

Sustainability Report



Approximately 50 per cent of the house holds who have the ability and willingness to purchase a low cost house, is precluded from formal housing finance due to the challenge of income evaluation, adequate collaterals, savings habit, high cost of finance, and emerging issues in the growing urbanisation environment in Sri Lanka.

HDFC considers it an opportunity and are committed to serve the upliftment of this section of our people, whose silent contribution is invaluable for the development of the nation.

Sustainability Report contd.

About this Report

Reporting Period

This sustainability report attempts to offer an integrated view of the HDFC's commitment and performance on economic, environmental and social aspects of the Bank's operations for the period 1st January 2010 to 31st December 2010. This is our fourth attempt in sustainability reporting. The first comprehensive sustainability review was published in 2006 and thereafter, each year we have strived to improve our analysis and be more inclusive in our approach to our stakeholders. The most recent report was published in June 2010, covering the performance of financial year 2009. On a yearly basis we attempt to demonstrate our commitment to sustainability as an integral part of the Annual Report.

Sustainability Reporting Framework and Guidelines

This review is based on the Global Reporting Initiative (GRI) Reporting Framework which is the generally accepted guideline for sustainability reporting. The report has been reinforced with G-3 sustainability indicators which define the contents, quality and the boundaries as outlined by the GRI Reporting Principles.

Defining Report Boundary

Materiality: As outlined in the GRI guidelines, the Bank acknowledges the importance of the materiality concept, in the process of reporting the sustainability performance. Materiality is defined in relation to the financial performance, balance sheet values and impact on the stakeholders' interest. Thus the report outlines economic, environmental and social performance that would substantially influence the assessment and decisions of our stakeholders.

Stakeholder Inclusiveness: The Bank recognises that it is compelled to define strategic and key stakeholder groups to ensure materiality in engagement and reporting. Therefore, the Government, the economy, customers, suppliers, employees, environment and community are recognised as key stakeholders.

Sustainability Content: The report attempts to offer an integrated view of the company's performance from the triple bottom line precept of economic, social and environmental facets, where stakeholders from employees to community, customers to valued business partners, shareholders to the nation at large become a part of the HDFC journey. Our primary sustainable development platform is in housing, and we strive to drive our core business to contribute towards the United Nations Millennium Development Goals. The report attempts to present an integrated analysis of both positive and negative performances of the Bank in a manner, our stakeholders are able to gain a comprehensive view of our policies, interactions and processes. The report also enables us to critically look at ourselves, analyse the gaps and attempt to bridge them for a more holistic approach to sustainability.

Comparative Information: Sustainability Report for the financial year 2009 has been formatted with reference, but not strictly adhering to the guidelines of the GRI. However, this report strictly conforms to the requirement of the Global Reporting Initiative. The report presents key performance indicators with comparative information for the last two years and includes a summary of sustainable indices which we have developed to monitor our performance in relation to diverse stakeholder interests.

Specific Limitations and Reporting on the Subsidiary

HDFC is a service providing organization; hence some of the GRI indicators are not applicable. The report is not extended to cover the operation of its subsidiary. (There were no transactions in the Subsidiary during the reporting period.)

Data measurement and Standards Disclosure.

Information pertaining to economic, social and environmental performance has been extracted from the audited financial statements while other internal information has been obtained from the Bank.

Independent Assurance.

HDFC as a policy recognises the importance of obtaining an independent assurance on the Sustainability Report from a competent professional firm. Accordingly, the Bank appointed M/S BDO partners as independent assurer to the sustainability Report of 2010, whose assurance report is enclosed in Pages 98 and 99 of the annual report.

Contact Persons for Editorial Information

Assistant General Manager
(Business Development & Marketing)
E-mail: agmproject@hdfc.lk
Tel: 4717864
Fax: 2423364.

Manager
(Business Development & Marketing)
E-mail: recover@hdfc.lk
Tel: 2543096
Fax: 2423364

Message from the CEO

“Many Small people, in many small places, doing many small things will alter the face of the world“

African proverb.

Ecosystems and natural resources are critical to achieve sustainable development of a country. Development of human settlements, especially the construction of towns and cities continues to pose a negative impact on the environment and bio-system. With towns and cities made up of homes and communities, the impact on eco systems due to congestion, increasing waste and also unmanaged use of natural resources can be devastating, leaving little hope for future generations. Today the whole world is fighting against the negative consequences of unsustainable development such as climate change, increasing prevalence of natural disasters, scarcity of resources and loss of biodiversity. As a responsible corporate citizen, HDFC strongly believes that current pricing should take adequate consideration of these externalities, without transferring them to future generations and do our utmost to achieve an equitable development in our country through housing finance.

