	Requirement of Corporate Governance	Level of Compliance
3(8)(II) THE BOARD HAS MADE THE FOLLOWING MINIMUM DISCLOSURES IN THE ANNUAL REPORT:		
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with 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.
	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.	Complied with The Annual Report includes the below mentioned reports where the Board confirms that the financial system has been designed 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 <ul style="list-style-type: none"> • Report Of Board of Directors • Statement of Director's Responsibility for Financial Reporting • Directors Statement on Internal Control Over Financial Reporting
	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.	Complied with Auditor General's Assurance Report on Internal Control disclosed in the Annual Report 2021
	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.	Complied with Details of directors, including names, qualifications age and experience of Board of Directors has disclosed under Profile of the Board of Directors. As well Fee /remuneration paid to the Board of Directors has disclosed in the Annual Report 2021
	e) Total net accommodation as defined in 3(7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Complied with The net accommodations granted as percentage of bank's regulatory capital are given in Financial Statements in the Annual Report 2021
	f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied with Details are given in Financial Statements in the Annual Report 2021
	g) The board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Complied with External Auditors Report on compliance with Corporate Governance Directions is included in the Annual Report 2021



Section	Requirement of Corporate Governance	Level of Compliance
	<p>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.</p>	<p>Complied with The Statements' of Directors Responsibility for Financial Reporting clearly sets out the details regarding compliance with prudential requirements regulations laws and internal controls.</p>
	<p>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.</p>	<p>No such situation has arisen</p>

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

SECTION TWO

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

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A. DIRECTORS				
A.1 The Board	Complied with The Board comprises only with Non-Executive Directors. Please refer Director Profiles.			
A 1.1				
1. Meeting	Complied with Please refer status of compliance for 3(1) (iii) of CBSL Rules			
A 1.2				
2. Board Responsibilities	Complied with The overall responsibility for the good governance of the Bank is vested with the Board.			
A 1.3				
3. Access to Independent Professional Advice	Complied with			
A 1.4				
4. Board Secretary	Complied with The Board Secretary plays an intermediary role between the Company and the stakeholders and advice and services are available for all Directors for ensuring that Board procedures are correctly adhered in line with applicable laws of the Bank and she is an Attorney-at-Law.			
A 1.5				
5. Independent Judgment	Complied with			
A 1.6				
6. Dedication of adequate time and effort by the Board and Board Committee	Complied with			
A 1.7				
7. Act in best interest	Complied with			
A 1.8				
8. Every Directors should receive appropriate training on first appointment to the Board and subsequently as necessary training.	Complied with			



Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A.2 CHAIRMAN & CHIEF EXECUTIVE OFFICER				
A 2.1				
9. Division of Responsibilities of the Chairman & GM/CEO	Complied with			
A.3 CHAIRMAN'S ROLE				
A 3.1				
10. Role of the Chairman in preserving good corporate governance	Complied with			
A.4 FINANCIAL ACUMEN				
11. Availability of sufficient financial acumen and knowledge	Complied with			
A.5 BOARD BALANCE				
A 5.1				
12. Presence of a strong independent element on the Board	Complied with			
A 5.2				
A 5.3				
13. Independent Directors	Complied with			
A 5.4				
14. Signed declaration of independence by the Non-executive Directors	Complied with			
A 5.5				
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 Page 46 to 54 and Page 178 to 182.			
A 5.6				
16. Alternate Director				N/A
A 5.7				
17. Appointment of a Senior Independent Director when the Chairman is non-independent, etc...				N/A
A 5.8				
18. Confidential discussion with the Senior Independent Director				N/A
A 5.9				
19. Meeting of Non-Executive Directors				N/A
A. 5.10				
20. Recording of concerns in Board Minutes	Complied with			

- 01
- 02
- 03
- 04
- 05
- 06
- 07



CORPORATE GOVERNANCE

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A.6 SUPPLY OF INFORMATION				
A 6.1				
21. Timely and appropriate information to the Board.	Complied with			
A 6.2				
22. Adequate Notice, Agenda and Board papers for Board meeting.	Complied with			
A.7 APPOINTMENT TO THE BOARD				
A 7.1				
23. Nomination Committee	Complied with For further details Please refer the Board Nomination Committee Report on Page 189.			
A 7.2				
24. Assessment of Board composition	Complied with The Nomination Committee reviews the composition of the Board and makes necessary recommendations.			
A 7.3				
25. Disclosure of details of new Directors to Shareholders	Complied with All Director's Profiles are published in the Annual Report.			
A. 8 RE-ELECTION				
A 8.1				
26. Appointment of Non- Executive Directors	Complied with All new appointments to the Board of Directors should be in accordance with the HDFC Act No. 07 of 1997 (amendment Act No. 15 of 2003 and Act No. 45 of 2011).			
A 8.2				
27. Election of Directors by the Shareholders	Complied with As per the HDFC Act, all Shareholder Directors stand for re- election once in 3 years.			
A 8.3 RESIGNATIONS				
28. Directors to inform the Board reasons for resignation.	Complied with			



Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
A.9 APPRAISAL OF BOARD PERFORMANCE				
A 9.1				
29. Appraisal of Board performance	Complied with			
A 9.2				
30. Annual self-evaluation of the Board and its Committees	Complied with Please refer comments mentioned under A 9.1, above.			
A9.3				
31. The Board should have a process to review the participation, contribution and engagement of each Director at the time of re-election.	Complied with			
A 9.4				
32. Disclosure of the performance evaluation of Board and Board Sub Committee Performance.	Complied with The Board conduct performance evaluations at the time of re-election of Directors to the Board.			
A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS				
A 10 Disclosure of information in respect of Directors.	Complied with			
A 10.1				
33. Details in respect of Directors	Complied with The relevant details of the Directors are given under the Director's Profile of the Annual Report.			
A.11 APPRAISAL OF THE GM/CEO				
A.11 Appraisal of the GM/CEO	Complied with			
A 11.1				
34. Financial targets for GM/ CEO	Complied with In line with Corporate Plan of the bank.			
A 11.2				
35. Evaluation of the performance of the GM/ CEO	Complied with			

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
B. DIRECTORS REMUNERATION				
B 1 Remuneration Procedures	Complied with The Directors of the Bank are not entitled for remuneration and they get an allowance as directed by the Ministry of Finance.			
B 1.1				
36. Remuneration / Human Resources Committee	Complied with The Human Resource and Remuneration Committee are responsible for assisting the Board with regard to the Remuneration Policy.			
B 1.2				
37. Composition of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on Page 187 and 188 of the Annual Report for details.			
B 1.3				
38. Disclosed the Chairman / membership of the Remuneration Committee in the Annual Report	Complied with			
B 1.4				
39. Remuneration of Non-Executive Directors				N/A (Directors payment are in accordance with Government Circular.
B 1.5				
40. Remuneration of Executive Directors				N/A According, to the HDFC Act there are no executive Directors



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

- 01
- 02
- 03
- 04
- 05
- 06
- 07



CORPORATE GOVERNANCE

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
C RELATIONS WITH SHAREHOLDERS				
C 1 Constructive use of the Annual General Meeting and conduct of General Meetings.	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 (011-2423362) or assistants for them to obtain relevant information respond you.			
C.3 MAJOR AND MATERIAL TRANSACTIONS				
C 3 Major 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
D. ACCOUNTABILITY AND AUDIT				
D 1 Reporting of Financial and Business Model Corporate, Risk Management	Complied with			
D 1.1				
60. Internal Control for Annual Report	Complied with			
D 1.2				
61. Statutory and regulatory reporting	Complied with			
D 1.3				
62. CEO and CFO a declaration that, in their Opinion for Financial Statement	Complied with			
D 1.4				
63. Directors' report in the Annual Report	Complied with The Director's Report is given on Pages 178 to 182 of this Annual Report.			
D 1.5				
64. Statement of Directors' responsibility for the financial statement	Complied with The Statement of Directors' Responsibility for Financial Reporting is given on Pages 196 and 197 of the Annual Report.			
D 1.6				
65. Management discussions and analysis	Complied with Please refer pages 66 to 118.			
D 1.7				
66. Summoning an EGM to notify serious loss of capital				N/A
D 1.8				
67. Related Party Transactions	Complied with			
D.2 RISK MANAGEMENT AND INTERNAL CONTROL				
D.2 Risk Management and Internal Control	Complied with Please refer pages 183 and 184 for report on Directors' Statement on Internal Control.			
D 2.1				
68. Annual evaluation of the internal control system, Risk Management	Complied with Please refer pages 183 and 184 for report on Directors' Statement on Internal Control.			
D 2.2				
69. Principal Risks facing the company	Complied with			
D 2.3				
70. Need for internal audit function	Complied with Please refer Page 192 for Audit Committee Report.			

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D 2.4				
71. Review of the process and effectiveness of risk Management and Internal Controls.	Complied with			
D 2.5				
72. Responsibilities of Board of Directors	Complied with			
D. 3 AUDIT COMMITTEE				
D 3 Audit Committee	Complied with Please refer page 192 for Audit Committee Report.			
D 3.1				
73. Audit Committee Composition	Complied with Please refer page 192 for Audit Committee Report			
D 3.2				
74. Terms of Reference and Authority and Duties of the Audit Committee	Complied with Please refer page 192 for Audit Committee Report.			
D 3.3				
75. Disclosures of the Audit Committee	Complied with Please refer the Board Audit Committee report on Page 192 for membership.			
D.4 RELATED PARTY TRANSACTIONS REVIEW COMMITTEE				
D 4 Related Party	Please refer page 190 and 191 for Related Party Transaction Review Committee.			
D 4.1				
76. RPT will be as defined in LKAS 24.	Complied with Please refer page 190 and 191 for Related Party Transaction Review Committee.			
D 4.2				
77. Related Party Transaction Committee Composition	Complied with Please refer page 190 and 191 for Related Party Transaction Review Committee.			
D 4.3.				
78. Terms of Reference and Authority and Duties of the Related Party Transaction Committee	Complied with Please refer page 190 and 191 for Related Party Transaction Review Committee.			



Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
D.5 CODE OF BUSINESS CONDUCT & ETHICS				
D.5 TO D 5.4				
Code of business conduct & ethics	To be adopted			
D 5.1				
79. Code of business conduct and ethics	Complied with			
D.6 CORPORATE GOVERNANCE DISCLOSURE				
D.6 TO D 6.1				
80. Corporate Governance Disclosure	Complied with			
E SHAREHOLDERS				
E INSTITUTIONAL INVESTORS				
E1 TO E 1.1				
81. Shareholding Voting	Complied with Institutional shareholders are encouraged to use their votes. Further they are encouraged to execute their votes and also seek independent advice on investing or divesting decisions.			
E.2 EVALUATION OF GOVERNANCE DISCLOSURES				
82. Evaluation of Corporate Governance initiatives	Complied with			
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.	Complied with			

- 01
- 02
- 03
- 04
- 05
- 06
- 07



CORPORATE GOVERNANCE

Guideline	Full compliance	Partial compliance	Non compliance	Not applicable
F 2 Shareholder Voting	Complied with The Bank appreciates participation of individual customers in General Meetings and exercising their voting rights.			
F 2.1				
84. Individual Shareholder Voting	Complied with			
G INTERNET OF THINGS AND CYBERSECURITY				
G.1				
85. Cybersecurity Risk	The HDFC Bank has already adopted and work in progress with Information Security strategy (Baseline Security Standard) mandated by Central Bank of Sri Lanka.			
G.2				
86. Implement a Cybersecurity risk management Policy	It's covers areas such as Security governance, Risk assessment, Risk Management through control implementation and improving user awareness.			
G.3				
87. Allocate regular and adequate time on the Board Meeting	The progress of the process is evaluating at the IT steering committee arranged every month. So, this is the process that the Bank has currently adopted to manage the cyber security risks.			
G.4				
88. The Board ensure the effectiveness of the Cybersecurity risk management through independent periodic review and assurance				
G.5				
89. Disclose in the annual report, the process to identify and manage Cybersecurity risk.				
H. ENVIRONMENT, SOCIETY AND GOVERNANCE (ESG)				
H.1 ESG Reporting	Improving the current practice			
H 1.1				
90. Companies should provide information				
H 1.2 Environmental Factors	Improving the current practice			
H 1.2.1				
91. Environmental Governance of an Organization				
H 1.3 Social Factors	Improving the current practice			
H 1.3.1				
92. Organization's Business Model				
H 1.4 Governance	Improving the current practice			
H 1.4.1				
93. Establish a Governance Structure				
H 1.5 Board's Role on ESG Factors	Improving the current practice			
H 1.5.1				
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	Full compliance	Partial compliance	Non compliance	Not applicable
7.10.1 (a) to (c)				
(i) Confirmation to the correct number of Non-Executive Directors in the Board	Complied with			
7.10.2 (a)				
(ii) Confirmation to correct number of Independent Non-Executive Directors in the Board	Complied with			
7.10.2 (b)				
(iii) Directors Annual Declaration of his / her Independence or Non-Independence to the Board of Directors.	Complied with			
7.10.3 (a)				
(iv) Annual determination of the Board as to the Independency or Non-Independency of the Directors.	Complied with			
7.10.3 (b)				
(v) The qualifications not met by the Directors			N/A	
7.10.3 (c)				
(vi) Brief resume of each Director	Complied with Please refer Directors' Profiles on Pages 46 to 64.			
7.10.3 (d)				
(vii) Upon appointment of a new director to its board, the entity shall forthwith provide to the Exchange a brief resume of such director for PUBLIC - 13 - dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.	Complied with			
Disclosures Relating Remuneration & the Remuneration Committee				
7.10.5 (a)				
(viii) The correct number of Independent Non-Executive Directors in the Remuneration Committee	Complied with Please refer Pages 187 and 188.			
7.10.5 (a)				
(ix) Separate Remuneration Committee	Complied with			
7.10.5.(a)				
(x) Chairman of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on Page 187 and 188.			
7.10.5 (b)				
(xi) Functions of the Remuneration Committee	Complied with Please refer the Board Human Resource and Remuneration Committee Report on Page 187 and 188.			

01

02

03

04

05

06

07



CORPORATE GOVERNANCE

		Partial compliance	Non compliance	Not applicable
Disclosures regarding the Board of Directors		Full compliance		
7.10.5 (c)				
(xii) Names of the Directors in the Remuneration Committee	Complied with Please refer Pages 187 and 188.			
7.10.5 (c)				
(xiii) Remuneration Policy	Complied with Please refer the report of the Human Resource and Remuneration Committee on Pages 187 and 188.			
7.10.5 (c)				
(xiv) Aggregate Remuneration paid to the Executive and Non-Executive Directors (including cash and all non-cash benefits)	Complied with Please refer the note 11 of the Financial Statement on Page 223.			
CONTENTS UNDER THE AUDIT COMMITTEE REPORT				
7.10.6 (a)				
(xv) The correct number of Independent Non-Executive Directors	Complied with HDFC confirms that, Audit Committee comprises of the required number of Independent Non-Executive Directors in accordance with Rule 7.10.6(a).			
7.10.6 (a) and 7.10.6 (c)				
(xvi) Separate Audit Committee	Complied with			
7.10.6 (b)				
(xvii) Functions of the Audit Committee	Complied with Audit Committee engages in the functions mandated under Rule 3(6) of the CBSL and Finance Circulars			
7.10.6 (c)				
(xviii) Names of the Directors in the Audit Committee	Complied with Please refer Page 192			
7.10.6.(a) and 7.10.6 (c)				
(xix) Chairman of the Audit Committee	Complied with Please refer Page 192			
7.10.6 (a) and 7.10.6 (c)				
(xx) Chairman's qualifications	Complied with Please refer Directors profiles on page 46 to 54.			
7.10.6 (a) and 7.10.6 (c)				
(xxi) Attendance of CEO and CFO for the Committee Meetings	Complied with			
7.10.6 (c)				
(xxii) External Auditors independency			N/A The External Auditor of the Bank is the Auditor General of Sri Lanka.	



RISK MANAGEMENT

THE OVERALL APPROACH

Our risk management approach is central to maintaining stability and for the safety of financial investments of the Bank, its shareholders and customers. The approach to risk management is based on early identification and mitigation controls, in order to either elicit opportunities from an acceptance of risks within an acceptable level or in order to negate the impacts of risk exposures.

RISK LANDSCAPE DURING THE PANDEMIC

With the pandemic's onset, the risk landscape intensified, with its impacts spreading across health, economic and social contexts. While it was necessary to adapt to a new operational framework in maintaining business continuity, it was also necessary to shield the Bank from the health and economic impacts of the pandemic.

The lockdowns was a catalyst in improving our digitalisation and online Banking services, and for setting in place multiple points of accessibility for customers, given the unpredictable nature of lockdowns due to surges in infections.

As a Bank the pandemic tested our resilience and that of our stakeholders. Our customers, which belong to grassroots and to economically underserved communities, were impacted considerably. At a time when livelihoods were impacted, moratoriums became a temporary respite. Although it exposed the Bank's already higher-than-average NPLs to further rise, we managed to arrest any negative impacts through a proper credit rating and approval system, with approval limits set at varying operational levels. Our NPL levels declined to 18% by the end of 2021, in comparison to 20% at the beginning of the year.

In 2021, we were focused mostly on constantly assessing the macroeconomics, due to the worsening economic impacts of the pandemic. The year's volatilities were considerable in nature. With highly fluctuating foreign exchange rates, worsening rupee depreciation against the US Dollar, as well as the low interest rate environment, alongside impact to interest income due to moratoriums were all considerations. However, amidst all these considerations, our bottom-line remained profitable, with a somewhat commendable increase in net operating income.

RISK MANAGEMENT POLICIES

A comprehensive set of policies are actively pursued in assessing, mitigating and managing risk exposures that may affect our ability to function effectively. These policies are subject to annual review.

Objectives of managing risks:

- Safeguard stakeholders specially customers and shareholders' funds
- Maintain financial stability
- Operate functions within pre-defined risk appetites and thresholds
- Avoid or minimize exposure to probable risk factors and scenarios
- Set clear control limits
- Minimize cost impacts from risks by assessing exposures proactively
- Maintain compliance to external laws and regulations
- Improve credit portfolio and asset quality

A RISK CONSCIOUS CULTURE

Risk awareness is embedded across the Bank, with additional room for enhancements. Cascading from the top, risk awareness and mitigation has become proactively pursued, especially given the current risk climate. Risk management is more strongly embedded in credit approval and in managing the asset quality of the Bank, given the high acceptance of risk from our target audience of low to middle income earning individuals and businesses. Moreover, reducing the Bank's higher than average non-performing loans is an objective that is constantly focused on. As a financial intermediary it is absolutely vital for us to establish relevant thresholds within our credit culture, which is aptly demonstrated under credit risk management.

RISK GOVERNANCE

Central to ensuring the Bank's effective adoption and strengthening of risk management practices, is the risk governance framework - tied with the Bank's strong governance structure.

The line of authority over daily risk management functions begins with the Chief Manager of Risk Management. He is responsible for planning the strategy and policy, while providing guidance on risk control and risk management.

The CEO along with the corporate management team sets the long-term direction of the Bank's risk appetite and is responsible for applying risk controls across operations.

Overall oversight of risk management is reserved for the Board of Directors, who ensures that Bank's risk exposures are clearly and comprehensively evaluated, monitored and controlled by the management at all times.