Sustainability to HDFC means promoting housing development finance in an equitable and sustainable milieu, where the interests of our stakeholders are fulfilled both in a social and an environmental context. It is a concept that gives the Bank a framework that enables the development of the nation at large through sustainable sheltering and poverty reduction, while assisting in managing climate change. At HDFC, we believe, the pursuit of sustainability poses both a challenge and an opportunity for the Bank. To take advantage of this opportunity, we must

craft new business strategies, processes, products and practices that integrate our heightened awareness of environment concerns and social well being. We emphasise that sustainable construction, built on strong principles and best practices must be inculcated into construction of housing, while ensuring equality and affordability remains as core objectives.

The emphasis on sustainability gave us the opportunity to make a series of commitments, as profiled in the

The sustainability Report, which integrates sustainability as a core value and a point of reference for our operational and corporate structure.

In 2010, we worked consistently to meet those commitments. The Board of Directors approved a policy framework for community engagement while in tandem, appointed a CSR steering committee to identify, plan and implement CSR projects. Several programmes were developed among our team to improve awareness on saving natural resources and reducing emissions, while effectively engaging with other stakeholders such as the Government, customers, investors, employees, suppliers and community.

For the second consecutive year two community awareness programmes were launched to promote sustainable city planning and environmental protection in collaboration with the UN Habitat Sri Lanka Office and the Ministry of Education. During the

last twelve months we have achieved a commendable improvement on efficiency in managing our carbon footprint and in the volume and regional and sectoral distribution of housing finance. Tremendous improvement in customer satisfaction was recorded due to the continuous efforts carried out to enhance customer reach and service excellence.

Our nation is marching towards a robust economic growth after a 30 year civil war. We strongly believe that corporates must be more aware of its responsibility and thereby be accountable and responsible to convert this growth in to an equitable development. Our plans for the year ahead therefore, will be on strengthening sustainable business practices, in conjunction with minimising the impact of our core business on challenging issues of global climate change, waste and energy usage through an open dialog with all our stakeholders.



Suresh Amerasekera
CEO/General Manager

Sustainability Report contd.

Our Sustainability Approach

What Sustainability means to HDFC

Our primary business objective is assisting people to own a decent house by providing affordable housing finance, the foundation upon which our economic and social sustainability ethos has been constructed. Housing not only provides physical shelter but also has significant impact on the lives of the dwellers in terms of skill enhancement, education, health, income generation, security, self confidence and human dignity. In a social context it reduces domestic violence and addresses many other social issues. More broadly, housing finance development therefore plays a crucial role in boosting economic growth and reducing poverty, improving living conditions and empowering low and middle income groups.

However, housing begins with construction which involves the input of a large amount of capital, energy, water, other natural resources and making of substantial amounts of solid and liquid waste. It permeates an adverse impact on the environment and prevalent ecosystems if resources are not managed properly. At HDFC we believe that sustainable housing practices could mitigate the negative impact of housing on the environment while delivering long lasting economic and social benefits.

We believe that sustainability should be a core focus of our business. Hence we strive to promote a culture where the end result of the house must be the fruition of sustainable construction, which delivers long lasting economic, environmental and social benefits to our stakeholders. Therefore, for HDFC sustainability management means minimizing ecological and social risks and thereby seising economic

impact, opportunities and ensuring the Bank's continued growth. At the same time, we want to be a role model and contribute to an economically stable, ecologically responsible and socially fair development of our society. Therefore, we strive to ensure that our business fundamentals are within the principles of sustainability while achieving HDFC's overriding objective of expanding national housing stock and home ownership.

Sustainability Development and Strategic Focus

Development of the broad based sustainability Policy framework is in process. The Bank is committed to implement an integrated sustainability management approach that combines sustainability and business strategies in the best possible way. HDFC's strategic focus for 2010 - 2013 covers the following 7 key areas to which we will continue to gear our sustainability development.