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03

04

05

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07



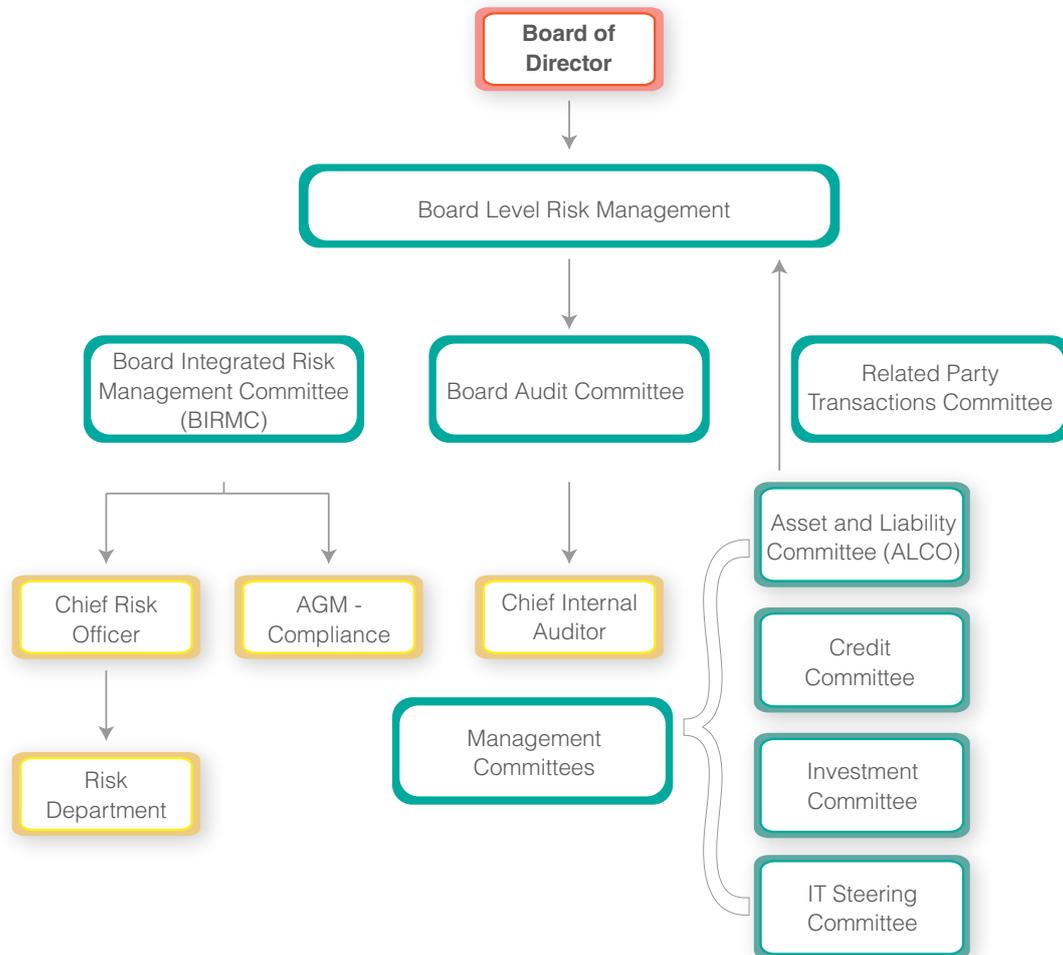
RISK MANAGEMENT

THREE-LINES-OF-DEFENSE

The Bank adopts the model of 'three-lines-of-defense' in ensuring a structured approach to risk management, with the intention of being prudent, effective and risk conscious.



BANK RISK GOVERNANCE FRAMEWORK





STRESS TESTING

Conducted quarterly, stress tests are vital in understanding and assessing exposure to various risk factors. Quarterly stress tests are conducted on all major risk categories alongside portfolio-specific stress testing to assess matters that are particularly sensitive for the Bank – mainly, credit, liquidity, interest bearing assets and liabilities. Stress testing enables the Bank to calibrate thresholds to a healthy and safe level, and update risk limits and tolerances within a healthy risk appetite. Regular stress tests are also conducted in conjunction with the Internal Capital Adequacy Assessment Process (ICAAP) in order to assess capital adequacy.

RISK PROFILE:

- Large concentration of low to middle income customers
- Limited retail footprint
- Higher than average non-performing loans
- Low loan loss provision coverage due to high collateral covers

Detailed records of stress tests along with mitigation actions are maintained, and reported to the Management Committees as well as the Board.

RISK APPETITE

Risk appetite is the accepted level of risk the Bank is able and willing to operate with, in relation to achieving goals and objectives. The risk appetite of all categories of risks is ascertained, upon considering statutory regulations, borrowing covenants' and operational boundaries, as well as external determinants.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)

The BIRMC plays a central role in integrated risk management functions. The committee sets out the risk management framework, promoting a risk conscious culture. They assess all risks on a monthly basis, while assessing the effective functioning of management committees. They take swift remedial measures to mitigate certain risks, before they reach unacceptable levels. Such measures are taken in line with Bank policies, statutory and regulatory requirements, and guidelines for LSBs.

BIRMC meetings are held quarterly to assess risks and mitigate them, and to update the business continuity plans. The committee also ensures compliance function to ensure that compliance risks are mitigated and that the Bank complies with all mandatory laws and regulations, and internal policies. (For more information refer to pages 193 and 194)

KEY RISK AREAS

The Bank's risk profile is linked with several fundamental risk categories and connected risk areas. These have been defined and their impact on the Bank has been ascertained, as they have the potential to affect the Bank's ability to sustain operations and foster business growth.

The Bank's risk department, relevant management committees continuously monitor the Bank's position with regards to these risks and consider exposures based on the conduct and outcomes of operations, as well as the external operating environment. The following risks are applicable to the Bank's nature of operations.

01

02

03

04

05

06

07



RISK MANAGEMENT

RISK AREAS AND OVERSIGHT

Risk area	Scope	Governance
Capital risk	<ul style="list-style-type: none"> Review of the Internal Capital Adequacy Assessment Process (ICAAP) Regulatory Capital Adequacy position and trends compared with limits Overall risk limit system including regulatory and advisory/ internal limits Stress testing of key risks and overall exposures reports on top and emerging strategic and overall business risk analysis 	<ul style="list-style-type: none"> Ultimate oversight rests with the Board of Directors
Credit risk	<ul style="list-style-type: none"> Pre Credit Risk Management Internal Credit Risk Rating for all loans above Rs.1.5Mn. Credit Risk Policies and delegation of authority Review of Credit Risk Management Policies Staff training and knowledge sharing sessions Centralization of disbursements under Credit Admin Division Post Credit Risk Managements Loan review mechanism Validation of risk rating models Risk appetite limit monitoring Reviewing of Watch List Implementation of risk based pricing mechanism 	<ul style="list-style-type: none"> Board of Directors Board Integrated Risk Management Committee
Market and liquidity risk	<ul style="list-style-type: none"> Review and updating Liquidity & Market Risk Management Policies Reports on liquidity and treasury market risk analysis Treasury Back Office and review of any limits Liquidity risk monitoring on BASEL III requirements Reviewing of recommendations by ALCO 	
Operational risks - IT, Legal, People risk and Compliance risk	<ul style="list-style-type: none"> Reports on Business Continuity Plan and disaster recovery drills undertaken Review and updating Operational Risk Management Policies Monitor reporting of KRIs Analysing Internal Loss Events and risk from external events Monitoring of IT system risks, legal risk, people risk 	

Corporate Governance and Risk Management



RISK MAPPING

The Bank uses risk mapping in identifying the severity and frequency of each risk. This enables the Bank to correctly ascertain the nature of the risk in taking relevant controls and mitigation actions.

RISK INDICATORS

Each risk category is segregated into the following risk areas, which entail several indicators. These indicators are regularly assessed quantitatively to ascertain risk levels.



- 01
- 02
- 03
- 04
- 05**
- 06
- 07



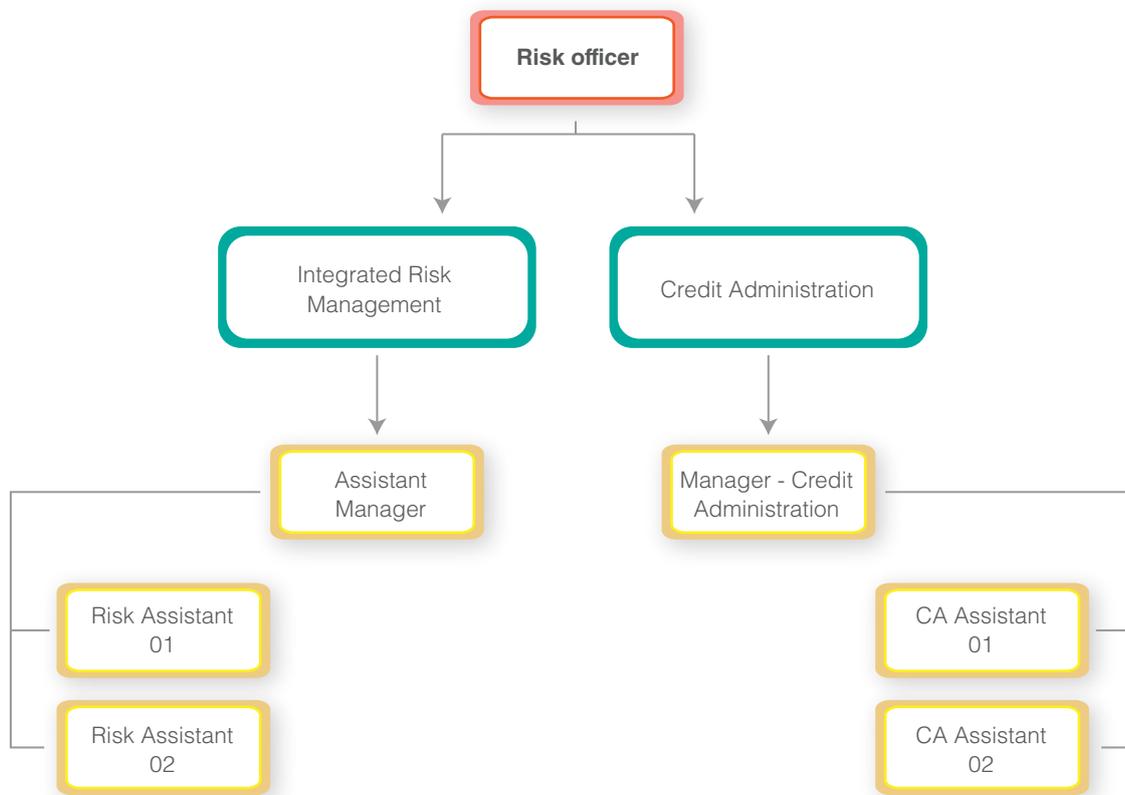
RISK MANAGEMENT

RISK REVIEW

CREDIT RISK

Based on the large concentration of our lending portfolio on low to middle income customers, we have a substantial exposure to credit related risks.

INTEGRATED RISK MANAGEMENT FRAMEWORK (RISK AND CREDIT FUNCTIONS)



Corporate Governance and Risk Management

Risk controls are in effect across all points of credit management, requiring an integrated framework to oversee, manage and control the level of credit risks we can undertake. Final oversight of risk credit approval and assessments of asset quality remains with the Risk Officer.

Indicators	Threshold	2021
NPL Ratio (Ex. EPF)	12%	18.8%
Watch Plus Ratio (Ex. EPF)	18%	26.7%
Guarantor Loan's Concentration	50%	20.6%
Impairment Coverage	60%	33.5%



HOW WE APPROACH CREDIT RISK EXPOSURES

As per the functional integrated risk management framework, risk department and credit administration goes hand in hand, ensuring that decisions are taken within stipulated parameters, while maintaining transparency.

- Risk based pricing
- Expansion of the branch network to reduce the geographical concentration
- Availability of internal valuation officers to value the mortgage property at the time of granting the loan
- Loans are granted only to the customers who meet the threshold set as per the internal rating system.

Credit risk management

The following actions are taken place to mitigate, control and manage credit risk.

- Maintaining a risk management framework which clearly explains Bank's structure, policies, procedures and infrastructure to manage the risk which will adversely affect the Bank
- Maintenance of a risk Dash Board on a monthly basis which reflects credit exposures to identify where control and mitigation is required
- Portfolio management
- Granting top-up loans based on the repayment pattern of the customer

Credit rating

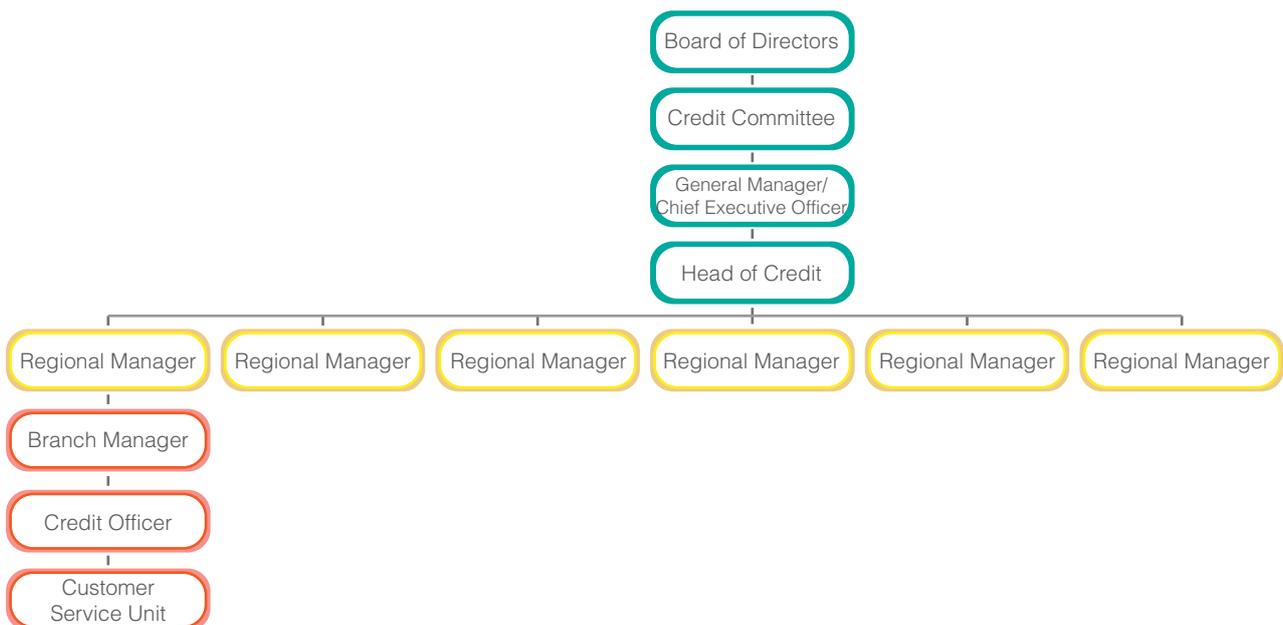
All Credit facilities (Except EPF & Cash) equal or greater than Rs. 1.5 Mn. are subject to credit risk rating. Moreover, any obligor rated "BBB" or above is considered "Recommended" as they bear low risk of default.

Internal credit rating model

We assign a rating to retail and corporate customers based on each customer risk profile. The rating is considered prior to granting loans; and in the absence of even the minimum score, the loan will not be granted. Upon completion of rating assessment, customer and the loan facility is coded accordingly.

Approval levels

Officers at varying authority levels are given authorisation to approve credit. These limits are revised periodically, while the Board approves loans above the approval limit imposed to the credit committee.



- 01
- 02
- 03
- 04
- 05**
- 06
- 07



RISK MANAGEMENT

Loan type	Asset type	Description
Mortgage loans	Land Building Receivables	The land, building has to be in a residential area. Financial Receivables (Mainly Portfolios)
EPF loans	EPF	The EPF of the particular borrower is assigned until the loan is fully paid.
Leasing	Vehicles	The absolute ownership of the vehicle is with the Bank, until the full payment is made.
Guarantor Loan	Guarantor	The guarantor guarantees a loan after declaring their assets and liabilities

Collateral Management

In managing credit risks collateral valuation and management plays a key role. Collaterals are assessed properly to ensure that the quality of assets within our loan portfolio do not pose significant exposures.

Valuation checkpoints:

- Collaterals for loans below 0.1% of Tier I equity capital are valued by internal valuation officers
- Properties valued over 0.1% of Tier I equity capital of the Bank are assessed by an external valuation officer

Annual Credit Reviews

Loans are subject to an annual review, in a manner commensurate with the risk of the individual exposure; the appropriate authority level approves exemptions.

Annual review typically includes:

- Full review of corporate financial statements
- Full assessment for covenant compliance
- On-site reviews

Loan reviews

Despite the amount requested, we strive to conduct loan reviews, ensuring that practices are in line with policies and regulatory requirements. They are done to gather feedback on the effectiveness of credit sanctions and to assess deteriorations of portfolio quality. Reviews of substantial loan amounts are done within three months of sanction/renewal, or more regularly when information points to a potential deterioration of credit quality.

Qualification and Independence of Loan Review Officers

Loan review officers possess sound technical understanding of credit appraisals, lending practices and Bank's loan policies; in addition, they are well aware of applicable laws and regulations associated with lending activities, and their independence is ensured. Findings of reviews should be reported directly to the Board or the Integrated Risk Committee of the Board. In addition, they are responsible for continuous credit analysis and the effective identification of any problems.

To avoid any conflicts of interest, the management usually ensures that officers who are not involved in the credit approval or not influenced by any person are associated with the process review all significant loans.

Loan reviews are expected to assess several critical credit factors, including:

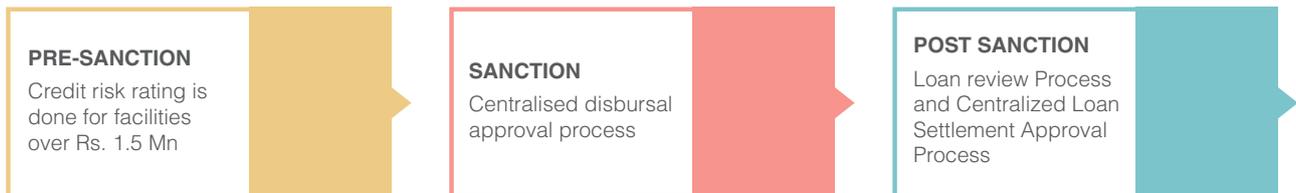
- Credit quality
- Sufficiency of credit and collateral documentation
- Proper lien perfection
- Approval process
- Adherence to loan covenants
- Compliance with internal policies and procedures, and applicable laws and regulations of Central Bank
- The accuracy and timeliness of credit grades assigned by loan officers
- Portfolio quality and recommendations for improving portfolio quality

Findings are discussed with branch managers, while remedial measures are suggested for any deficiencies. If such discrepancies and deficits are not addressed, they are reported to the top management.



Sanctions and Thresholds

Loan amount wise several stages are applied to the loan approval and management process.



We have fixed our significant loan threshold to Rs. 5 Mn. and are reviewed at different stages. Approval Limits are set for:

- Branch Managers
- Regional Managers
- Head of Credit
- General manager
- Credit Committee
- Board of Directors

New credit and asset quality based processes

During the year, we commenced the initial stages of establishing a two-way rating model and automated loan approval process.

MARKET AND LIQUIDITY RISKS

Market risks are those, which may cause probable losses due to changes in market-based factors such as exchange rates, commodity prices, interest rates and equity. Market risk related areas, which impact our operations, include interest rate risks, while exchange rate risks are minimal, since we do not operate foreign currency accounts.

Liquidity risk refers to the Bank's inability to fulfill its immediate financial obligations, without unexpected losses.

MARKET RISK INDICATORS

Risk indicators	Threshold	2021
Loans to Deposit Ratio	80%	84.0%
Interest Cost to Interest Income	70%	53.8%
Borrowing to Total Assets	10%	7.6%

LIQUIDITY RISK INDICATORS

Risk indicators	Threshold	2021
FD Concentration Ratio	40%	17.1%
Investments to Total Assets	35%	29.71%
Statutory Liquid Asset Ratio	20%	26.60%
Liquidity Coverage Ratio	100%	156%

HOW WE MANAGE MARKET AND LIQUIDITY RISKS

We constantly monitor market changes, as and when required market risk and liquidity risk based policies are reviewed and updated by the risk department.

Reports on liquidity and treasury market risks are analysed to ensure that we are fully up-to-date on developments, while the management/asset and liabilities committee/investment committee reviews report information to make informed decisions.

Liquidity risk monitoring is conducted on BASEL III requirements, with recommendations reviewed by the assets and liabilities committee (ALCO).

Operational Risks (IT system risk, legal and people risks) Operational risks entail exposures, which could occur due to human errors, system failures, and those related to legal compliances.

Risk indicator	Threshold	2021
Written off over NII (%)	10%	2.7%
Credit Client Turnover Ratio	10%	17.4%
Growth in Balance Sheet	10%	3.2%
PAT per Head (Rs. Mn)	1 Mn	Rs. 0.9 Mn.

01

02

03

04

05

06

07



RISK MANAGEMENT

People risk – This is the risk associated with potential exposures and losses, which could result from human resource activities. In avoiding such risks and in managing mitigation of such risks, the Bank follows comprehensive policies in each area of human resource management, and is overseen by the Head of the Human Resources Department. From recruitment and talent management, to remuneration and employee union relations, each aspect is managed through policy guidance and through the recommendations by the Human Resource / Remuneration Committee, with the guidance and approval of the Board of Directors.

Risks that could occur due to human capital related developments are managed proactively through several measures.

- New recruitments to compensate for resignations and retirements
- Succession planning and a new management trainee program to ensure effective fulfillment of future management roles
- Training and development to minimize gaps in knowledge of all Banking, compliance, risk, product and other areas
- Adherence to code of best practices and regulations to ensure that employees remain compliant and maintain ethical conduct so as to avoid risk exposures
- Providing timely remunerations and a host of benefits to ensure employees' financial growth, and that of their dependents.
- Programs to reward and recognize best performers
- Introduction of flexible work times to accommodate busy lifestyles and strike a level of work life balance.
- Establishing protocols to avert exposure to COVID 19
- Employee turnover remains at quite lower with a 5.68%

Changes to HRM policies in 2021:

- Proposed changes to the existing recruitment policy with scheme of recruitment for all grades
- Initiated changes to the existing succession planning policy by including succession arrangements to the Divisional Heads in addition to the existing succession arrangements to corporate management members
- Challenges with the union were resolved through proper discussions. Collective agreement signed to increase employee remuneration.

IT Risk – Risks in relation to IT and digital technologies, as well as late adoptions for competitive benefits. IT risks include losses due to loss of data and quality of information. There is also the potential exposure to cyber security related risks, which includes full or partial loss of information and unauthorized access to confidential information; in addition business disruptions due to system issues and hardware malfunctions are also IT related risks. Another potential risk is the lack of infrastructure to accommodate sudden changes in demands and increase in online transactions; moreover, there is also the cost of customers switching to a competing service provider due to better digital services and ICT infrastructure.

Managing IT risks:

- Auditing in line with CBSL baseline security standards; annual audit by CBSL
- Measures initiated to accommodate recommendations by CBSL in enhancing IT defenses
- Remote secure connectivity
- Upgraded infrastructure through firewall solutions
- Periodic IT related training on information security, mobile channels, on delinquency management system (DMS)

Legal Risk – Legal risks are those the Bank may be exposed to in the event of any non-compliance with laws and regulations; this may lead to penalties, risk to reputation, as well as potential disruption to earning capacities.

During the pandemic, the Bank experienced increasing legal risks due to failing clients to honour terms of settlements failing Bank to execute the Writs & deferment of court cases across the year.

Compliance risk - We consider compliance risks as those, which occur as a result of non-compliance to regulatory and statutory laws and regulations.



Managing compliance risk:

Governance in compliance includes the board of directors, retaining the highest oversight. AGM - Compliance plays a functional role in ensuring that the Bank complies with laws regulations, guidelines and internal controls, as well as Bank policies across all operational areas. He reports to the Board Integrated Risk Management Committee periodically.

The BIRMC supports the Board to oversee compliance related aspects. They periodically review implementation of processes and policies in averting compliance and regulation related risks.

CAPITAL AND SOLVENCY RISK

The Bank recognises capital risk as any potential incapacity to meet regulatory capital minimum. However, the Bank has taken several steps to reach the minimum capital of Rs. 7.5 Bn. in minimum capital, of which only Rs. 783 Mn. remains to be fulfilled.

- Raised Rs. 250 Mn. in tier 1 (AT1) through a perpetual government bond and through internally generated profit, in 2019 and 2020.
- Rs. 531 Mn. fulfilled through internally generated profit in 2021.

Indicators	Thresholds	2021
Capital adequacy ratio	12.5%	23.02%
Equity to total assets ratio	5%	10.1%
Risk weighted assets to total assets ratio	30%	45.7%

HOW WE MANAGE CAPITAL RISK

In 2022, we will strengthen our Internal Capital Assessment Process (ICAAP) in line with the supervisory review process of BASEL III capital consortium. Moreover, the capital adequacy ratio is constantly monitored and reported.

CAPITAL ADEQUACY RATIO

In 2021, we maintained a capital adequacy ratio of 23.02%, well above the statutory minimum of 12.5%.

RISK MANAGEMENT OUTLOOK

As a financial intermediary with considerable risk concentration in credit management, we continue to strengthen our proactive defenses against credit based risk exposures. This will be done prudently and consciously, by adhering to internal controls, risk management processes and regulatory yardsticks. Training on areas pertaining to risk and compliance will also be pursued in strengthening risk management. In addition, we will also increasingly focus on bolstering cyber security and in enhancing controls against IT risks, capital risks, market and liquidity based risks.

01

02

03

04

05

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07



THE REPORT OF THE DIRECTORS

The Board of Directors of HDFC Bank, with great pleasure, presents to the shareholders, the Annual Report, together with the audited financial statements for the Financial Year 2021 and the Auditor's Report for the period under review.

01. GENERAL

- HDFC is a public quoted licensed specialized bank under the Banking Act No. 30 of 1988. The Bank remained under the Ministry of Housing and Construction until 10th December 2019 and was thereafter attached to the Ministry of Finance, Economy and Policy Development.
- As already stated, the ANNUAL REPORT covers the financial year 2021 (1st January to 31st December, and was prepared in accordance with the statutory, regulatory requirements and prevailing best accounting practices.
- Further, the 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 engages 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 page 7 of the Annual report.
- The Chairman's Message (pages 16 to 21 and GM/CEO's review pages 22 to 27 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 2021 and operational results are given in Income Statement from page 207 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 2021 forms an integral part of the Annual Report of the Board of Directors.
- Financial Statements of the Bank are given on pages 207 to 265 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 211 to 220 of the Annual Report. The impact of changes in equity is given on page 209 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 200 to 206 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 2021 was LKR. 7,004 Mn. An analysis of the income is given in Notes 01 to 02 and 05 to 07 to the Financial Statements.



10. PROFIT AND APPROPRIATION

- The profit before income, Tax VAT & NBT on Financial Services of the Bank for the year ended 31st December 2021 was LKR. 1,199 Mn. and the profit after tax for the year ended 31st December 2021 was LKR. 547 Mn.

For the year ended 31st December 2021	2020 Rs. Mn.	2021 Rs. Mn.
VAT, DRL & NBT on financial services	313	320
Provision for taxation	360	331
Profit on ordinary activities after tax	708	547
Retained profit /(accumulated losses) b/f	3,680	4,266
Profit available for appropriation	708	547
Appropriation First & Final Dividend proposed	16	-
Transfer to Reserve Funds	106	82
Retained Profit carried forward	4,266	4,731

11. RESERVES

- The total reserves as at 31st December 2021, is LKR 5,391 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 2021 has been provided at 24% on the taxable income arising from the operations of the Bank and has been disclosed in Note 13 to the Financial Statements on pages 223 to 225 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 from the profit of 2021.

15. PROPERTY, PLANT AND EQUIPMENT, FREEHOLD PROPERTY

- Capital expenditure on property, plant and equipment amounts to LKR 68 Mn., the details of which are given in Note 19 of the Financial Statements on pages 230 to 232.

16. MARKET VALUE OF FREEHOLD PROPERTIES

- Details of the market value of freehold properties are given on Note 19.2 of the Financial Statements on page 231.

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 2021 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.

01

02

03

04

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06

07



THE REPORT OF THE DIRECTORS

21. THE BOARD OF DIRECTORS

Please refer chapter on Board of Directors on pages 44 to 54 for a full list of Directors and their qualifications and experience.

Appointments and resignations to the Board during the period under review.

No.	Name	Appointments during the review period	Resignations during the review period
01.	Mr. W. M. Ananda	24/02/2021	-
02.	Mr. P. A. Lionel	17/09/2021	-
03.	Mr. D. M. M. M. Wijayarathna	07/12/2021	-
04.	Senior Pro. K. D. Gunawardena	-	29/06/2021

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 187 to 194 of the Annual Report.

23. DIRECTORS MEETINGS

- Please refer the section on Board and Board Sub Committee attendance at meetings, on pages 124, 128 & 129.

24. DIRECTORS' 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 pages 196 to 197 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 page 263 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:

	31/12/2021	01/01/2021
Mrs. R.M.R.W. Manchanayake	Nil	Nil
Dr. S. N. Morais	1,000	1,000
Mr. P. A. S. Athula Kumara	Nil	Nil
Mr. L.E. Susantha Silva	1,000	1,000
Senior Prof. A. Jayamaha	1,000	1,000
Mr. D.M.A.K. Dassanayake	Nil	Nil
Mr. M. P. D. U. K. Mapa Pathirana	Nil	Nil
Mr. W. M. Ananda	Nil	Nil
Mr. P. A. Lionel	2,000	Nil
Mr. D. M. M. M. Wijayarathna	Nil	Nil
Total	5,000	3,000



27. DIRECTORS' INTERESTS IN DEBENTURES

- Individual debenture holding of Directors were as follows:

As at December 31, 2021	2021	
	No. of Debentures	Value (Rs.)
Mrs. R.M.R.W. Manchanayake	Nil	Nil
Dr. S. N. Morais	Nil	Nil
Mr. P. A. S. Athula Kumara	Nil	Nil
Mr. L.E. Susantha Silva	Nil	Nil
S. Prof. A. Jayamaha	Nil	Nil
Mr. D.M.A.K. Dassanayake	Nil	Nil
Mr. M. P. D. U. K. Mapa Pathirana	Nil	Nil
Mr. W. M. Ananda	Nil	Nil
Mr. P. A. Lionel	Nil	Nil
Mr. D. M. M. M. Wijayarathna	Nil	Nil
Total		

28. RELATED PARTY TRANSACTIONS

- Board wishes to declare that the 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 page 263 of the Annual Report.

29. DIRECTORS' REMUNERATION

- Directors' remuneration, for the financial year ended 31st December 2021 is given on Note 11 to the financial statement on page 223.

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 177.
- 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 192 and Independent Auditors Report on pages 185 and 186 on Internal Controls.

32. CORPORATE GOVERNANCE

- Please refer Corporate Governance report given on pages 121 to 166 as required by Corporate Governance Directions for Licensed specialized Banks, issued by the Central Bank of Sri Lanka along with the findings of the "Factual Findings Reports" of auditors issued under 4,400 (SLSRS).

01

02

03

04

05

06

07



THE REPORT OF THE DIRECTORS

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. 2.16 Mn for the year ended 31st of December, 2021 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 192 of this Annual Report.

37. NOTICE OF MEETING

- The 37th Annual General Meeting of the Bank will be held on Thursday the Thirtieth (30th) day of June 2022 at Sri Lanka Foundation (Auditorium New Wing) No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 at 10.00 a.m.
The Notice of the Meeting given on page 273 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors

Mrs. R. M. R. W. Manchanayake
Chairperson

Mrs. K. T. D. D. De Silva
Company Secretary
24th May 2022



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 recognizes 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 in to 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 192.

01

02

03

04

05

06

07



DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

- 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.
- In 2021, the Bank further strengthened its internal control processes to ensure the impact of the COVID-19 has been well managed along with debt moratorium on interest income and impairment provisions were accurately captured in the financial reporting. The Management also ensured that all critical reconciliations were performed without delays/interruption during the lockdown periods.

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 2021 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 185 and 186 of this Annual Report.

By order of the Board,

Mrs. R. M. R. W. Manchanayake
Chairperson
24th May 2022

Mr. L.E. Susantha Silva
Chairman - Audit Committee
24th May 2022

Mr. Palitha Gamage
Chief Executive Officer
24th May 2022



ASSURANCE REPORT OF THE AUDITOR GENERAL ON INTERNAL CONTROLS



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NATIONAL AUDIT OFFICE



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திகதி } 25 May 2022
Date }

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.

01

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 2021.

02

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.

03

04

05

My Responsibility and compliance with SLSAE 3050

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

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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





ASSURANCE REPORT OF THE AUDITOR GENERAL ON INTERNAL CONTROLS

Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

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

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

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 HUMAN RESOURCES & REMUNERATION COMMITTEE

COMPOSITION & MEETINGS

The Human Resource and Remuneration Committee is appointed by the Board of Directors of the HDFC Bank. As at 31st December 2021, the Committee comprised the following Directors.

Director	Directorship status	Membership status
Mrs. R.M.R.W. Manchanayake	Non-Executive, Independent Director	Chairman
Senior Prof. A. Jayamaha	Non-Executive, Independent Director	Director
Mr. M.P.D.U.K. Mapa Pathirana	Non-Executive, Independent Director	Director
Mr. P.A. Lionel	Non-Executive, Independent Director	Director
Mr. P.A.S. Athula Kumara	Non-Executive, Independent Director	Director

Brief profiles of the Directors are given on page 46 to 54.

MEETING OF THE COMMITTEE

The Committee met Six (06) times during the year in reference. The attendance of the Members at these meetings are given on page 128 and 129.

REGULAR ATTENDEES BY INVITATION

The General Manager CEO is responsible for the overall management of the Bank, and CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.

SECRETARY TO THE COMMITTEE

The Board Secretary performed as the Secretary to the Committee.

The Human Resources & Remuneration Committee, functions within 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 and the long term interests of the Bank and its shareholders.

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, and 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.
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.

01

02

03

04

05

06

07



BOARD HUMAN RESOURCES & REMUNERATION COMMITTEE

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.

KEY INITIATIVES IMPLEMENTED IN 2021

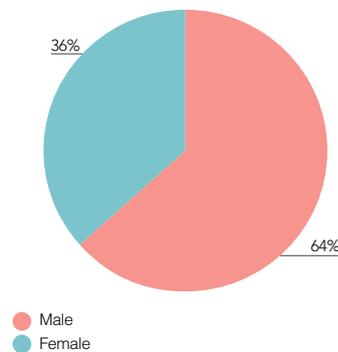
- The Committee recommended and implemented the Training plan for the Staff.
- The Committee made recommendations to offer the Diploma in Credit Management for Staff Members.
- The Committee recommended the Transfer Policy
- The Committee recommended Collective Agreement for the period of 2021 to 2023.

EMPLOYMENT REPORT

The table below reflects the employment report of the Bank as at 31st December 2021

Category	Total as at 31st December
Corporate Management	12
Chief/Senior Managers	22
Regional Managers	6
Executive Staff	282
Non-Executive Staff (Secretaries, Banking Assistants, General purpose workers, Office Assistants, Drivers, Business Promotion Assistants, Junior Business Promotion Assistants, Business Promotion Trainees, Palmtop Assistants)	292
Total	614

Employee by Gender



CONCLUSION

The Bank will continue to focus on introducing and strengthening HR Policies.

R. M. R. W. Manchanayake
Chairperson

Dharshani De Silva
Company Secretary

At Colombo,
24th May 2022



BOARD NOMINATION COMMITTEE

COMPOSITION & MEETINGS

The Nomination Committee is appointed by the Board of Directors of the HDFC Bank. As at 31st December 2021, the Committee comprised the following Directors.

Director	Directorship status	Membership status
Mrs. R.M.R.W. Manchanayake	Non-Executive, Independent Director	Chairman
Mr. P.A.S. Athula Kumara	Non-Executive, Independent Director	Director
Mr. M.P.D.U.K. Mapa Pathirana	Non-Executive, Independent Director	Director
Mr. W.M. Ananda	Non-Executive, Independent Director	Director

Brief profiles of the Directors are given on page 46 to 54.

MEETINGS OF THE COMMITTEE

The Committee met three times (03) during the year in reference. The attendance of the members at these meetings is given in page 128 and 129.

SECRETARY TO THE COMMITTEE

The Board Secretary performed duties as the Secretary to the Committee.

COMMITTEE RESPONSIBILITIES

The Nomination Committee is mainly responsible for formulating relevant policies for Directors and Key Management Members and is 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.

KEY ACTIVITIES IN 2021

- The Committee recommended following New Director appointments, during the year 2021, Mr. M.P.D.U.K. Mapa Pathirana (Labour Representative) Non Executive Independent Director, Mr. W.M. Ananda (Housing Ministry Representative) Non-Executive Independent Director, Mr. P.A. Lionel (Non-Executive Independent Director), Mr. D.M.M.M. Wijayarathna (Housing Minister's Representative) Non-Executive Independent Director.
- The Committee made necessary recommendations to the Board, pertaining to the Annual Fit & Proper Affidavits of the Director Board and General Manager /CEO.
- The Committee made necessary recommendations to the Board, pertaining to the change of Designation/ Assigning Additional Responsibilities to Key Management Personnel (KMPs)

R. M. R. W. Manchanayake
Chairperson

Dharshani De Silva
Company Secretary
At Colombo,
24th May 2022

01

02

03

04

05

06

07



BOARD RELATED PARTY TRANSACTION REVIEW COMMITTEE

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)

Committee Members and attendance details of Meetings held during 2021 are as follows

Director	Directorship status	Membership status
Mrs. R.M.R.W. Manchanayake	Non-Executive, Independent Director	Chairman
Mr. D.M.A.K. Dassanayake	Non-Executive, Non-Independent Director	Director
Mr. L.E. Susantha Silva	Non-Executive, Independent Director	Director
Senior Prof. A. Jayamaha	Non-Executive, Independent Director	Director
Mr. W.M. Ananda	Non-Executive, Independent Director	Director

Brief profiles of the Directors are given on page 46 to 54.

Invitees – General Manager/CEO and Compliance Officer

MEETINGS OF THE COMMITTEE

The Committee met four times during the year in reference. The attendance of members at these meetings are given on page 128 and 129.

SECRETARY TO THE COMMITTEE

The Board Secretary as the Secretary to the Committee.