- Economic prosperity- accelerated growth with more socio economic focus
- Resource efficiency- cut costs and save resources.
- Emission Control- focus on strategies, products, services and relationships that transit to a low carbon society
- Going mainstream - making sustainability a core dialog of the staff and customers
- People & places - working together to support our community
- Solid foundations - sustainable business practices through governance & risk management

- Speaking out - advocating on behalf of sustainable business practices and continuous communication with key stakeholders

Sustainability Governance

Our Corporate Governance structure is discussed in detail under the Corporate Governance section of this annual report. HDFC recognizes that in-house sustainability as well as the sustainability in general should be a core determinant of the housing finance operation. For this purpose, the Bank has appointed Sustainability and CSR Steering Committees, comprising of Board nominated members from the Corporate and Senior Management. These committees create a forum to discuss the importance of aligning business strategies with sustainability development practices. The committee is also responsible for policy development, planning, steering and controlling all sustainability activities and reporting to the Board. The Board along with the committees and senior management reviews the performance and compliance periodically. Bank also appoints executive/operational committees project wise where necessary to implement sustainability related activities and CSR projects.

Sustainability Steering Committee
CEO/ General Manager
DGM (Finance)
AGM (Business Development & Marketing)
Manger (Business Development & Marketing)
One member from Internal Audit
Manager Human Resource
One representative from Trade Union

Precautionary Approach and Risk Management

We believe sustainability management is an important precautionary approach to economic, social and environmental risk management. HDFC applies the precautionary principles mainly from two angles:

- Compliance Review with the applicable laws and regulatory requirements
- Operational Policies and Procedures

Compliance Review with Applicable Laws and Regulations:

A specially appointed compliance officer reviews operational compliance with the HDFC Act under which HDFC Bank is established. HDFC also adheres to the requirements of the Finance Act, directions issued by the Central Bank of Sri Lanka (CBSL), listing Rules of the Colombo Stock Exchange (CSE), and the code of best governance practices issued jointly by the CSE and the Institute of Chartered Accountants of Sri Lanka. Level of compliance is periodically reported to the relevant regulatory authorities and to the stakeholders through the annual report.

Operational Policies and Procedures: The Bank regularly develops reviews and adheres to operational policies and procedures in the day to day operations. These policies are developed on the basis of past experience and in line with the industry and environmental standards with the prime objectives of managing Operational Risk, Market Risk, Environmental and Social Risk, which influence the growth and sustainability of the Bank. The policies are formulated by the senior management/ management

committees and approved by the Board of Directors, and reviewed in conjunction with current developments. During the year 2010, social and community participation policy was approved and formulated and the human resources and staff promotion policies were reviewed.

Association to External Voluntary Codes, Principles and Initiatives

An organisation cannot achieve sustainability by mere compliance with statutory requirements and internal policies; it should also respect social ethics and codes of conduct. Numerous scientific studies have proved a statistical correlation between a company's social and environmental performance and its financial success. HDFC voluntarily adheres to the principles, initiatives and codes of conduct of the banking and housing industries, standards of the national and international institutions and comply with several areas of social responsibility, including labor, health, safety, and environmental aspects thus indicating its commitment to respecting codes of best practices. HDFC also recognizes the Sri Lankan and International Accounting standards, Guidelines of Global Reporting Initiatives (GRI), Universal Declaration of Human Rights (UDHR), Standards and initiatives of the Ministry of Finance, Ministry of Housing Construction and Common Amenities, Urban Development Authority, Local Authorities, Road Development Authority (RDA) and The Central Environment Authority etc. HDFC is also mindful of its responsibility towards the Achievement of the Millennium Development Goals of Sri Lanka by the year 2015. These standards, initiatives and principles are used as points of reference in preparing the

internal policies, codes of conduct and operational targets of the Bank.

Associations with Organizations

Companies that constantly interact with society produce opportunities. We actively participate, contribute and share our knowledge with a number of organisations and initiatives, a selection of which is shown below:

Central Bank of Sri Lanka
Institute of Bankers of Sri Lanka
Association of Professional Bankers of Sri Lanka
The Ministry of Housing and Construction
General Treasury/ The Ministry of Finance and Planning
Colombo Stock Exchange
The National Chamber of Commerce
Ceylon Chamber of Commerce
Federation of Chambers of Commerce
Fitch Rating Lanka Ltd
Credit Information Bureau
Housing Development Authority
Urban Development Authority
Association of Development Finance Institutions Asia Pacific.
UN Habitat Sri Lanka

Basis of recognising important stakeholder groups and engagement

Statutory and financial obligations and equitable partnership are the basic principles of identification used by HDFC in selecting the stakeholders with whom it engages. The prime stakeholder, the Bank is statutorily

Sustainability Report contd.