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 TERMS OF REFERENCE (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.

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 Bank's engagements are conducted in a manner for the best interest of the Bank and to prevent Directors, Chief Executive Officers, Key Management or Substantial Shareholders from 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 and its TOR for defining the RPT transactions of HDFC Bank. When dealing with Related Party Transactions, the Committee ensures 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.

R. M. R. W. Manchanayake
Chairperson

Dharshani De Silva
Company Secretary

At Colombo,
24th May 2022

01

02

03

04

05

06

07



BOARD AUDIT COMMITTEE REPORT

Audit Committee presents this report for the financial year ended 31st December 2021 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 (05) Non-Executive Independent Directors as at the end of the year.

- Mr. L.E. Susantha Silva (Chairman)
- Senior Prof. A. Jayamaha (Director)
- Dr. S.N. Morais (Director)
- Mr. P.A.S. Athula Kumara (Director)
- Mr. P.A. Lionel (Director)

AUDIT COMMITTEE MEETINGS

Five (05) meetings were held during the financial year ended 31 December 2021 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. Appraisals of the Head of Internal Audit and senior staff were reviewed to comply with the statutory requirements.

The spread of the Coronavirus (COVID 19) has directly impacted to carry out audit as per the audit plan in 2021.

- External Audit and Other Statutory Audits

The Auditor General in terms of the Constitution of the country carries out the external audit of the Bank.

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 2021 on matters raised by Central Bank of Sri Lanka in Statutory Examination Report-2019 and by the National Audit Office in Management Letter-2020.

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.

L.E. Susantha Silva
Chairman
Board Audit Committee
24th May 2022



BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

COMPOSITION & MEETINGS

The Board 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 Committee was comprised of four Non-Executive Independent Directors, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Internal Auditor, Compliance Officer, Head of Treasury, Head of Credit, Risk Officer

Director	Directorship status	Membership status
Mr. L. E. Susantha Silva	Non-Executive, Independent Director	Chairman
Dr. S. N. Morais	Non-Executive, Independent Director	Director
Senior Prof. A. Jayamaha	Non-Executive, Independent Director	Director
Mr. P. A. S. Athula Kumara	Non-Executive, Independent Director	Director

Brief profiles of the Directors are given on page 46 to 54.

MEETING OF THE COMMITTEE

The Committee met Five (05) times during the year in reference. The attendance of the Members at these meetings are given on page 128 and 129.

SECRETARY TO THE COMMITTEE

The Board Secretary performed duties as the Secretary to the Committee.

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 authorized 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.
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 Specialized 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.

01

02

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07



BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

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 filings, 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 2021

INTEGRATED RISK MANAGEMENT

1. Taken necessary initiatives along with the Central Bank directives for managing RISK , under the COVID 19 pandemic situation by striking a balance between the bank and customers' interest.
2. Comprehensive refinements were made to the existing Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.
3. Established/reviewed board approved policies to govern, set and review the risk appetite for the Bank and formulated frameworks to align the risk monitoring limits with industry benchmarks.
4. Improved overall stress-testing framework by expanding stress testing time horizons, in considering its impact on available capital and impact on additional required capital.
5. Improved risk identification, assessment and measurement covering credit, operational, strategic, financial, liquidity risks, data security and risks related to digitalization & IT operations.
6. Strengthened the risk management function by way of streamlining existing risk framework and introducing new set of procedural requirements.
7. Strengthened Credit Risk through Risk Rating mechanism, recalibrating internal risk rating system and enhance the scope and coverage to intensify the LRM assessment.
8. Improved credit risk mitigating functions, with the expectation of streamlining credit approvals processes and significantly reducing turnaround times and usage of paper.
9. Established significant controls and monitoring procedures to maintain NPL ratio in par with industry norms and speedy actions have been initiated to recover overdue loans in minimizing credit risk, liquidity risk and improving profitability of the Bank.

10. Improved risk monitoring via dashboards by modifying key risk indicators and periodically reported to the board through BIRMC.
11. Alignment of risk analysis with the online credit approval process.
12. Introduction of two way internal credit rating mechanism with view to improve the credit quality & the credit risk.

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.

L. E. Susantha Silva
Chairman

Dharshani De Silva
Company Secretary
At Colombo,
24th May 2022

Financial Statements



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.

Further 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 2021, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

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

- a. The Statement of Financial Position of the Bank as at 31st December 2021; 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 have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

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

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

This comprises internal reviews, internal audit and the 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 2021 are given on pages 183 to 184 of the Annual Report, "Directors' Statement on Internal Control". External Auditor's Assurance Report on the "Directors' Statement on Internal Control" is given on page 185 and 186 of the Annual Report.



The Directors have taken appropriate steps to ensure that the Bank maintains proper books of accounts and reviews the financial reporting system directly by them at regular meetings and also through the Board Audit Committee. The report of the said Committee is given on pages 192. 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 General Manager/CEO of the Bank, the officer responsible for the preparation, as required by Sections 150 (1) (b) of the Companies Act. Also the financial statements of the Bank have been signed by two Directors.

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

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

By order of the Board

R. M. R. W. Manchanayake
Chairperson
24th May 2022

Colombo

01

02

03

04

05

06

07



INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF HDFC BANK OF SRI LANKA IN THE INTEGRATED ANNUAL REPORT- 2021



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SCOPE

We have been engaged by the management of HDFC Bank of Sri Lanka ("the Bank") to perform an independent assurance engagement, as defined by the Sri Lankan Standard on Assurance Engagements, on the following elements of its Integrated Annual Report for the year ended 31 December 2021 (the "Integrated Report").

- Reasonable assurance engagement on the information on financial capital management as specified on pages 76 to 81 of the Integrated Report.
- Limited assurance engagement on other information on management of the capitals (other than financial capital), stakeholder engagement, business model, strategy, organizational overview & external environment and outlook presented in the Integrated Report.

CRITERIA APPLIED BY HDFC BANK OF SRI LANKA

The Integrated Report is prepared based on the Guiding Principles and Content Elements of the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework) (the "criteria") publicly available at IIRC's website at "www.integratedreporting.org"

HDFC BANK OF SRI LANKA'S RESPONSIBILITIES

HDFC Bank of Sri Lanka's management is responsible for selecting the criteria, and for presenting the Integrated Report in accordance with the said criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Integrated Report, such that it is free from material misstatement, whether due to fraud or error.

ERNST & YOUNG'S RESPONSIBILITIES

Our responsibility is to express a conclusion on the presentation of the Integrated Report in accordance with the Guiding Principles and Content Elements of the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework) based on the evidence we have obtained.

We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka and the terms of reference for this engagement as agreed with HDFC Bank of Sri Lanka in the engagement letter dated 28 May 2022.

The standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Integrated Report in order for it to be in accordance with the criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our independent assurance conclusion.

OUR INDEPENDENCE AND QUALITY CONTROL

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka and have the required competencies and experience to conduct this assurance engagement.

EY also applies Sri Lanka Standard on Quality Control (SLSQC 1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, 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.

DESCRIPTION OF PROCEDURES PERFORMED

We performed our procedures to provide reasonable and limited assurance engagement in accordance with SLSAE 3000.

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. A A Ludowyke FCA FCMA, Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajewani FCA N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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Procedures performed in the reasonable assurance engagement depend on our judgement, including the assessment of the risks of material misstatement whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the reasonable assurance indicators in order to design the assurance procedures that are appropriate in the circumstances. Our procedures also included assessing the appropriateness of the reasonable assurance indicators, the suitability of the criteria in preparing and presenting the reasonable assurance indicators within the Integrated Report and obtaining an understanding of the compilation of the financial information to the sources from which it was obtained.

Procedures performed in the limited assurance engagement consisted of making inquiries, primarily of persons responsible for preparing the Integrated Report and related information and applying analytical and other appropriate procedures. These procedures vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

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.

We also performed the below procedures as we considered necessary in the circumstances:

- Perform a comparison of the content of the Integrated Annual Report against the Guiding Principles and Content Elements given in the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).
- Perusing the Integrated Annual Report – Financial Capital element information to understand whether the information contained are properly derived from the audited financial statements.
- Obtaining an understanding of the relevant internal policies and procedures developed by the Bank, including those relevant to determining what matters most to the stakeholders, how the Bank creates value, the external environment, strategy, approaches to putting members first, governance and reporting.
- Obtaining an understanding of the description of the Bank's strategy and how the Bank 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.
- Perusing the Board of Directors meeting minutes during the financial year to ensure consistency with the content of the Integrated Report.
- Perusing the relevant supporting evidence related to qualitative & quantitative disclosures within the Integrated Report against identified material aspects.
- Perusing the Integrated Report in its entirety to ensure it is consistent with our overall knowledge obtained during the assurance engagement.

EMPHASIS OF MATTER

Social, natural and intellectual capital management data/information are subjected 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 Integrated Report.

RESTRICTED USE

This report is intended solely for the information and use of HDFC Bank of Sri Lanka and is not intended to be and should not be used by anyone other than the specified party.

CONCLUSION

Based on our procedures and the evidence obtained, we conclude that:

- The information on financial capital management as specified on pages 76 to 81 of the Integrated Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2021.
- Nothing has come to our attention that causes us to believe that other information presented in the Integrated Report are not fairly presented, in all material respects, in accordance with the Guiding Principles and Content Elements of the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).

Chartered Accountant
Colombo
28th May 2022

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AUDITOR GENERAL'S REPORT



ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

BAN/C/ HDFC /1/21/32

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

18 May 2022

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 2021 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 2021 comprising the statement of financial position as at 31 December 2021 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2021, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.





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>Impairment allowance on Loans and Advances carried at amortised cost</p> <p>Impairment allowance on Loans and Advances carried at amortised cost 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:</p> <ul style="list-style-type: none"> • Materiality of the reported impairment allowance which involved complex calculations; and • Degree of management judgement, significance of assumptions and level of estimation uncertainty associated with its measurement. <p>Key areas of significant judgements,</p>	<p>I assessed the alignment of the Bank's impairment allowance computations and underlying methodology including consideration of COVID 19 impacts and related industry responses with its accounting policies, based on the best available information up to the date of our report. Our audit procedures included amongst others the following:</p> <ul style="list-style-type: none"> • I evaluated the design, implementation, and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management. • I checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing

01

02

03

04

05

06

07



AUDITOR GENERAL’S REPORT

Key audit matter	How audit addressed the key audit matter
<p>estimates and assumptions used by management in the assessment of the impairment allowance included the following:</p> <ul style="list-style-type: none"> management overlays to incorporate the probable ongoing impacts of COVID-19 and related industry responses such as government stimulus packages and debt moratorium relief measures granted by the Bank; The use of forward-looking information to reflect current and anticipated future external factors, including judgments related to the Ongoing impact of COVID-19, both in the multiple economic scenarios and the probability weighting determined for each of these scenarios. 	<p>details to relevant source documents and accounting records of the Bank. We also checked the underlying calculations.</p> <ul style="list-style-type: none"> In addition to the above, the following focused procedures were performed: <p>For loans and advances assessed on an individual basis for impairment:</p> <ul style="list-style-type: none"> I assessed the reasonableness and timeliness of Management’s internal assessments of credit quality based on the borrower’s particular circumstances I evaluated the reasonableness of key inputs used in the impairment allowance made with particular focus on the ongoing impact of COVID-19. Such evaluations were carried out considering the value and timing of cash flow forecasts, elevated risk industries, status of recovery action and collateral values. <p>For financial assets assessed on a collective basis for impairment:</p> <ul style="list-style-type: none"> I tested the key calculations used in the impairment allowance. I assessed whether judgements, estimates and assumptions used by the Management in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the



Key audit matter	How audit addressed the key audit matter
	<p>reasonableness of forward-looking information used, economic scenarios considered and probability weighting assigned to each of those scenarios.</p> <p>-- I assessed the adequacy of the related financial statements disclosures set out in notes 3.B,3.C.vi,8 and 17</p>

1.4 Other information included in the Bank's 2021 Annual Report

The other information comprises the information included in the Bank's 2021 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 2021 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

01

02

03

04

05

06

07



AUDITOR GENERAL'S REPORT

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.

01

02

03

04

05

06

07



AUDITOR GENERAL'S REPORT

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 2021	Notes	2021 (LKR)	2020 (LKR)
GROSS INCOME	1	7,004,064,498	7,856,433,563
Interest Income	2	6,612,492,042	7,456,679,454
Interest Expenses	3	(3,555,954,803)	(4,475,280,757)
Net Interest Income	4	3,056,537,238	2,981,398,697
Fee and Commission Income	5	342,560,962	303,220,609
Net Fee and Commission Income		342,560,962	303,220,609
Net gain/(loss) from Financial Instruments designated at Fair value through Profit or Loss	6	-	(475,000)
Other operating income(net)	7	49,011,494	97,008,500
Total Operating Income		3,448,109,695	3,381,152,806
Less: Impairment Charges	8	296,222,866	326,526,071
Net Operating income		3,151,886,829	3,054,626,735
Less : Expenses			
Personnel Expenses	9	1,387,303,919	1,174,051,364
Depreciation & Amortization expenses	10	161,215,387	156,638,262
Other Expenses	11	404,821,060	342,815,612
Total Expenses		1,953,340,366	1,673,505,239
Operating Profit/(loss) before VAT		1,198,546,463	1,381,121,497
Less : VAT On Financial Services	12	320,225,506	312,685,504
Profit before Income tax		878,320,957	1,068,435,993
Less: Income Tax expenses	13	331,033,614	360,299,190
Profit for the year		547,287,343	708,136,803
Earnings Per Share on Profits			
Basic Earning per Ordinary Share (Rs.)	14.1	8.46	10.94
Diluted earnings per ordinary share (Rs.)	14.2	8.46	10.94

01

02

03

04

05

06

07

STATEMENT OF OTHER COMPREHENSIVE INCOME

Profit for the Year		547,287,343	708,136,803
Items that will not be reclassified to income statement			
Re-measurement of post-employment benefit obligations	29.1	62,139,268	(62,813,625)
Less: Tax expense relating to items that will not be reclassified to income statement	23	(21,745,733)	17,581,815
Total		40,393,535	(45,231,810)
Other comprehensive income for the year, net of tax		40,393,535	(45,231,810)
Total Comprehensive Income for the Year		587,680,878	662,904,993
Total		587,680,878	662,904,993

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 207 to 265.



STATEMENT OF FINANCIAL POSITION

For the Year Ended 31st December 2021	Notes	2021 (LKR)	2020 (LKR)
Assets			
Cash and cash equivalents	15	258,595,867	305,889,183
Placements with banks	16	8,138,459,719	9,859,832,746
Financial assets at amortised cost			
- loans and advances	17	41,836,921,951	41,214,965,336
- debt and other instruments	18	10,570,350,749	7,546,155,115
Property, plant and equipment	19	224,033,796	223,329,120
Intangible Assets	20	125,024,298	127,569,519
Right of Use Assets	21	386,744,906	369,641,853
Investment properties	22	1,065,000,000	1,016,500,000
Deferred tax assets	23	126,047,737	205,078,464
Other assets	24	232,412,031	160,824,253
Total assets		62,963,591,055	61,029,785,590
Liabilities			
Due to banks	25	2,103,172,867	2,408,780,533
Financial liabilities at amortised cost			
- due to depositors	26	49,813,326,205	47,947,005,442
- due to other borrowers	26	1,282,597,452	1,429,155,847
Debt securities issued	27	1,422,978,101	1,422,976,094
Lease Liability	28	388,627,838	349,436,509
Retirement benefit obligations	29	771,616,051	777,800,209
Current tax liabilities	30	316,138,779	441,773,065
Other liabilities	31	230,367,762	189,595,136
Total Liabilities		56,328,825,053	54,966,522,835
Debt Capital			
Perpetual Bond	32	281,249,999	281,250,000
Equity			
Stated capital/Assigned capital	33	962,092,936	962,092,936
Statutory reserve fund	34	272,372,850	245,008,483
Retained earnings	35	4,730,491,044	4,281,474,432
Other reserves	36	388,559,169	293,436,905
Total shareholders' equity		6,353,515,999	5,782,012,756
Non-controlling interests		-	-
Total equity		6,353,515,999	5,782,012,756
Total equity and liabilities		62,963,591,055	61,029,785,590
Net Assets Value Per Share Rs		98.18	89.35
Contingent liabilities and commitments	37	650,024,574	380,011,076
Memorandum Information			
Number of Employees		614	633
Number of Branches		39	39

The significant accounting policies and notes on pages 211 to 220 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

Palitha Gamage
CEO/General Manager

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

Mrs. R. M. R. W. Manchanayake
Chairperson
27/04/2022
Colombo

Mr. L. E. S. Silva
Director



STATEMENT OF CHANGES IN EQUITY

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 01-01-2020		64,710,520	962,093	209,602	-77,750	3,679,558	345,605	5,119,108		5,119,108
Profit/(loss) for the year	35	-	-	-	-	708,137	-	708,137		708,137
Other comprehensive income (net of tax)		-	-	-	-45,232	-	-	-45,232	-	-45,232
Total comprehensive income for the year					-45,232	708,137		662,905		662,905
Transfers to reserves during the period	33-36	-	-	35,407	-	-106,221	70,814	-	-	-
Total transactions with equity holders		-	-	35,407	-	-106,221	70,814	-	-	-
Balance as at 31-12-2020		64,710,520	962,093	245,008	-122,982	4,281,474	416,418	5,782,013		5,782,013
Balance as at 01-01-2021	34-37	64,710,520	962,093	245,008	-122,982	4,281,474	416,418	5,782,013	-	5,782,013
Profit/(loss) for the year	35	-	-	-	-	547,287	-	547,287	-	547,287
Other comprehensive income (net of tax)		-	-	-	40,394	-	-	40,394	-	40,394
Total comprehensive income for the year					40,394	547,287		587,681		587,681
Transfers to reserves during the period	33-36	-	-	27,364	-	-82,093	54,729	-	-	-
Dividend paid		-	-	-	-	-16,178	-	-16,178	-	-16,178
Total transactions with equity holders		-	-	27,364		-98,271	54,729	-16,178		-16,178
Balance as at 31-12-2021		64,710,520	962,093	272,373	-82,588	4,730,491	471,147	6,353,516	-	6,353,516

01

02

03

04

05

06

07



STATEMENT OF CASH FLOWS

For the Year Ended 31st December 2021	Notes	2021 (LKR)	2020 (LKR)
Cash Flows From Operating Activities			
Interest Receipts	02,16,17,18	6,270,222,555	6,853,438,756
Interest payments	03,26,27,28	(3,206,698,392)	(4,611,304,430)
Net commission Receipts	05	280,116,080	220,895,586
Trading Income		-	-
Payments to Employee	30,29	(1,181,322,213)	(1,031,508,502)
VAT,DRL & NBT on Financial Services	12,30	(253,468,106)	(312,108,857)
Receipt from other operating activities	07	60,887,869	86,345,914
Payments on other operating activities	11,31	(378,480,929)	(421,834,965)
Operating profit before changes in operating assets		1,591,256,863	783,923,502
(Increase)/Decrease In Operating Assets :			
Financial Assets at amortised cost - Loans and Advances	17	(887,575,175)	512,157,498
Other Assets	24	(71,587,777)	(75,296,503)
		(959,162,952)	436,860,995
Increase / (Decrease) In Operating Liabilities			
Financial Liabilities at amortised cost - due to Depositors	26	1,556,491,601	5,601,520,370
Financial Liabilities at amortised cost - due to Debt Security Holders	27	0	(2,590,621,542)
Financial Liabilities at amortised cost - due to Other Borrowers	26	(537,506,898)	1,283,050,246
Other Liabilities	31	(34,549,268)	(3,512,767)
		984,435,435	4,290,436,307
Net cash from operating activities before income tax		1,616,529,346	5,511,220,803
Income Tax Paid	13,30	(504,562,810)	(334,650,981)
Net cash from operating activities		1,111,966,535	5,176,569,822
Cash Flows From Investing Activities			
Purchase of property, plant and equipment /Intangible Assets	19,20	(93,978,176)	(54,992,378)
Proceeds from Sale property, Plant and equipment/Intangible Assets	19,20	898,678	368,500
Net Cashflows from Investments	16,17,18	(1,058,732,442)	(5,237,595,050)
Dividends received from investments	05	240,000	320,000
Net cash from Investing activities		(1,151,571,941)	(5,291,898,928)
Dividends paid to shareholders of the parent company	31	(7,687,911)	-
Dividends paid to holders of other equity instruments		-	-
Others		-	-
Net cash from financing activities		(7,687,911)	-
Net increase/(decrease) in cash & cash Equivalents		(47,293,316)	(115,329,106)
Cash & cash equivalents at beginning of the period		305,889,183	421,218,289
Cash & cash equivalents at the end of the period		258,595,867	305,889,183
Reconciliation Of Cash and Cash Equivalents			
Cash In Hand		149,324,091	155,040,702
Cash at Bank		109,271,776	150,848,481
		258,595,867	305,889,183

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 207 to 265.



ACCOUNTING POLICIES

1. CORPORATE INFORMATION

REPORTING ENTITY

HDFC Bank of Sri Lanka has been incorporated in Sri Lanka as a Building Society in 1984 under section 11 of the National Housing Act of 1956. Subsequently converted to a corporation under the Housing Development Finance Corporation of Sri Lanka Act.No.7 Of 1997 and obtained the status of a specialized Bank under Housing Development Finance Corporation of Sri Lanka (Amendment) Act No. 15 of 2003 and amended act No 45 of 2011 which authorized to apply the all activities of the schedule iv of Banking Act No. 30 of 1988 with amendments thereafter. HDFC bank's Head office is located at NHDA Secretariat Colombo-02, Sri Lanka.

2. BASIS OF PREPARATION

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

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

2.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 operate. Financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard (LKAS) No -1 " Presentation of Financial Statements"

2.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 the order of their relative liquidity and maturity pattern. An analysis of maturity patterns of assets and liabilities of the Bank is presented in Maturity Gap Analysis Report.

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

2.F) MATERIALITY AND AGGREGATION

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

01

02

03

04

05

06

07



ACCOUNTING POLICIES

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.

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

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 used to make the collective impairment provision at 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 default for a reasonable time and the properties which are not disposed at such auctions are recognized as acquired properties which are presented under the loans & advances. The valuations of such properties with Cash flow predicted with reasonable assurance are made on individual basis.

Loans over Rs.10Mns & 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.10Mn 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 for the assets bringing to its useable condition the details of fair value by using the latest valuation report which is not more than 3 years as per the Sri Lanka Accounting Standard (LKAS) No. 16 is disclosed separately.

Basis of Recognition

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

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

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 of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

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

01

02

03

04

05

06

07



ACCOUNTING POLICIES

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.

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.

01

02

03

04

05

06

07



ACCOUNTING POLICIES

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. Any costs or fees incurred and modification fees received 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.

01

02

03

04

05

06

07



ACCOUNTING POLICIES

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

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.

01

02

03

04

05

06

07



ACCOUNTING POLICIES

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

There is no any material interest in other entities as at 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 and group 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) STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31ST DECEMBER 2021

There are no Accounting standards which have been issued by the Institute of Chartered Accountants of Sri Lanka but not yet effective as at 31st December 2021, having a material impact on the Bank's financial statements. The Bank has applied all relevant accounting standards which has been issued up to 31st December 2021 in the preparation of the year ended 31st December 2021.



NOTES TO THE FINANCIAL STATEMENTS

1. GROSS INCOME

Year	2021	2020
Interest Income (Note 2)	6,612,492,042	7,456,679,454
Non-Interest Income (Note 5-7)	391,572,457	399,754,109
Total	7,004,064,498	7,856,433,563

2. INTEREST INCOME

Year	2021	2020
Placements with banks	514,845,604	741,092,793
- loans and advances	5,439,514,254	6,206,932,278
- debt and other instruments - Government Securities*	369,378,683	264,834,716
- Others	288,753,500	243,819,666
Total interest income	6,612,492,042	7,456,679,454

3. INTEREST EXPENSES

Year	2021	2020
Due to banks	80,564,853	74,669,135
- due to depositors	3,124,518,880	3,823,973,435
- due to debt securities holders	169,054,407	413,838,922
- due to other borrowers	181,816,664	162,799,265
Others	-	-
Total interest expenses	3,555,954,803	4,475,280,757

4. NET INTEREST INCOME

Year	2021	2020
Net interest income (Note 02 - 03)	3,056,537,238	2,981,398,697
*Net interest income from Sri Lanka Government Securities		
Interest income	369,378,683	264,834,716
Less: Interest expenses	-	-
Net interest income from Sri Lanka Government Securities	369,378,683	264,834,716

5. NET FEE AND COMMISSION INCOME

Year	2021	2020
Fee and commission income	342,560,962	303,220,609
Fee and commission expenses	-	-
Net fee and commission income	342,560,962	303,220,609
Comprising		
Loans	307,963,153	251,350,055
Others	34,597,809	51,870,554
Net fee and commission income	342,560,962	303,220,609

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

6. NET FAIR VALUE GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Year	2021	2020
Profit or loss	-	(475,000)
Total	-	(475,000)

7. NET OTHER OPERATING INCOME

Year	2021	2020
Change in Fair Value of investment properties	48,500,000	96,500,000
Gain/(Loss) on sale of property, plant and equipment	511,494	508,500
Total	49,011,494	97,008,500

8. IMPAIRMENT CHARGES

Year	2021	2020
Financial assets at amortised cost - loans and advances		
Stage 1	50,087,545	(65,341,583)
Stage 2	(1,857,748)	(82,925,249)
Stage 3	242,114,918	468,765,848
Financial assets at amortised cost - debt instruments		
Stage 1	5,878,151	(48,600,192)
Stage 2	-	-
Stage 3	-	54,627,247
Others	-	-
Total	296,222,866	326,526,071

9. PERSONNEL EXPENSES

Year	2021	2020
Salary and bonus (Note 9.1)	944,001,142	768,142,904
Contributions to defined contribution plans	114,342,015	98,234,453
Provision for defined benefit obligations (Note 30.1)	105,065,827	114,199,715
Others	223,894,936	193,474,292
Total	1,387,303,919	1,174,051,364

9.1 SALARY AND BONUS

Year	2021	2020
Salaries to employees (Other than KMPs)	721,205,010	610,121,123
Bonus to employees (Other than KMPs)	176,669,187	103,147,573
Salaries to Key Management Personnel	39,797,699	47,538,052
Bonus to Key Management Personnel	6,329,246	7,336,156
Total	944,001,142	768,142,904



10. DEPRECIATION & AMORTIZATION

Year	2021	2020
Depreciation of Property plant & equipment	55,006,665	59,234,064
Amortization of Right to use Assets	74,873,318	72,612,928
Amortization on Intangible Assets	31,335,404	24,791,270
Total	161,215,387	156,638,262

11. OTHER EXPENSES

Year	2021	2020
Directors' emoluments	1,822,000	1,626,000
Auditors' remunerations	2,161,486	2,209,283
Professional and legal expenses	14,063,957	14,909,268
Office administration and establishment expenses	82,155,433	75,738,535
Transport and allied expenses	37,036,815	28,632,730
Printing and Postage	31,362,371	26,710,820
Insurance and Security	55,536,215	41,253,214
Business Development and Advertising	29,280,761	29,174,627
Computer License	57,699,864	47,424,949
Others	93,702,158	75,136,186
Total	404,821,060	342,815,612

12. VAT ON FINANCIAL SERVICES

Year	2021	2020
VAT on Financial Services	320,225,506	311,197,570
Prior Year (Over)/Under Provision	-	1,487,934
Total VAT Financial Services	320,225,506	312,685,504
Total	320,225,506	312,685,504

13. TAX EXPENSES

Year	2021	2020
Current tax expense		
Current year	273,748,620	435,146,769
Deferred tax expense		
Total Differed Tax expense	57,284,994	(74,847,579)
Total	331,033,614	360,299,190

Year	2021	2020
13.1 Amounts Recognised in Profit or Loss	331,033,614	360,299,190
13.2 Amounts Recognised in Other Comprehensive Income	21,745,733	(17,581,815)
	352,779,347	342,717,375

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

13.1.1 AMOUNTS RECOGNISED IN PROFIT OR LOSS

Year	2021	2020
Current Tax Expense		
Tax on current year's profits (Note 13.3)	273,748,620	435,146,769
(Over)/ under provision in respect of previous years	-	-
	273,748,620	435,146,769
Deferred Tax Expense		
Charge/ (reversal) on temporary differences (Note 13.3. B)	57,284,994	(37,154,350)
Impact on changes in tax rates	-	-
	57,284,994	(37,154,350)
Total income tax expense recognised in profit or loss	331,033,614	397,992,419

13.2.1 AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

Year	2021	2020
Deferred Tax Expense		
Charge/ (reversal) on temporary differences (Note B)	21,745,733	(17,581,815)
Total income tax expense recognised in other comprehensive income	21,745,733	(17,581,815)
B. Change to Deferred tax charge/ (Reversal) recognised on other comprehensive income derived from Deferred tax assets		
Deferred tax assets (Note 23.3)	21,745,733	(17,581,815)
Deferred tax charge/(reversal) to Other Comprehensive Income	21,745,733	(17,581,815)

13.3 RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSES

Year	2021	2020
Profit/(loss) before tax	878,320,957	1,068,435,993
Disallowable expenses for tax Purpose	997,385,951	1,018,126,392
Allowable expenses for tax Purpose	(735,087,658)	(532,466,782)
Income tax for the period (Accounting profit @ applicable tax rate)	210,797,030	299,162,078
Adjustment in respect of current income tax of prior periods	-	-
Deferred Tax	57,284,994	(74,847,579)
Add: Tax effect of expenses that are not deductible for tax purposes	239,372,628	285,075,390
(Less): Tax effect of expenses that are deductible for tax purposes	(176,421,038)	(149,090,699)
Tax on Current Year Profit	273,748,620	435,146,769
Tax expense for the period	331,033,614	360,299,190
Effective Tax Rate (on Current Year Tax)	31%	41%
Effective Tax Rate with Differed Tax	38%	34%

Current tax on profits has been computed at the rate of 24% on the taxable income arising from Banking and Leasing businesses.

As per the Inland Revenue amendment Act No. 10 of 2021, the rate of Income Tax has been changed from 28% to 24% with effect from 01st January 2020. Under such circumstances, the business of banking has been taxed at using the rate of 24% in calculating the current tax charge and the deferred tax liabilities/assets for the ending 31st December 2021.



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

Year	2021	2020
Deferred tax assets	10,669,140	42,884,725
Deferred tax liabilities	67,954,134	5,730,375
Other temporary differences	-	-
Deferred tax (credit)/charge to income Statement	57,284,994	(37,154,350)

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 2021 and 2020.

Year	2021	2020
Profit for the year attributable to ordinary equity holders of the Bank (Rs.)	547,287,343	708,136,803
Weighted average number of ordinary shares in issue (No.)	64,710,520	64,710,520
Basic earnings per ordinary share	8.46	10.94

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	2021	2020
Cash in hand	149,324,091	155,040,702
Balances with banks	109,271,776	150,848,481
Total cash and cash equivalents	258,595,867	305,889,183

16. PLACEMENTS WITH BANKS

Year	2021	2020
Placements with Commercial Banks	7,080,464,762	8,779,757,301
Placements with Specialized Banks	1,058,472,753	1,080,664,100
Total Placements with Banks	8,138,937,515	9,860,421,401
Less: Impairment (Note 16.1)	(477,795)	(588,655)
Total Placements with Banks - Net	8,138,459,719	9,859,832,746

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

16.1 MOVEMENT IN EXPECTED CREDIT LOSS

Year	2021	2020
Balance as at 01 January	(588,655)	(474,182)
During the year charge/(reversal)	(110,860)	(114,473)
Balance as at 31 December	(477,795)	(588,655)

17. FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES

Year	2021	2020
Gross loans and advances under		
Stage 1	24,475,816,580	23,390,245,834
Stage 2	4,131,323,568	5,018,679,789
Stage 3	14,965,069,979	14,250,983,175
Total	43,572,210,128	42,659,908,797
(Less): Expected credit loss allowance under: (18.3)		
Stage 1	(158,122,552)	(108,035,006)
Stage 2	(51,680,996)	(53,538,744)
Stage 3	(1,525,484,629)	(1,283,369,711)
Total Expected credit loss allowance	(1,735,288,176)	(1,444,943,461)
Net loans and advances	41,836,921,951	41,214,965,336

17.1 ANALYSIS OF GROSS LOANS AND ADVANCES

17.1.1 BY PRODUCT

Year	2021	2020
Overdrafts	-	-
Trade finance	-	-
Lease rental receivable	969,342,209	1,270,038,566
Credit cards		
Pawning	455,556,784	427,413,509
Staff loans	1,709,235,863	1,623,475,565
Term loans		
Short-term	-	-
Long-term	40,438,075,272	39,338,981,156
Others		
Sri Lanka Government Securities (separately by instrument-wise)		
Others		
Gross total	43,572,210,128	42,659,908,797



17.1.2 BY CURRENCY

Year	2021	2020
Sri Lankan Rupee	43,572,210,128	42,636,932,682
Total Gross Loans and Advances	43,572,210,128	42,636,932,682

17.1.3 BY INDUSTRY

Year	2021	2020
Agriculture and fishing	3,626,945,599	2,477,944,918
Manufacturing	1,402,710,675	11,164,004
Tourism	148,089,634	3,500,413
Transport	1,070,963,951	1,129,283
Construction	29,673,681,922	32,148,076,921
Traders	440,843,866	-
New economy	6,799,960,667	7,598,270,624
Others	409,013,813	396,846,518
Total Gross Loans and Advances	43,572,210,128	42,636,932,682

Year	2021	2020
17.2 Gross Lease Rentals Receivables	1,207,724,734	1,641,480,347
Unearned income	(238,382,525)	(371,441,780)
Total	969,342,209	1,270,038,566

17.2.1 LEASE RENTALS RECEIVABLE

Year	2021	2020
Lease rentals receivable within one year (Note 17.2.1)	379,149,147	425,297,794
Lease rentals receivable one to five years (Note 17.2.2)	581,255,089	830,251,864
Lease rentals receivable more than five years (Note 17.2.3)	8,937,973	14,488,908
Total	969,342,209	1,270,038,566

Year	2021	2020
17.2.2 Lease rentals receivable within one year	379,149,147	425,297,794
17.2.3 Lease rentals receivable one to five years	581,255,089	830,251,864
17.2.4 Lease rentals receivable more than five years	8,937,973	14,488,908

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

17.3 STAGE-WISE MOVEMENTS IN EXPECTED CREDIT LOSS ALLOWANCE DURING THE YEAR

Year	2021	2020
Stage 1		
Opening balance as at 01/01	108,035,006	173,376,589
Charge/(Write back) to income statement	50,087,545	(65,341,583)
Closing balance at 31/12	158,122,552	108,035,006
Stage 2		
Opening balance as at 01/01	53,538,744	136,463,993
Charge/(Write back) to income statement	(1,857,748)	(82,925,249)
Closing balance at 31/12	51,680,996	53,538,744
Stage 3		
Opening balance as at 01/01	1,283,369,711	845,643,942
Charge/(Write back) to income statement	242,114,918	457,533,655
Write-off during the year	-	(19,807,886)
Closing balance at 31/12	1,525,484,629	1,283,369,711
Total Expected Credit Loss Allowance on Loans and Advances	1,735,288,176	1,444,943,461

18. FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

Year	2021	2020
Government Securities (Note 18.1)	7,003,968,462	4,920,060,984
Corporate debt instruments	1,744,862,509	590,003,992
Trust certificates	349,382,034	551,730,116
Others (Commercial Papers & Non Bank Deposits)	1,542,886,617	1,549,119,885
Total Expected Credit Loss Allowance	(70,748,873)	(64,759,862)
Total Financial Assets measured at Amortised Cost	10,570,350,749	7,546,155,115

18.1 SRI LANKA GOVERNMENT SECURITIES

18.1.1 TREASURY BILLS

Issuer	Reference No.	2021	2020
The Government of Sri Lanka	LKA18221D236		985,837,151
The Government of Sri Lanka	LKA18221D236		985,837,151
The Government of Sri Lanka	LKA18221D236		985,837,151
The Government of Sri Lanka	LKA18221E283		1,962,518,931
The Government of Sri Lanka	LKA09122B041	2,977,104,962	-
Sub Total		2,977,104,962	4,920,030,384



18.1.2 TREASURY BONDS

Issuer		2021	2020
The Government of Sri Lanka	LKB01518B013	-	-
The Government of Sri Lanka	LKB01518H150	-	-
The Government of Sri Lanka	LKB00827J152	4,026,832,900	-
Sub Total		4,026,832,900	-
Corporate debt instruments		1,674,225,625	525,513,661
Trust certificates		349,346,879	551,580,809
Others (Commercial Papers & Non Bank Deposits)		1,542,840,383	1,549,030,261
Grand Total		10,570,350,749	7,546,155,115

a. Analysis

Issuer		2021	2020
By currency			
Sri Lankan Rupee		10,570,350,749	7,546,155,115
Gross total		10,570,350,749	7,546,155,115
By Collateralisation			
Pledged as Collateral		-	-
Unencumbered		10,570,350,749	7,546,155,115
Total Financial Assets measured at Amortised Cost		10,570,350,749	7,546,155,115
B. Fair Value of Investments			
Total Investments		10,641,099,622	7,610,914,977
Less: Impairment Provision		(70,748,873)	(64,759,862)
Carrying Value		10,570,350,749	7,546,155,115

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

19. PROPERTY, PLANT AND EQUIPMENT

A. PROPERTY, PLANT AND EQUIPMENT -BANK

Description	Free hold Land and Buildings	Leasehold Properties	Computer Hardware	Office Equipment, Furniture and Fittings	Others	Total
2021 (Current year)						
Cost/fair value						
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
(Less): Accumulated depreciation/ Amortization						
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
Net book value at 31/12/2021	11,869,300	-	82,959,443	121,759,392	7,445,661	224,033,796
2020 (Previous year)						
Cost/fair value						
Opening balance at 01/01/2020	17,575,000	11,650,000	146,478,534	351,920,150	128,283,215	655,906,899
Additions	-	-	33,292,206	21,832,072	11,047	55,135,325
Disposals	-	-	-	-	2,079,620	2,079,620
Adjustments	-	-	-	142,950	-	142,950
Closing balance at 31/12/2020	17,575,000	11,650,000	179,770,741	373,609,271	126,214,642	708,819,654
(Less): Accumulated depreciation/ Amortization						
Opening balance at 01/01/2020	4,668,300	9,320,000	95,940,218	219,723,548	98,735,421	428,387,487
Charge for the year	518,700	2,330,000	15,819,578	32,552,208	8,013,577	59,234,064
Disposals	-	-	-	51,397	2,079,620	2,131,017
Closing balance at 31/12/2020	5,187,000	11,650,000	111,759,796	252,224,359	104,669,378	485,490,534
Net book value at 31/12/2020	12,388,000	-	68,010,944	121,384,912	21,545,264	223,329,120



19.1 FULLY DEPRECIATED AND DEPRECIABLE PROPERTY, PLANT AND EQUIPMENT INCLUDE AMORTIZATION ON INTANGIBLE ASSETS

in 2021	Fully depreciated	Depreciating	Total
Freehold PPE			
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
Freehold PPE Total	391,352,621	609,333,276	1,000,685,896
Leased hold PPE			
Motor Vehicle	-	11,650,000	11,650,000
Leased hold PPE Total	-	11,650,000	11,650,000
Total Fully depreciated and depreciable PPE	391,352,621	620,983,276	1,012,335,896

in 2020	Fully depreciated	Depreciating	Total
Free hold PPE			
Land and Buildings	-	7,780,500	7,780,500
Computer Hardware	68,593,442	111,177,299	179,770,741
Computer Software	80,044,681	216,156,548	296,201,228
Office Equipment, Furniture and Fittings	71,295,483	302,313,788	373,609,271
Plant and Machinery	11,888,888	29,297,673	41,186,561
Tools	49,425	68,506	117,931
Motor Vehicle	56,487,720	16,741,762	73,229,482
Free hold PPE Total	288,359,638	683,536,075	971,895,713
Leased hold PPE			
Land and Buildings	-	-	-
Motor Vehicle	-	11,650,000	11,650,000
Leased hold PPE Total	-	11,650,000	11,650,000
Total Fully depreciated and depreciable PPE	288,359,638	695,186,075	983,545,713

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 2021 (2020: 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 2021 (2020: 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 2021 (2020: 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 2021 (2020: 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 2021 (2020: NIL).