Our Sustainability Approach contd.

obliged to engage with, is the Government; who is the founder of the Bank by an Act of Parliament and the major shareholder. The secondary priority of the bank is its financial and statutory obligation to the shareholders / investors who ensures the existence of the Bank. HDFC also maintains an equitable partnership with other stakeholders who directly and indirectly

interact and are influenced by the bank's operations.

HDFC recognises the conflicting interest of each stakeholder group and strives to maintain an open and straightforward communication on its sustainability strategy , significant impacts, challenges, opportunities and the Bank's performance, achievements , to their

reasonable expectations with our regular reports on this field.

This exchange with our stakeholders provides us with valuable feedback on our activities, plans and strategies. Our stakeholders provide us with important assessments concerning opportunities and risks in our business and we are convinced that these close cooperation offers all parties added values.

DURDANS HOSPITAL
Ceylon Hospitals PLC
3, Alfred Place, Colombo 3.
Tel : 5410000
website: www.durdans.com

CHPLMED/115

For Doctors Use Only

The Manager
HDFC Bank
Hyde Park Corner
Colombo 2.

Dear Sampath,

Thank you very much for all the help given. I never expected to receive my loan this fast.

Thank you again

Dr. ASOKA I. KAMALADASA
MBBS (Colombo) MD - Medicine (Sri Lanka)
PGDM - Board Certified in Dermatology
Consultant Dermatologist

Dr. Asoka I. Kamaladasa
Loan Customer

High-end Market

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0114 344651

G. Thushara Samantha
Palmtop Customer

"I really surprised when i was informed by HDFC bank that a loan of Rs. 1.5 Mn. was approved to buy a land to construct a house for a person like me, who runs a pavement business at Bastian Road, Colombo."

Low-end Market

Key Stakeholder Groups and Our Commitment

Stakeholder Group and their Goals		Our Commitment
Stakeholder	Goal	
Government	Improve quality of life of people through enhancing national housing stock and homeownership	<ul style="list-style-type: none"> Assisting people to construct, own and upgrade homes or meet ancillary needs by providing affordable housing finance under the power vested by the Act and in conjunction with the national housing policy, with particular focus on the low and middle income groups and promotion of equitable human settlement.
	Economic prosperity	<ul style="list-style-type: none"> Maximising direct value creation to the economy Assisting to minimise development disparities through promoting equal access to housing finance and resource mobilisation - sector and regional basis and through enabling employment generation Contributing to economic empowerment through inculcating banking habits, financial literacy and inclusion Contributing to the government's special development initiatives -national and regional, through promoting housing finance and inculcating Banking habits
Shareholders	Sustainable growth and enhance shareholder value	<ul style="list-style-type: none"> Managing business to deliver consistent growth and satisfactory return Implementing an efficient risk management, internal control system and good governance practices Complying with all statutory and regulatory requirements
	Protect and facilitate the rights and ensure fairness and transparency	<ul style="list-style-type: none"> Ensuring adequate and timely communication Providing a balanced, comprehensible assessment of the state of affairs of the Bank, its performance, and prospects
Customers	Provide viable financial solution to satisfy housing needs in a convenient manner.	<ul style="list-style-type: none"> Maintaining affordability of our service to masses with special focus on low and middle income groups Extending flexible and customised solutions collating customers need, level and pattern of income and available collaterals Enhancing accessibility to our services equally to all segments in the society in all districts and provinces
	Satisfaction	<ul style="list-style-type: none"> Continuous improvement of the quality of our services and processes with proven technology and innovations to delight our customers Regular assessment of customer satisfaction and follow up
Suppliers	Ensure rights and fairness	<ul style="list-style-type: none"> Implementation of a procurement procedure with internal controls and make decisions based on market information in an transparent and fair manner for all qualified and registered suppliers Ensuring and respecting their rights through timely payments and long lasting relationships
Environment	Promote Sustainable Housing	<ul style="list-style-type: none"> Promoting compliance with environmental and development regulations Promoting the importance of sustainable housing and living – resource efficient affordable construction and maintenance
	Manage Carbon footprint	<ul style="list-style-type: none"> Minimising emission from direct business and staff transport Saving electricity, fuel and water. Reducing paper consumption and thereby saving trees, bio-system and climate

Sustainability Report contd.

Key Stakeholder Groups and Our Commitment contd.