20. INTANGIBLE ASSETS

Year	Computer Software Foreign	Computer Software Foreign	Corebanking Software	Total
2021				
Cost				
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
Closing balance at 31/12/2021	38,309,388	87,340,164	199,341,858	324,991,411
(Less): Accumulated Amortization	-	-	-	-
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
Closing balance at 31/12/2021	21,815,843	78,480,341	99,670,929	199,967,113
(Less): Impairment	-	-	-	-
Net book value at 31/12/2021	16,493,546	8,859,823	99,670,929	125,024,298
2020				
Cost				
Opening balance at 01/01/2020	27,524,506	78,053,844	199,341,858	304,920,208
Disposals	8,158,980	-	-	8,158,980
Adjustments	560,000	-	-	560,000
Closing balance at 31/12/2020	18,805,526	78,053,844	199,341,858	296,201,228
(Less): Accumulated Amortization				
Opening balance at 01/01/2020	21,776,269	71,160,593	59,802,557	152,139,419
Charge for the year	2,139,339	2,717,745	19,934,186	24,791,270
Disposals	8,158,980	-	-	8,158,980
Adjustments	140,000	-	-	140,000
Closing balance at 31/12/2020	15,016,628	73,878,338	79,736,743	168,631,709
Net book value at 31/12/2020	3,788,898	4,175,507	119,605,115	127,569,519



20.1 FULLY AMORTIZED AND AMORTIZABLE INTANGIBLE ASSETS

Intangible assets	Fully Amortized	Amortizable	Total
Computer Software Local	11,342,931	26,966,458	38,309,388
Computer Software Foreign	70,473,513	16,866,652	87,340,164
Corebanking Software	-	199,341,858	199,341,858
Total	81,816,443	243,174,968	324,991,411

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)

	2021	2020
ROUA net of Depreciation	386,744,906	369,641,853
Total	386,744,906	369,641,853

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

	2021	2020
Cost		
Balance as at 01/01	369,641,853	351,112,109
Additions during the year with opening adjustments	91,976,371	91,142,671
Less: Amortisation charge for the year	74,873,318	72,612,928
Balance as at 31/12	386,744,906	369,641,852

22. INVESTMENT PROPERTIES(LKR)

A. 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.

A. INVESTMENT PROPERTIES AT FAIR VALUE

	2021	2020
Balance as at 01/01	1,016,500,000	920,000,000
Changes in fair value	48,500,000	96,500,000
Balance as at 31/12	1,065,000,000	1,016,500,000

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

There were no direct expenses incurred for the properties in the financial year.

Year	2021	2020
Cost/fair value		
Opening balance at 01/01/	1,016,500,000	920,000,000
Additions(Valuation Gain)	48,500,000	96,500,000
Disposals	-	-
Exchange rate variance	-	-
Adjustments	-	-
Closing balance at 31/12/	1,065,000,000	1,016,500,000
(Less): Accumulated depreciation		
Opening balance at 01/01/	-	-
Charge for the year	-	-
Additions	-	-
Disposals	-	-
Exchange rate variance	-	-
Adjustments	-	-
Closing balance at 31/12/	-	-
(Less): Impairment	-	-
Net book value at 31/12	1,065,000,000	1,016,500,000
Market value at 31/12	1,065,000,000	1,016,500,000

22.1 INVESTMENT PROPERTIES VALUATION DETAILS(LKR)

Location	Extent (Perches)	Deed No.	Bank	
			2021	2020
No. 441, Sangarajah Mw, Kotahena, Aluthkade East	59.20	1127	248,000,000	242,000,000
No. 192 Srimath Bandaranayake Mw, Kotahena Colombo 13.	123.20	1124	714,000,000	677,000,000
No.192 (Part) Sri Sangarajah Mawatha, Kotahena Colombo 13.	15.00	1126	87,000,000	82,500,000
Avissawella - Housing Project*	106.00		16,000,000	15,000,000
Total			1,065,000,000	1,016,500,000

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 18th & 30th December 2021

Revaluation of Avissawella - Housing Project

Name of the Valuer W.D. Siripala, FIV(SL)
 Qualification of the Valuer Incorporated Independent Valuer
 Valuation Date 12th December 2021



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. 5,000,000/- to Rs. 10,000,000/- per perch with an average price point of Rs. 7,500,000/= per perch. Based on this analysis it is my opinion that a value of Rs. 5,800,000/- 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.

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

COMMENT ON COVID 19

The outbreak of Covid19 the presently prevailing in the country declared by the WHO as a Global Pandemic on the 11th of March 2020 is said to have an impact on both the local and global markets.

As at the reporting date of this report the pandemic conditions continues in our country and its is considered too premature to reasonably assess and estimate of any impact of the virus. However, I do not consider that there is any adverse effect on the value of property in view of the prevailing epidemic as at now.

PENDING COURT CASES

SC/FR APPLICATION NO. 383/17 – SUPREME COURT

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.

23. NET DEFERRED TAX ASSETS/(LIABILITIES)

Year	2021	2020
Opening balance 01/01/	205,078,464	112,649,070
Recognize in,		
- Profit and loss	(57,284,994)	74,847,579
- Other comprehensive income/Retained Earnings	(21,745,733)	17,581,815
Closing balance 31/12/	126,047,737	205,078,464
Deferred Tax Assets(24.1)	199,079,621	288,779,489
Deferred Tax Liabilities(24.2)	73,031,885	83,701,025
Net Differed Tax Assets/(Liabilities)	126,047,737	205,078,464

23.1 DEFERRED TAX ASSET

Year	2021	2020
Balance as at 01/01	288,779,489	183,328,142
Reversed/ (Originated) during the year - recognised in profit or loss	(33,532,230)	87,863,532
Impact due to change in tax rate - recognised in profit or loss	(34,421,904)	-
Reversed/ (Originated) during the year - recognised in other comprehensive income	(14,913,424)	17,587,815
Impact due to change in tax rate - recognised in other comprehensive income	(6,832,309)	-
Balance as at 31/12	199,079,622	288,779,489

23.2 DEFERRED TAX LIABILITY

Year	2021	2020
Balance as at 01/01	(83,701,025)	(70,679,072)
Reversed/ (Originated) during the year - recognised in profit or loss	1,628,003	(13,021,953)
Impact due to change in tax rate - recognised in profit or loss	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	(73,031,885)	(83,701,025)
Net deferred tax asset/ (liability)	126,047,737	205,078,463



23.3 AMOUNTS RECOGNIZED IN THE INCOME STATEMENT

Year	2021	2020
Recognized in profit or loss	(57,284,994)	74,841,579
Recognized in other comprehensive income	(21,745,733)	17,587,815
	(79,030,727)	92,429,394

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)	2021		2020	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	LKR	LKR	LKR	LKR
Deferred tax asset				
Accelerated depreciation for tax purposes – Property, plant and equipment	2,613,275	556,384	1,028,825	288,071
Provision for loan losses	(206,107,661)	(58,992,157)	238,157,950	66,684,226
Post employment benefit obligation	55,955,109	(10,850,474)	79,151,274	22,162,357
Right-of-use assets	7,821,652	1,332,112	(4,539,722)	(1,271,122)
Actuarial Loss - OCI	(62,139,267)	(21,745,733)	62,813,625	17,587,815
	(201,856,893)	(89,699,867)	376,611,952	105,451,347
Deferred tax liability				
Accelerated depreciation for tax purposes – Property, plant and equipment	26,991,678	15,519,140	(22,103,176)	(6,188,889)
Revaluation Gain on Investment Properties	(48,500,000)	(4,850,000)	(155,630,637)	(6,833,064)
	(21,508,322)	10,669,140	(177,733,812)	(13,021,953)
Net deferred tax asset/ (liability)	(223,365,215)	(79,030,727)	198,878,140	92,429,394

24. OTHER ASSETS

Year	2021	2020
Receivables	173,606,336	111,824,196
Deposits and prepayments	350,000	354,000
Sundry debtors	29,116,762	27,156,437
Others	29,338,933	21,489,620
Total Other Assets	232,412,031	160,824,253

25. DUE TO BANKS

Year	2021	2020
Borrowings	2,103,172,867	2,408,780,533
Total due to Banks	2,103,172,867	2,408,780,533

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL LIABILITIES AT AMORTISED COST

Year	2021	2020
Due to depositors	49,813,326,205	47,947,005,442
Others Borrowers	1,282,597,452	2,767,770,578
Total Financial liabilities at amortised cost due to depositors and other borrowers	51,095,923,657	50,714,776,020

26.1 A. ANALYSIS OF AMOUNT DUE TO DEPOSITORS**26.1.1 BY PRODUCT**

Year	2021	2020
Demand deposits (current accounts)	-	-
Savings deposits	8,541,830,491	7,445,107,940
Fixed deposits	41,271,495,713	40,501,897,502
Total	49,813,326,205	47,947,005,442

26.1.2 BY CURRENCY

Year	2021	2020
Sri Lanka Rupee	49,813,326,205	47,947,005,442
Total	49,813,326,205	47,947,005,442

27.1.3 BY CUSTOMER CATEGORY

Year	2021	2020
Banks	1,846,626,602	1,707,190,932
Finance Companies	12,684,915	5,659,260
Other Customers	47,954,014,689	46,234,155,250
Total Due to Depositors by Customer Category	49,813,326,205	47,947,005,442

27.1.4 BY MATURITY

Year	2021	2020
Due within One Year	37,502,406,186	35,576,711,332
Due after One Year	12,310,920,019	12,370,294,110
Total Due to Depositors by Maturity	49,813,326,205	47,947,005,442

27. DEBT SECURITIES ISSUED

Year	2021	2020
Issued by the bank (27.1)	1,422,978,101	1,422,976,094
Total	1,422,978,101	1,422,976,094



27.1 ISSUED BY THE BANK

Year	2021	2020
Balance as at 01/01	1,422,976,094	4,042,358,842
Debenture Redeemed	-	(2,591,230,000)
Interest Payable	169,054,407	413,838,922
Interest Paid	(169,052,400)	(441,991,670)
Balance as at 31/12	1,422,978,101	1,422,976,094

27.2 DEBENTURES DUE

Year	2021	2020
Due within 1 year	-	-
Due after 1 year	1,422,978,101	1,422,976,094
Total	1,422,978,101	1,422,976,094

27.3 DETAILS OF DEBT SECURITIES ISSUED(IN LKR)

Type	Face Value In Rupees	Interest Rate and Repayment Terms	Issue Date	Maturity Date	Balance	
					2021	2020
Issued by the bank						
Listed , secured, Redeemable & Rated 10 Year Debenture (Fixed Annual)	1,408,770,000	12%	20th November 2015	20th November 2025	1,422,978,101	1,422,976,094
Sub total					1,422,978,101	1,422,976,094

INTEREST RATE OF COMPARABLE GOVERNMENT SECURITIES

Debenture Type	Interest rate %		Gov. security Interest rate %	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Debenture - 5 Years - 2015 (Floating Qtr 2020)	Matured	Matured	6.59	6.59
Debenture - 5 Years - 2015 (Fixed Semi 2020)	Matured	Matured	6.59	6.59
Debenture - 10 Years - 2015 (Fixed Annu. 2025)	12.00	12.00	9.99	9.99

INTEREST COVER

Debenture Type	Interest Cover Ratio(Times)	
	31.12.2021	31.12.2020
Debenture - 5 Years- 2015 (Floating Qtr 2020)	N/A	47.85
Debenture - 5 Years- 2015 (Fixed Semi 2020)	N/A	13.63
Debenture - 10 Years- 2015 (Fixed Annu. 2025)	10.80	15.10

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

DEBT/EQUITY

Debenture Type	Debt/Equity Ratio	
	31.12.2021	31.12.2019
Debenture - 10 Years - 2015 (Fixed Annu. 2025)	22%	25%

MARKET PRICE OF DEBENTURES DURING THE YEAR

Type of Debentures	2021			2020		
	Highest Price	Lowest Price	Last Trading Price	Highest Price	Lowest Price	Last Trading Price
Debenture - 5 Years - 2015 (Floating Qtr 2020)	N/T	N/T	N/T	N/T	N/T	N/T
Debenture - 5 Years - 2015 (Fixed Semi 2020)	N/T	N/T	N/T	N/T	N/T	N/T
Debenture - 10 Years - 2015 (Fixed Annu. 2025)	100	100	100	100	100	100

N/T = Not Traded

28. LEASE LIABILITY

Year	2021	2020
Opening Balance	349,436,509	310,149,189
Additions & Opening Adjustment	85,106,923	82,216,599
Amortization interest	38,393,774	33,880,454
Payments	(84,309,368)	(76,809,733)
Closing Balance	388,627,838	349,436,509

28.1 MATURITY ANALYSIS OF LEASE LIABILITY

Year	2021	2020
Less than one year	46,939,926	42,206,250
One to five years	158,602,547	142,608,210
More than five years	183,085,366	164,622,049
	388,627,838	349,436,509

28.2 AMOUNTS RECOGNISED IN PROFIT OR LOSS

Year	2021	2020
Interest on lease liability	38,393,774	33,880,454
Amortisation charge for the year (Refer to note 21)	74,873,318	72,612,928
	113,267,092	106,493,382



28.3 AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

Year	2021	2020
Lease rental payments	84,309,368	76,809,733
	84,309,368	76,809,733

29. RETIREMENT BENEFIT OBLIGATIONS

Year	2021	2020
Normal Gratuity Provision	458,141,916	446,575,293
Special Gratuity Provision	313,474,134	331,224,917
Total	771,616,051	777,800,209

29.1 CONTRIBUTIONS TO DEFINED BENEFIT PLANS

Actuarial Valuation of Gratuity Liabilities as at 31 December 2021	Normal Gratuity	Special Gratuity	TOTAL
Accounting Disclosures :	Rs.	Rs.	Rs.
Change in the Present Value of The Defined Benefit Obligation (PV-DBO)			
Provision for PV-DBO as at 01 January 2021	446,575,293	331,224,917	777,800,209
Interest Cost for the period	35,726,023	26,497,993	62,224,017
Current Service Cost for the period	26,072,010	16,769,800	42,841,810
Gratuity paid during the period	(26,689,520)	(22,421,197)	(49,110,717)
Actuarial (Gain)/Loss on PV-DBO	(23,541,890)	(38,597,377)	(62,139,268)
Provision for PV-DBO as at 31 December 2021	458,141,916	313,474,135	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 2021	458,141,916	313,474,135	771,616,052
Unrecognized actuarial Gains/(Losses) as at 31 December 2021	-	-	-
Liability recognized in the balance sheet as at 31 December 2021	458,141,916	313,474,135	771,616,052

Amounts recognised in the statement of Profit or Loss

Interest Cost	35,726,023	26,497,993	62,224,017
Current Service Cost	26,072,010	16,769,800	42,841,810
Amount Recognised in Statement of Other Comprehensive Income	(23,541,890)	(38,597,377)	(62,139,268)
Total amount recognised in Statement of Profit or Loss	38,256,144	4,670,416	42,926,559

Movements in the Net Liability Recognised in the balance sheet

Opening Net Liability as at 01 January 2021	446,575,293	331,224,917	777,800,209
Total amount recognised in Statement of Profit or Loss	38,256,144	4,670,416	42,926,559
Gratuity paid during the period	(26,689,520)	(22,421,197)	(49,110,717)
Closing Net Liability as at 31 December 2021	458,141,916	313,474,135	771,616,052

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

29.2 ACTUARY DETAILS

Name of the Actuary	M Poopalanathan
Date of the Actuarial Computation	12th January 2022
Method of Valuation	Projected Unit Credit Method

VALUATION ASSUMPTIONS:

Mortality	: A 1967/70 Mortality Table
Disability	: 10% of the Mortality
Staff Turnover Rates	: 2.0%

Normal Retirement Age : 62 Years (The employee who are aged over the specified retirement age have been assumed to retire on their respective next birthday)

Rate of Discount :11.0% p.a.

Salary Escalation Rates

Permanent staff: Basic Salary : 24% p.a. once in three years with next revision due in 2024 July
 Salary Increment Scale revision: 24% p.a. once in three years with next revision due in 2024 July
 COLA: 24% p.a. once in three years with next revision due in 2024 July

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

In the event of death : For permanent Staff: two month's consolidated Salary for each completed year of service subject to minimum of 6 month's salary

For Others: half of the above benefit is payable

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

TABLE 2: A SUMMARY RESULTS (CATEGORY WISE)

CATEGORY	No Emps	TOT Basic Salary (Rs.)	TOT Other Allowances	Normal Gratuity Provision (Rs.)	Special Gratuity Provision (Rs.)	Total PV-DBO (Rs.) (Normal+Special Gratuity)
Permanent	529	43,540,862	18,970,322	456,984,387	313,347,732	770,332,119
Trainee	20	277,000	0	168,278	59,127	227,405
Contract	66	1,898,500	0	989,252	67,276	1,056,528
TOTAL	615	45,716,362	18,970,322	458,141,917	313,474,136	771,616,052

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	705,740,358
1% decrease in discount rate	847,958,559
1% increase in Salary Escalation rate	790,317,788
1% decrease in Salary Escalation rate	753,499,534



Detailed Accounting Disclosures :

	Normal Gratuity +Special Gratuity
Break up of actuarial (gain)/loss on the defined benefit obligation (Rs.)	
Experience adjustment (Financial and Demographic)	46,952,872.00
Due to changes in financial assumptions	(104,066,652.79)
Due to changes in demographic assumptions	7,121,633.79
Total	(49,992,147.00)

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

	Normal Gratuity +Special Gratuity
During fiscal year ending December 31, 2021	21,969,130.16
During fiscal year ending December 31, 2022	19,831,914.93
During fiscal year ending December 31, 2023	38,975,693.21
During fiscal year ending December 31, 2024	50,158,430.49
During fiscal year ending December 31, 2025	66,665,781.72
Beyond next 5 years	574,015,101.83
	771,616,052.33
Weighted Average Duration of Defined Benefit Obligation (Years)	10.12

Name of the Actuary	M Poopalanathan
Date of the Actuarial Computation	12th January 2022
Method of Valuation	Projected Unit Credit Method

30. CURRENT TAX LIABILITIES

Year	2021	2020
Opening balance 01/01/	441,773,065	333,629,689
Charge for the year - Income Tax	273,748,620	435,146,769
Charge for the year - Other Taxes	358,648,010	319,756,444
Sub Total charge for the year	632,396,630	754,903,213
Charge for the year	632,396,630	754,903,213
Tax Payments for the Year	(758,030,916)	(646,759,838)
Closing balance 31/12/	316,138,779	441,773,065

31. OTHER LIABILITIES

Year	2021	2020
Sundry creditors	51,253,893	121,264,898
Other payables	179,113,869	68,330,238
Total	230,367,762	189,595,136

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

32. PERPETUAL BOND

Year	2021	2020
Capital	250,000,000	250,000,000
Interest	31,249,999	31,250,000
Total	281,249,999	281,250,000

33. STATED CAPITAL/ASSIGNED CAPITAL

	2021	2020	2021	2020
Ordinary shares	No of Shares	No of Shares	LKR	LKR
Capital	64,710,520	64,710,520	962,092,936	962,092,936
Total	64,710,520	64,710,520	962,092,936	962,092,936

34. STATUTORY RESERVE FUND

Year	2021	2020
Opening balance at 01/01/	245,008,483	209,601,643
Transfers during the period	27,364,367	35,406,840
Closing balance at 31/12/	272,372,850	245,008,483

35. RETAINED EARNINGS

Year	2021	2020
Opening balance at 01/01/	4,281,474,432	3,679,558,149
Profit for the year	547,287,343	708,136,803
Transfers to other reserves and adjustments	(82,093,102)	(106,220,520)
Dividend	(16,177,630)	-
Closing balance at 31/12/	4,730,491,044	4,281,474,432

36. OTHER RESERVES**A. BANK - CURRENT YEAR (2021)**

Description	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)
Others	-	-	-
Total	293,436,905	95,122,264	388,559,169



B. BANK – PREVIOUS YEAR (2020)

Description	Opening balance at 01/01/2020	Movement/ transfers	Closing Balance 31/12/2020
General reserve	345,604,784	70,813,680	416,418,464
OCI reserve	(77,749,748)	(45,231,810)	(122,981,558)
Total	267,855,035	25,581,870	293,436,905

37. CONTINGENT LIABILITIES AND COMMITMENTS

Year	2021	2020
Guarantees	4,599,018	7,623,000
Undrawn loan commitments	645,425,556	372,388,076
Others	-	-
Total	650,024,574	380,011,076

NET ASSETS VALUE PER ORDINARY SHARE

Year	2021	2020
Net Assets	6,353,515,999	5,782,012,756
No. of Ordinary Shares	64,710,520	64,710,520
Net Assets Value per Ordinary Share	98.18	89.35

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

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

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 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.

CREDIT QUALITY ANALYSIS

The Bank's Delinquency status

Delinquency status	Description
Stage 1	
Regular	Performing
1 - 30 days	Performing
Stage 2	
31-60 days	Under Performing
61-90 days	Under Performing
Stage 3	
Above 90 days	Non- performing

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

As at December	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets at amortised cost - Loans and advances								
Grade 0 - 2 Performing Loans	24,896,368,933	3,852,849,895	687,671,118	29,436,889,946	23,999,400,524	3,761,726,871	807,982,387	28,569,109,783
Grade 3: NPA Special Mention	-	-	1,204,823,524	1,204,823,524	280,489,352	1,070,032,488	662,736,951	2,013,258,791
Grade 4: NPA Substandard	-	-	3,025,898,248	3,025,898,248	57,320,315	210,960,583	2,846,135,169	3,114,416,066
Grade 5: NPA Doubtful	-	-	5,045,662,418	5,045,662,418	10,676,797	13,732,157	4,901,713,857	4,926,122,811
Grade 6: NPA Loss	-	-	4,858,935,992	4,858,935,992	52,725,304	38,757,146	3,945,518,897	4,037,001,346
Total loans and receivables from other customers	24,896,368,933	3,852,849,895	14,822,991,300	43,572,210,128	24,400,612,292	5,095,209,245	13,164,087,261	42,659,908,797
Expected credit loss allowance	(158,122,552)	(51,680,996)	(1,525,484,629)	(1,735,288,176)	(108,035,006)	(53,538,744)	(1,283,369,711)	(1,444,943,461)
Net loans and receivables from other customers	24,738,246,381	3,801,168,899	13,297,506,671	41,836,921,951	24,292,577,285	5,041,670,501	11,880,717,550	41,214,965,336
Financial assets at amortised cost - Debt & other instruments								
Quoted debentures	1,674,368,051	-	70,494,458	1,744,862,509	486,466,369	-	64,490,331	550,956,700
Government debt securities- treasury bills & bonds	7,003,937,862	-	-	7,003,937,862	4,920,030,384	-	-	4,920,030,384
Investment in fixed deposits	8,910,399,712	-	-	8,910,399,712	9,730,574,799	-	-	9,730,574,799
Total debt and other instruments	17,588,705,624	-	70,494,458	17,659,200,083	15,137,071,551	-	64,490,331	15,201,561,882
Expected credit loss allowance	(669,817)	-	(70,494,458)	(71,164,275)	(686,191)	-	(64,490,331)	(65,176,522)
Net debt and other instruments	17,588,035,808	-	-	17,588,035,808	15,136,385,360	-	-	15,136,385,360
Placements with banks								
Money market placements	-	-	-	-	1,170,327,425	-	-	1,170,327,425
Total placements with banks	-	-	-	-	1,170,327,425	-	-	1,170,327,425
Expected credit loss allowance	-	-	-	-	-	-	-	-
Net placements with banks	-	-	-	-	1,170,327,425	-	-	1,170,327,425
Commitments and Contingencies *								
Bank Guarantee	-	-	-	-	-	-	-	-
Bills Sent for Collection	-	-	-	-	-	-	-	-
Total commitments and contingencies	-	-	-	-	-	-	-	-
Expected credit loss allowance	-	-	-	-	-	-	-	-
Net commitments and contingencies	-	-	-	-	-	-	-	-

* 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.

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' 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.

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

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 2021. 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.

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 2 Mn of the total exposure.

Asset classes where the Bank calculates ECL on a collective basis include:

- Customers above the Individually Significant threshold of LKR 8 Mn.

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.

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

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:

At 31 December	2021 %	2020 %
Domestic Banking Unit (DBU)	26.6	37.2

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 subsidy receivable 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 undiscounted cash flows of the Bank's financial liabilities as at 31 December 2021. 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 2021	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.
Non-Derivative Liabilities							
Due to Banks	2,103,172,867	2,103,172,867	589,520,802	315,575,000	1,102,417,546	95,659,519	-
Deposits	49,813,326,205	49,813,326,205	16,598,076,345	20,037,903,812	6,818,988,187	3,840,136,796	2,518,221,064
Other Borrowings	1,282,597,452	1,282,597,452	75,836,354	164,368,231	292,194,348	269,334,161	480,864,358
Debt Security Issued	1,422,978,101	1,422,978,101	-	19,133,128	-	1,403,844,973	-
Lease Liability	388,627,838	388,627,837	10,003,093	36,936,833	98,086,703	60,515,844	183,085,365
Retirement Benefits obligations	771,616,051	771,616,051	-	17,193,661	57,701,570	161,386,300	535,334,519
Current Tax Liabilities	316,138,779	316,138,779	119,845,785	196,292,993	-	-	-
Other Liabilities	230,367,762	230,367,762	212,413,571	17,954,191	-	-	-
Debt Capital	281,249,999	281,249,999	-	31,249,999	-	-	250,000,000
Total Non-Derivative Liabilities	56,610,075,053	56,610,075,052	17,605,695,951	20,836,607,849	8,369,388,354	5,830,877,592	3,967,505,306



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 2021	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Contingent Liabilities	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

As at 31 December 2020	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Contingent Liabilities	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank guarantee (without impairment)	-	-	7,623,000	-	-	7,623,000
Other Contingent items - Bills sent for collection	372,388,076	-	-	-	-	372,388,076
Total Contingent Liabilities	372,388,076	-	7,623,000	-	-	380,011,076

38.3.4 LIQUIDITY RESERVE

The table below sets out the components of Bank's liquid assets that are held for the liquidity purpose.

	2021	
	Carrying Amount	Fair Value
Cash and Cash equivalents	258,595,867	258,595,867
Placements with banks	-	-
Repo	-	-
Fixed Deposits	8,910,399,712	8,910,399,712
	9,168,995,579	9,168,995,579

* The carrying amounts approximate their fair values as they are short term in nature (less than twelve months).

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

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%.

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020 due to the COVID-19 pandemic situation minimum requirement of Liquidity Coverage Ratio was reduced to 90% up to 30 June 2021 with enhanced supervision and frequent reporting.

Minimum Requirement (%) - effective from

1 July 2021	May 2020 to 30 June 2021
100	90

The following were the Liquidity Coverage Ratios (%) of the Bank as at 31 December:

At 31 December	2021 %	2020 %
Rupee Liquidity Requirement for Local Currency Operations	156	138

38.3.6 STATUTORY LIQUID ASSETS RATIO

For the month of December 2021 (%) 26.60

For the month of December 2020 (%) 37.60



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 2021 124.09%

As at 31st December 2020 122.18%

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 31.12.2021 and 31.12.2020.

	2021				2020			
	Encumbered		Unencumbered		Encumbered		Unencumbered	
	Pledged as collateral	Other	Other	Total	Pledged as collateral	Other	Other	Total
Cash and cash equivalent	-	-	258,595,867	258,595,867	-	-	305,889,183	305,889,183
Placements with banks	-	-	8,138,459,719	8,138,459,719	-	-	9,859,832,746	9,859,832,746
Equity Instruments at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets at amortised cost - Loans and receivables from other customers	-	-	41,836,921,951	41,836,921,951	-	-	41,214,965,336	41,214,965,336
Financial assets at amortised cost - Debt & other instruments	-	-	10,570,350,749	10,570,350,749	-	-	7,546,155,115	7,546,155,115
Equity Instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	-
Other assets	-	-	2,159,262,768	2,159,262,768	-	-	2,102,943,209	2,102,943,209
Total	-	-	62,963,591,055	62,963,591,055	-	-	61,029,785,590	61,029,785,590

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

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 2021	Market risk measure		
	Carrying amount	Trading portfolios	Non-trading portfolios
Assets subject to Market risk			
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
Liabilities subject to Market risk			
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 2020	Market risk measure		
	Carrying amount	Trading portfolios	Non-trading portfolios
Assets subject to Market risk			
Cash and cash equivalent	305,889,183	-	305,889,183
Placements with banks	9,859,832,746	-	9,859,832,746
Financial assets at amortised cost - Loans and advances	41,214,965,336	-	41,214,965,336
Financial assets at amortised cost - Debt & other instruments	7,546,155,115	-	7,546,155,115
Other assets	2,102,943,209	-	2,102,943,209
Liabilities subject to Market risk			
Due to banks	2,408,780,533	-	2,408,780,533
Due to depositors	47,947,005,442	-	47,947,005,442
Due to other borrowers	1,429,155,847	-	1,429,155,847
Debt securities issued	1,422,976,094	-	1,422,976,094
Current tax liabilities	441,773,065	-	441,773,065
Other liabilities	1,316,831,855	-	1,316,831,855



As at 31st December 2021 (LKR.000')	Up to 12 Months		More than 12 Months			Total
	Up to	3 to 12	1 to 3	3 to 5	More than	
	3 Months	Months	Years	Years	5 Years	
Assets						
Cash & Cash Equivalent	258,596	-	-	-	-	258,596
Placement with Banks	4,099,716	4,038,744	-	-	-	8,138,460
Loans & Advances	1,724,611	10,215,488	11,029,127	7,692,476	11,175,220	41,836,922
Debts & Other Instruments	3,773,737	1,250,277	2,085,084	3,325,046	136,206	10,570,351
Property Plant & Equipments	-	-	-	-	224,034	224,034
Intangible Assets	-	-	-	-	125,024	125,024
Lease ROUA	-	-	-	-	386,745	386,745
Investment Properties	-	-	-	-	1,065,000	1,065,000
Differed Tax Assets	-	-	-	-	126,048	126,048
Other Assets	75,389	145,331	-	-	11,692	232,412
Total Assets	9,932,050	15,649,840	13,114,211	11,017,522	13,249,968	62,963,591
Percentage 31st Dec 2021	15.77	24.86	20.83	17.50	21.04	100.00
Percentage 31st Dec 2020	18.19	23.88	15.20	10.02	32.71	100.00
Liabilities						
Due to Banks	589,521	315,575	1,102,418	95,660	-	2,103,173
Deposits	16,598,076	20,037,904	6,818,988	3,840,137	2,518,221	49,813,326
Other Borrowings	75,836	164,368	292,194	269,334	480,864	1,282,597
Debt Security Issued	-	19,133	-	1,403,845	-	1,422,978
Lease Liability	10,003	36,937	98,087	60,516	183,085	388,628
Retirement Benefits obligations	-	17,194	57,702	161,386	535,335	771,616
Current Tax Liabilities	119,846	196,293	-	-	-	316,139
Other Liabilities	212,414	17,954	-	-	-	230,368
Debt Capital	-	31,250	-	-	250,000	281,250
Equity Capital	-	-	-	-	6,353,516	6,353,516
Total Liabilities	17,605,696	20,836,608	8,369,388	5,830,878	10,321,021	62,963,591
Percentage 31st Dec 2021	27.96	33.09	13.29	9.26	16.39	100.00
Percentage 31st Dec 2020	25.62	28.37	11.18	9.29	25.54	100.00

01

02

03

04

05

06

07



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.

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

Components of Capital	Capital Adequacy Ratio to be maintained by Licensed Banks	Capital Adequacy Ratio to be maintained by Licensed Banks determined as SIBs
Common Equity Tier 1 including Capital Conservation Buffer	7.50%	10.34%
Total Tier 1 including Capital Conservation Buffer	8.50%	10.34%
Total Capital Ratio including Capital Conservation Buffer	12.50%	14.94%

CAPITAL BASE	2021	2020
As at 31st December	(Rs.000')	(Rs.000')

Total Common Equity Tier I (CET1) Capital

Paid-up Ordinary Shares/Common Stock/Assigned Capital	647,105	647,105
Share Premium	314,988	314,988
Statutory Reserve Fund	272,373	245,008
Published Retained Profits/(Accumulated Losses)	4,730,491	4,281,474

Accumulated other comprehensive income (OCI)

General and Other Reserves	471,147	416,418
Sub Total	6,436,104	5,904,994

Total Adjustments to CET1 Capital

Deferred tax assets (net)	126,048	205,078
Other intangible assets (net)	125,024	127,570

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

Common Equity Tier I (CETI) Capital after Adjustments	6,185,032	5,572,346
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Additional Tier 1 (AT1) Capital after Adjustments

Qualifying Additional Tier 1 Capital Instruments	250,000	250,000
Total Tier 01	6,435,032	5,822,346

Tier 2 Capital after Adjustments

Additions

General Provisions(Stage 1&2 Impairment)	183,963	134,804
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Deductions

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

Tier II Capital	183,963	134,804
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Capital Base	6,618,995	5,957,151
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Total risk adjusted balances (credit risk, market risk, operational risk)	28,751,720	28,819,963
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Risk Adjusted Capital Ratios

Common Equity Tier 1 Capital Ratio *	21.51%	19.34%
Tier 1 (Total Tier 1 capital / Total risk adjusted balances) **	22.38%	20.20%
Tier 11(Capital base / Total risk adjusted balances) ***	23.02%	20.67%

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



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

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2021	2020		2021	2020
Exposures					
Cash - Local Currency	149,324	150,213	0%		
Sri Lanka Govt Treasury Bills & Bonds	7,003,938	2,963,655	0%		
Central Bank of Sri Lanka			0%		
Claims on Public Sector Entities (PSEs) -AAA to AA-	426,369		20%	85,274	
Loan & Advances					
Claims Secured by Residential Property					
Claims that qualify for regulatory capital purposes	9,587,542	10,820,351	35%	3,355,640	5,410,176
Claims that not qualify for regulatory capital purposes	1,702,141	1,493,076	100%	1,702,141	1,493,076
Housing loans against EPF.	12,611,416	10,179,298	0%		-
Cash Margin Loans	1,706,492	1,687,318	0%		-
Gold Loans			0%		-
Loan to Value Ratio equal to or less than 70%	24,502	14,301	0%		-
Loan to Value Ratio over 70% and less than 100%	182,446	75,772	20%	36,489	15,154
Loan to Value Ratio equal to or over 100%	243,463	202,964	100%	243,463	202,964
Trading Investment		25,000			
Retail claims that qualify for regulatory capital purposes			75%		
SME exposures secured on Immovable Property	724,609	1,448,417	60%	434,765	869,050
Other SEM exposures	1,063,295	279,622	75%	797,471	209,716
Individual exposures	7,885,161	8,360,656	75%	5,913,871	6,270,492
Retail claims that do not qualify for regulatory capital purposes		53,240	100%		53,240
Claims Secured by Real State			100%		
Non Performing Assets					
Past Due Residential Mortgage Loans					
Specific provisions are more than 20%	4,735		50%	2,367	
Specific provisions are less than 20%	2,803,624	1,393,860	100%	2,803,624	1,393,860
Housing loans on Guarantors & others, Lease					
Specific provisions are more than 20%	66,742		100%	66,742	
Specific provisions are less than 20%	1,937,975	1,239,491	150%	2,906,962	1,859,237
Due From local Commercial Banks Less Than Three Months (AAA to BBB-)	4,209,691	6,751,499	20%	841,938	1,350,300
Due From local Commercial Banks Less Than Three Months (BB+ to B-)		511,998	50%		255,999
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-)	3,358,119	1,204,187	50%	1,679,059	602,093
Due From local Commercial Banks More than Three Months (BB+ to B-)			100%		
Claims on Financial Institutions/Primary Dealers/ Finance Companies (AAA to AA-)	214,823	201,283	20%	42,965	40,257