Stakeholder Group and their Goals		Our Commitment
Stakeholder	Goal	
Employees	Rewarding career and job security	<ul style="list-style-type: none"> • Maintaining an efficient staff performance through performance reviews, remunerations, benefits, rewards, recognition and regular surveys on staff satisfaction • Maintaining smooth relationships through open and honest dialogue between employees, trade union and management and respecting human rights • Maximising capacity through encouraging further education, conducting training and development, providing job enrichment and career progression opportunities • Maintaining diversity and providing equal opportunity
	Healthy work life balance	<ul style="list-style-type: none"> • Maintaining a balance between personal and professional life by ensuring health and safety, encouraging extracurricular and recreational activities
Community	Long lasting relationship	<ul style="list-style-type: none"> • Striving to improve quality of life by facilitating accessibility to clean water and healthcare • Supporting needy children in education and sports • Interacting with community organisations to improve the well being of the people • Providing assistance in the event of natural disasters • Empowering through inculcating banking habits and proliferating savings



Team Sprite

Strategic Priorities and Achievements 2010

	Strategic Priorities	Strategic Action	Achievement
Government	Accelerate lending	No of loan compared to 2009 , increased by 4,762	+79%
	Promoting financial inclusion	Loan value compared to 2009, increased by LKR 1,665 Million	+118%
		Palm Top customers YoY increased by	238%
	Agricultural sector housing	Palm Top operated account balance YoY grown by	239%
		No of loans granted to customers in the agricultural sector *	1,507
		Value of loans granted to customers in the agricultural sector *	231
Shareholders	Profitability.	Return on average assets increased by	132%
	Risk management.	Return on equity increased by	131%
		Profit after Tax increased by	139%
	Market capitalisation	Gross Non Performing Loan Ratio (NPL)	Reduced
		Maturity Gaps	Reduced
		Reduce dependence of 10 largest depositors- reduced from 61% to	47%
		Enhance composition of savings fund base. Improved from 10% to	14%
		Share price YOY increased by	272%
Customer	Enhancing customer reach	No of branches increased by 2 new customer centers- YoY increased	8%
	Enhance customer base	No. of ATM access increased to 225 reflecting a growth of	1945%
		No of Mobil Bankers increased to 81 persons, YoY increase	35%
	Satisfaction	Loan customers increased by 10739 ,YoY growth in customers	9%
		No. of deposits customers increased by 460, YoY growth	7%
		Loan portfolio increased LKR 927M, YoY growth	8%
		No of savings customers increased by 38,504 reflecting a growth of	22%



Empowering through financial inclusion



Empowering through financial inclusion

Sustainability Report contd.

Strategic Priorities and Achievements 2010 contd.

	Strategic Priorities	Strategic Action	Achievement
Environment	Minimise fuel consumption	Fuel consumed per LKR 1 Million loan approved reduced by	55%
	Minimize electricity consumption	Fuel consumed per loan approved reduced by	45%
		Electricity per Sq:ft occupied Units (no comparative figures available)	13
	Reduce paper consumption	Electricity per head reduced by	4%
		Paper consumed per LKR 1 Million loan approved reduced	18%
		Paper consumed per loan approved increased by	1%
Employee	Strengthening	Total staff increased by 61 employees , YoY growth	17%
	Capacity maximising	Created regional managers positions by promoting seniors managers	5 positions
		Appointed head of HR and Credit	2 positions
	Satisfaction	Training man days YoY increased	141%
		Training man days per head increased by	100%
		Overall satisfaction index improved	29%
Community	Promoting education, clean water, health care and financial inclusion	Investment on promoting education LKR 2,108,000 benefited	13,879 persons
		Investment on promoting health LKR 315,400 and benefited	525 persons
		Investment on promoting financial inclusion LKR 830,000 and benefited	580 persons



Empowering through financial inclusion



Empowering through financial inclusion

Stakeholder Engagements

Economic Responsibility

Highlight 2010

+ 80%
No of loans

+ 119%
Value of Loans

+ 78%
New Construction Loans

Our Strategic Priorities

- Accelerate Lending
- Enhance Customer reach
- Promotion of Savings and Financial Inclusion
- Agricultural Sector Housing

Our Approach

The primary objective of HDFC Bank, as constituted by the Act of Parliament under which the Bank is incorporated, is to provide financial facilities to construct, own, upgrade homes or provide ancillary needs. Our approach to economic responsibility is directed through these broad based corporate objectives set out by the government who is our principal stakeholder. Access to safe and healthy shelter is essential to a person's physical, psychological, social and economic well-being. The right to adequate housing is a basic human right and is emphasised in the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights. Decent housing therefore, is one of the several dimensions used to assess the physical quality of life and economic growth of a country, in meeting the United Nations Millennium Development Goals (MDGs). The country is marching towards achieving these MDGs by year 2015. HDFC recognises this national responsibility and is fully committed in its capacity to achieve Millennium Development Goals, through promoting equitable housing finance. In this context, our strategic approach on economic performance is demonstrated in the following directions.

- Direct economic value creation
- Promote equitable human settlement through enhancing the national housing stock and homeownership with special focus on the less privileged groups.
- Contribute to economic empowerment through instilling Banking habits and financial inclusion
- Assist to minimise development disparities
- Contribute to the government's special development initiatives-national and regional

Our economic responsibility is directed by the above policies and statutory directives upon which we have established our social license over the last 25 year as a leading player in the affordable housing finance market in the country.

Policies & Governance

Our core economic responsibility is constituted by the Housing Development Finance Corporation Act No. 07 of 1997, amended by Act No. 15 of 2003. Activities of HDFC Bank are further directed by the economic directives issued by the General Treasury and the Central Bank of Sri Lanka in line

with the Government Housing Policy and national and regional development initiatives. Internal policy guidelines are developed and approved by the Board of Directors. Management of operational risk and the above policies are executed by the several management committees. As the founder and the principal shareholder we recognise our accountability to the Government. The annual financial statements are submitted to the parliament on a yearly basis, in three languages. HDFC Act and other important policies could be browsed at our website on www.hdfc.lk.

Economic Performance

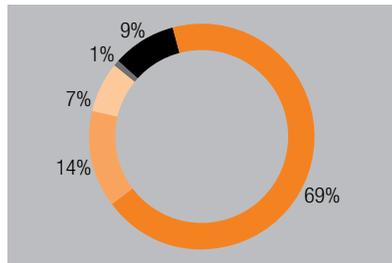
Direct Economic Value Creation

During the year HDFC Bank has created an economic value addition of LKR 2,250 Million. This value has been distributed among the suppliers, employees, Government and shareholders while LKR 241.68 Million was retained by the Bank to strengthen its sustainability. We have contributed LKR 155.78 Million to the Government as direct and indirect taxes in 2010.

Sustainability Report contd.

Stakeholder Engagements contd.

Economic Value Distribution 2010



- To Goods & Services Providers
- To Employees
- To the Government
- To the Shareholders (Dividends)
- Retaining (Depreciation, Loan Loss Provision, Retained Profit)

In Managing Human Settlement

Other than the direct economic value creation from the business operations, we assess that the indirect impact of HDFC's core business is significant in the context of socio economic development of the country. Housing requires large quantities of resources including labour and substantial capital infusions. Hence, while creating dwellings, housing also acts as an employment generator, poverty alleviator, wealth creator and most importantly a social stabiliser. An active system of housing finance provides real economic benefits and positively affects savings, investment and household wealth. It provides an investment option for long term funds in the economy as an alternative to investment in treasury bonds. Each Rupee invested in housing sector catalyses multiple economic activities in other sectors of the economy. Housing finance development boosts equitable economic growth, reduce poverty, improve living conditions and strengthen communities. In this context, HDFC is a vibrant contributor to the management of human settlements around the country since its inception two and half decades ago.

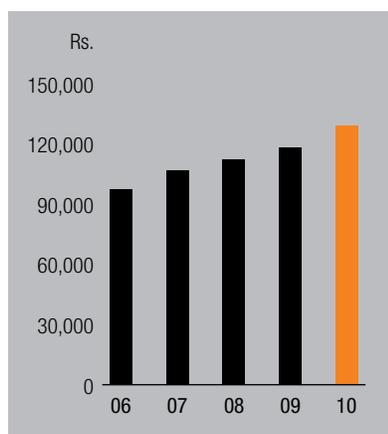
Aggregate Service

HDFC has assisted over 130,000 families to obtain homeownerships, improve existing dwellings and acquire household equipments and accessories. The total value of the facilities granted since year 2000 is over LKR 23.5 Billion, while over 90% of these advances were extended to the low and middle income groups making their dream of owning a house a reality.

Aggregate Service - Value of Loans



Aggregate Service - No of Loans.