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

As at 31st December	Balance		Risk Weights (%)	Risk Adjusted Balance	
	2021	2020		2021	2020
Claims on Financial Institutions/Primary Dealers/ Finance Companies (A+ to BBB- and unrated)	1,734,495	1,784,488	50%	867,247	892,244
Claims on Financial Institutions/Primary Dealers/ Finance Companies (BB+ to B-) & unrated	353,936	327,712	100%	353,936	327,712
Claims on Other Financial Institutions(A+ to A-)		276,555	50%		138,278
Claims on Corporate (AAA+ to AA-)	971,424		20%	194,285	
Claims on Corporate (below BB-)	70,494	58,469	150%	105,742	87,703
Claims on Corporate (Unrated)	157,376	535,551	100%	157,376	535,551
Fixed Assets	257,598	227,519	100%	257,598	227,519
Other Assets	1,684,157	1,385,318	100%	1,684,157	1,385,318
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet					
Total Risk Weighted Assets on Balance Sheet	62,171,211	53,651,814		24,740,179	23,619,940
Retail claims that qualify for regulatory capital purposes - Off Balance Sheet	4,599	5,870	100%	4,599	5,870
Total Risk Weighted Assets	62,175,810	53,657,684		24,744,778	23,625,810
Total risk adjusted balance for operational risk				4,006,942	3,265,752
Total risk adjusted balance for Market risk					40,000
Total risk adjusted balances (credit risk, market risk, operational risk)				28,751,720	26,931,562

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	2021		2020	
		Carrying amount Rs.	Fair value Rs.	Carrying amount Rs.	Fair value Rs.
Financial assets					
Cash and cash equivalent	Level 2	258,595,867	258,595,867	305,889,183	305,889,183
Placements with Banks	Level 2	8,138,459,719	8,138,459,719	9,859,832,746	9,859,832,746
Financial assets at amortised cost - Debt & other instruments	Level 2	10,570,350,749	10,570,350,749	7,546,155,115	7,546,155,115
Financial assets at amortised cost - Loans and advances	Level 2	41,836,921,951	41,836,921,951	41,214,965,336	41,214,965,336
		60,804,328,287	60,804,328,287	58,926,842,381	58,926,842,381
Financial liabilities					
Due to banks	Level 2	2,103,172,867	2,103,172,867	2,408,780,533	2,408,780,533
Due to depositors	Level 2	49,813,326,205	49,813,326,205	47,947,005,442	47,947,005,442
Due to other borrowers	Level 2	1,282,597,452	1,282,597,452	1,429,155,847	1,429,155,847
Debt securities issued	Level 2	1,422,978,101	1,422,978,101	1,422,976,094	1,422,976,094
Other liabilities	Level 2	1,706,750,429	1,706,750,429	1,758,604,919	1,758,604,919
		56,328,825,053	56,328,825,053	54,966,522,835	54,966,522,835



Related Party Transactions

41.DIRECTORS INTEREST IN CONTRACTS WITH THE BANK

Name	Related Party	Office Holding	Transactions (Rs.Mn)	Nature of Transactions	% Regulatory Capital
Mr. D.M.A.K. Dassanayake	National Housing Development Authority	Wise Chairman	24.69	Rent /Savings Deposits	0.37%
Mrs. R.M.R. Wasantha Manchanayake	Director HDFC	Chairman	10.03	Savings/ Fixed Deposit	0.15%
Mr. J.M.D. Ariyaratna	Director HDFC	Director	3.46	Savings/ Fixed Deposit	0.05%
Mr. P.A.S. Athula Kumara	Director HDFC	Director	0.02	Savings	0.00%
Mr. L.E. Susantha Silva	Director HDFC	Director	0.45	Savings	0.01%
Mr. P.A. Lionel	Director HDFC	Director	0.07	Savings	0.00%
Mr. S. Neavis Morais	Director HDFC	Director	0.53	Savings	0.01%
Mr. W.M. Ananda	Director HDFC/Spouce	Director	1.79	EPF Loan/Fixed Deposit	0.03%
Total			35.726		0.57%

41.1 TRANSACTIONS WITH KMPs

The transactions made with KMP s as follows(Balance as at 31.12....)	2021	% of Regulatory Capital
	Rs. '000	
Loans and Advance	44,291	0.67%
Deposits	48,847	0.74%
Total	93,138	1.41%

01

02

03

04

05

06

07



NOTES TO THE FINANCIAL STATEMENTS

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	
	2021 ('000)	2020 ('000)
Items in the Statement of Financial Position		
Assets		
Placements with banks	1,008,248	3,540,966
Financial assets at amortised cost - debt and other instruments	1,081,311	284,319
Financial assets at amortised cost - loans and receivables to other customers	91,482	89,043
	2,181,041	3,914,328
Liabilities		
Financial liabilities at amortised cost		
Due to depositors	11,181,064	8,212,423
Due to other borrowers	1,500,988	1,747,781
Debt Capital	281,250	281,250
	12,963,302	10,241,454

	During the Year	
	2021 ('000)	2020 ('000)
Items in the Statement of Profit or Loss		
Interest income	202,959	61,431
Interest expenses	95,305	120,941
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	0.71	35.80%	2,271

44. ASSETS PLEDGE

Type of Facility	Amount of facility	Nature of Security	Value of security	Balance as at 31-12-2021
	Rs. Mn		Rs. Mn	Rs. Mn
(1) Overdraft - (Sampath Bank)	300	Unsecured	-	(179)
(2) Borrowing (Term Loan) - (Sampath Bank)	1,000	Unsecured	-	698
(3) Money Market Loan - (Sampath Bank)	300	Unsecured	-	300
(4) Borrowing (Term Loan) - (BOC)	500	Unsecured	-	218
(5) Borrowing (Term Loan) - (PABC)	500	Unsecured	625	397
(6) Overdraft - (BOC)	500	Unsecured	-	(290)
(7) Borrowing (MCB)	250	Part of Portfolio	335	20

Type of Facility	Amount of facility	Nature of Security	Value of security	Balance as at 31-12-2021
	Rs. Mn		Rs. Mn	Rs. Mn
(1) Listed, Secured, Redeemable Debenture	1,409	Unsecured	-	1,423

01

02

03

04

05

06

07

Supplementary Information



SHARE INFORMATION

As at 31-12-2021

DISTRIBUTION AND COMPOSITION OF SHAREHOLDERS (AS PER RULE NO. 7.6(X) OF THE COLOMBO STOCK EXCHANGE)

Shareholders		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

Shareholders		December 31, 2020								
		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	1,710	923,737	1.43	5	1,309	0.00	1,715	925,046	1.43
1,001	- 10,000	531	1,901,242	2.94	4	13,000	0.02	535	1,914,242	2.96
10,001	- 100,000	121	2,889,785	4.47	1	50,000	0.08	122	2,939,785	4.55
100,001	- 1,000,000	15	2,735,149	4.23	2	260,180	0.40	17	2,995,329	4.63
Over 1,000,000		3	46,781,118	72.29	1	9,155,000	14.15	4	55,936,118	86.44
Total		2,380	55,231,031	85.35	13	9,479,489	14.65	2,393	64,710,520	100.00

COMPOSITION OF SHAREHOLDERS (AS PER RULE NO. 7.6(X) OF THE COLOMBO STOCK EXCHANGE)

	December 31, 2021				December 31, 2020			
	No. of Share holders	%	No. of Shares	%	No. of Share holders	No. of Shares	%	
Individuals	2,119	95.15	6,110,895	9.44	2,263	94.57	6,089,635	9.41
Institution	108	4.85	58,599,625	90.56	130	5.43	58,620,885	90.59
Total	2,227	100.00	64,710,520	100.00	2,393	100.00	64,710,520	100.00



TWENTY-FIVE 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 (%)
	2021	2021	2020	2020
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 Condominium Management Authority	300,000	0.46	300,000	0.46
6 Urban Development Authority	300,000	0.46	300,000	0.46
7 Dr. R.R. De Silva	295,126	0.46	295,126	0.46
8 Sampath Bank PLC/Mr. A. Sithampalam	258,054	0.40	258,054	0.40
9 Finco Holdings (Pvt.) Ltd.	185,000	0.29	185,000	0.29
10 People's Leasing & Finance PLC/Mr. .D.M.P. Dissanayake	181,283	0.28	176,283	0.27
11 The Associated Newspapers of Ceylon Ltd.	180,000	0.28	180,000	0.28
12 Mr. D. A. De Soysa	170,000	0.26	170,000	0.26
13 Mrs. S.C. Perera	163,899	0.25	164,030	0.25
14 Mr. S.N.C.W.M.B.C. Kandegedara	139,568	0.22	139,568	0.22
15 Dr. S.Y. Sena	133,180	0.21	133,180	0.21
16 Mr. M.A.A. Karim	129,568	0.20	148,074	0.23
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	58,860,505	90.98	59,296,171	91.63

MARKET PRICES (AS PER RULE NO. 7.6(XI) OF THE COLOMBO STOCK EXCHANGE)

	2021 Rs.	2020 Rs.
Highest	49.80	41.50
Lowest	28.60	14.00
Year end	30.50	36.20

01

02

03

04

05

06

07



SHARE INFORMATION

INFORMATION ON RATIOS (AS PER RULE NO. 7.6 (XI) OF THE COLOMBO STOCK EXCHANGE)

	2021 Rs.	2020 Rs.
Dividend per share (Rs.)	-	0.25
Dividend payout ratio (%)	-	2.68
Net Assets value per share (Rs.)	98.18	89.35
Earnings per Share (Rs.)	8.46	10.94

DIRECTORS AND GENERAL MANAGER /CEO SHAREHOLDING (AS AT 31ST OF DECEMBER 2021)

Name	2021	2020
Mrs. R.M.R.W. Manchanayake	Nil	Nil
Dr. S.N. Morais	1,000	1,000
Mr. P.A.S.A. Kumara	Nil	Nil
Mr. L.E.S. Silva	1,000	1,000
Senior Prof. A. Jayamaha	1,000	1,000
Mr. D.M.A.K. Dassanayake	Nil	Nil
Mr. M.P.D.U.K. Mapa Pathirana	Nil	Nil
Mr. W.M. Ananda	Nil	Nil
Mr. P.A. Lionel	2000	Nil
Mr. D.M.M.M. Wijayarathna	Nil	Nil
Mr. Palitha Gamage (GM/CEO)	Nil	Nil

PUBLIC HOLDING (AS PER RULE NO. 7.13.1 OF THE COLOMBO STOCK EXCHANGE)

	2021 Rs.	2020 Rs.
Number of Public Shareholders	2,217	2,383
Public shareholding	23,167,560	23,168,429
Percentage of public holding	35.801%	35.803%



VALUE ADDED STATEMENTS

For the period ended 31st December		Bank		
LKR "000"	%	2021	%	2020
Interest Income		6,612,492		7,456,679
Other Income		391,572		399,754
Gross Income		7,004,064		7,856,434
Cost of Service		3,954,746		4,812,186
Total Value Additions		3,049,318		3,044,248
Value Distributed				
To Employees				
(Remuneration & Benefits)	45.5	1,387,304	38.6	1,174,051
To Government	21.6	657,289	22.3	678,895
Income Tax	10.9	331,034	11.8	360,299
Value Added Tax, NBT & DRL Fs	10.5	320,226	10.3	312,686
Nation Building Tax	(0.0)	(0)	-	-
Crop insurance Levey	0.2	5,978	0.2	5,792
Stamp Duty	0.0	52	0.0	119
	21.6		22.3	
To Share Holders (Dividend)	0.5	16,178	-	-
Retained in the Business	32.4	988,548	39.1	1,191,301
Retained Income	17.4	531,110	23.3	708,137
Depreciation	5.3	161,215	5.1	156,638
Loan Loss Provision	9.7	296,223	10.7	326,526
Total Value Distributions	100.0	3,049,318	100.0	3,044,248

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10 YEAR SUMMARY

Year ended 31st December (LKR. Mn)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
OPERATING RESULTS										
Income	2,744	3,803	4,566	4,925	5,928	6,978	7,120	8,090	7,856	7,004
Interest Income	2,635	3,528	4,378	4,660	5,473	6,614	6,679	7,683	7,457	6,612
Interest Expense	1,805	2,469	2,535	2,539	3,509	4,742	4,441	4,783	4,475	3,556
Other Income	110	275	188	265	455	365	442	407	400	392
Operating Expenses	762	938	1,123	1,288	1,409	1,472	1,668	1,740	1,674	1,953
Provision for Loss	1	87	131	89	160	-57	93	323	327	296
Profit Before Tax	176	309	777	1,009	848	821	919	1,244	1,381	1,199
Income Tax & Finance VAT	120	151	402	500	365	407	354	769	673	651
Profit After Taxation	56	158	375	509	483	414	564	476	708	547
LIABILITIES AND SHAREHOLDERS' FUNDS										
Customer Deposits	14,695	18,902	24,479	28,593	32,123	36,655	37,016	42,504	47,947	49,813
Borrowings	3,214	5,257	6,213	9,037	8,863	7,917	6,653	6,866	5,542	5,090
Other Liabilities	500	834	840	920	872	920	860	1,465	1,759	1,707
Shareholders' Funds	2,391	2,575	2,886	3,364	3,821	4,232	4,757	5,119	5,782	6,354
Total	20,801	27,567	34,418	41,913	45,679	49,724	49,285	55,955	61,030	62,964
ASSETS										
Loans and Advances	15,966	19,701	23,357	26,685	30,260	34,968	37,949	41,216	41,215	41,837
Cash, short term funds and statutory	3,679	6,601	8,997	11,852	11,807	11,027	7,592	11,984	17,186	17,293
HTC & Sell, FVTPL Investments			850	2,043	2,053	2,115	2,014	877	526	1,674
Property, plant and equipment	288	290	296	435	478	513	466	380	351	349
Other assets	868	975	918	898	1,080	1,101	1,264	1,498	1,752	1,810
Total	20,801	27,567	34,418	41,913	45,679	49,724	49,285	55,955	61,030	62,964
RATIOS										
Return on Average Shareholders Funds (%)	2.35	6.36	13.72	16.30	13.46	10.29	12.56	9.63	12.99	9.02
Income Growth (%)	15.0	38.6	20.1	7.9	20.3	17.7	2.0	13.6	-2.9	-10.8
Return on Average Assets (%)	0.27	0.65	1.21	1.33	1.10	0.87	1.14	0.90	1.21	0.88
Deposits and Borrowings to Advance (%)	112.2	122.6	131.4	141.0	135.4	127.5	115.1	119.8	129.8	131.2
PPE on Shareholders Funds (%)	12.0	11.2	10.3	12.9	12.5	12.1	9.8	7.4	6.1	5.5
Total Assets to shareholders funds (times)	8.70	10.70	11.93	12.46	11.95	11.75	10.36	10.93	10.56	9.91
SHARE INFORMATION										
Market Value per Share (Rs.)	For Rs 10/- Shares									
High (Rs.)	119.0	52.5	52.5	76.5	70.0	44.5	30.0	35.0	41.50	49.8
Lower (Rs.)	44.0	48.2	48.2	58.5	46.5	31.7	23.0	20.0	14.0	28.6
Close (Rs.)	50.6	49.6	49.6	67.1	47.2	32.7	26.0	32.0	36.20	30.5
Earnings per Share (Rs.)	0.86	2.44	5.79	7.87	7.47	6.40	8.72	7.35	10.94	8.46
Price Earnings Ratio	58.84	20.31	8.57	8.53	6.32	5.11	2.98	3.54	2.38	3.61
Net Assets per Share(Rs.)	36.95	39.80	44.60	51.98	59.05	65.39	73.51	79.11	89.35	98.18
PROFILE										
Ownership - Government %	51	51	51	51	51	51	51	51	51	51
- Private %	49	49	49	49	49	49	49	49	49	49
No. of employees*	488	488	477	561	570	567	561	558	633	614
No. of branches	32	33	36	38	38	39	39	39	39	39
No. of ATM (Access)	360	652	775	854	3000+	4350	4850	5132	5075	5526

*- from 2020, consider contract employees also



NOTICE OF MEETING

Notice is hereby given that the Thirty Seventh (37th) Annual General Meeting of the Housing Development Finance Corporation Bank of Sri Lanka is convened on Thursday the Thirtieth (30th) day of June 2022 at Sri Lanka Foundation (Auditorium New Wing), No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo-07 at 10.00 a. m. and the following Ordinary Business will be transacted.

Ordinary Business

1. To read the notice convening the meeting.
2. To receive, consider and adopt the Annual Report of the Bank and the Audited Accounts of the Bank for the year ended 31st December 2021 together with the Report of the Auditor thereon.
3. To appoint Shareholding Director/s.
4. To re-appoint the Auditor General of Sri Lanka, as Auditor of the HDFC Bank and authorize the Board of Directors to determine and approve their remuneration.
5. To transact any other business of which due notice shall be given.

By order of the Board

Dharshani De Silva
Company Secretary
HDFC Bank
Colombo.

24th May 2022

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NOTES



FORM OF PROXY

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

1. Mr./Ms. ofwhom failing
2. Mr./Ms. ofwhom failing
3. Mr./Ms. ofwhom failing
4. Mr./Ms. ofwhom failing
5. Mr./Ms. ofwhom failing

As my / our proxy to vote for me / us on my / our behalf at the Annual General Meeting of the Bank to be held on 30th June 2022 at 10.00 a.m. and at any adjournment thereof, and at every poll which any be taken in consequence thereof.

Signed this 2022.

.....
 Signature

Notes:

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

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04

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FORM OF PROXY

Instructions for completion

1. To be valid, this form must be filled, signed and deposited with the Secretary, HDFC Bank, P. O. Box 2085, Sir Chittampalam A Gardiner Mawatha, Colombo 02, not less than 48 hours before the time appointed for holding the meeting.
2. The form of proxy must be signed by the appointer or by 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 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).

REGISTERED HEAD OFFICE:

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

Tel : 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 of the Bank are listed in the main board of the Colombo Stock Exchange (CSE).

BOARD OF DIRECTORS:

Mrs. R. M. R. Wasanthi Manchanayake (Chairperson)

Dr. S. N. Morais (Director)

Senior Professor A. Jayamaha (Director)

Mr. L. E. Susantha Silva (Director)

Mr. D. M. A. K. Dassanayaka (Director)

Mr. W.M. Ananda (Director)

Mr. P. A. Lionel (Director)

Mr. D. M.M. M. Wijayarathna (Director)

COMPANY SECRETARY:

Mrs. Dharshani De Silva,
Attorney-at-Law & Notary Public,
MBA & LL.M.

Tel : 2423362

E-mail : dharshani.d@hdfc.lk

REGISTRARS:

SSP Corporate Services (Pvt.) Limited

Address: 101, Inner Flower Road, Colombo 03.

Tel : 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 + (Ika) stable- 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.

DFCC Bank

No.73,W A D Ramanayake Mawatha, Colombo 02.

Pan Asia Banking Corporation LTD

No. 450, Galle road, Colombo 03.

CORPORATE MANAGEMENT

Mr. Palitha Gamage - CEO/GM

Mr. A. J. Athukorala - Chief Operating Officer,

Mr. C. R. P. Balasuriya - DGM - Treasury, Payments & Marketing

Mrs. W. W. D. S. C. Perera - DGM - Legal & Recoveries

Mr. D. M. D. M. K. Dissanayake - AGM -Credit

Mrs. K.T.D.D. De Silva - AGM - HRM & Company Secretary,

Mr. H. A. Anura - Chief Financial Officer

Mrs. W.N.D. Botejue - AGM – Admin

Mr. K.R.M.A. Bandara - Compliance Officer

Mr. I. Nishantha - Chief Manager - Risk Management

Mr. A.M. Neelachandra - Chief Manager – IT

Mrs. G.P. Priyadarshani - Chief Internal Auditor

INVESTOR INFORMATION

Mr. Anura Hettiarachchi

Chief Financial Officer

Tel : 2356800, 244624, 2446239 D/L 4717864

Fax : 2356829

E-mail : anura.h@hdfc.lk

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