Promoting Home Ownership

During 2010 HDFC recorded a robust increase in lending activities registering an impressive growth of 80% in loan volume and 119% increase in the value of loans granted. In 2010, we extended 10,739 facilities, totaling LKR3,069 Million, compared to 5,977 loans granted in 2009 to the tune of LKR 1,404 Million. These facilities were extended for house construction, purchasing, redeeming of housing loan obtained at high interest rates, renovations, repairs and extensions to existing structures and purchasing of household accessories etc. We estimate that, these facilities have assisted over 10,000 families and over 45,000 people to fulfill their need of shelter.

Enhancing National Housing Stock

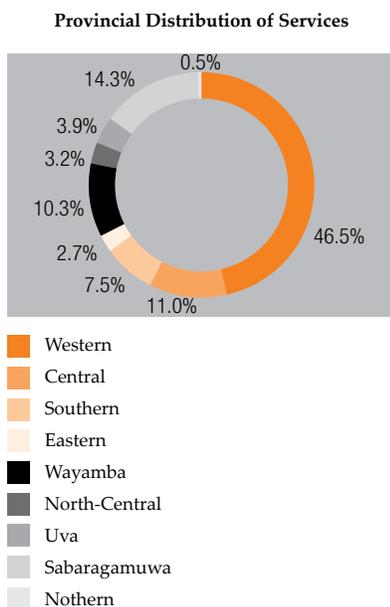
During the year under review, HDFC contributed to increase Sri Lanka's national housing stock by approximately 9,000 new houses. HDFC financed approximately LKR 2.3 Billion of the construction value of these houses, with LKR 177 Million being extended to purchase constructed dwellings and LKR 559 Million for other housing related financial commitments.

Assisting to Minimize Development Disparities Prioritized Services to the Low and Middle Income Segments

HDFC's primary objective has always been to serve the lower and middle income groups to meet their needs of housing finance and allied services. With the majority of the population in Sri Lanka coming under these income categories, there's a significant lack of supply to meet the demand for housing. 55 per cent of the rural population and 8 per cent of the urban population live below the poverty line and on average,

15 per cent of the total population survive below the universal poverty line, with an income that's totally insufficient to meet the cost of housing (Sri Lanka Poverty Assessment 2007, World Bank). Majority of the people belonging to this category has to contend with restricted access to credit facilities offered by commercial banks or financial institutions due to inadequate collateral, proof of income and lack of financial inclusion.

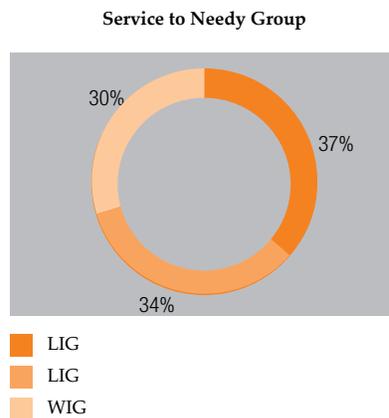
During the year, more than 71 per cent of the approved facilities were granted to low and middle income group who represented 46 percent of the value of loans approved. Out of approved facilities, 37 percent of the loans were less than LKR 200,000. Loans between LKR 200,000 and LKR 500,000 accounted for 34 per cent. The increase in average size of our loan from LKR 235,000 in 2009 to LKR 285,000 in 2010, reflects our broadened view of our social responsibility toward serving the needy groups of the country.



Provincial Distribution of Service

Increasing urbanisation has seen the burgeoning of urban dwellers, rising sharply at 3 per cent per annum. This trend is significantly reflected in the western province due to the large number of immigrant families which has triggered land and construction labour prices within the province to rise to unaffordable proportions. Given these emerging trends, in 2010 HDFC granted a total of 4504 loans representing 42 per cent in volume and 51 per cent in value respectively. Of these, 71 per cent of the loans were granted to the middle income group, with loans for new constructions representing 86 per cent, home purchases 5.5 per cent and other housing related loans 9 per cent.

Of the total disbursements, 8 per cent was disbursed in the southern province while 12 per cent was disbursed in the central province. The balance disbursements were made in the Wayamba, North Central, Sabaragamuwa, Eastern and Northern provinces. The Bank opened two branches in Vavuniya and Trincomalee to contribute to the post war development in the North and East. It is



pertinent to mention that 37 per cent of our disbursements were made to the low income group which has resulted in a considerable improvement in the living standards of the segment.

District wise disbursements of service

With the price of land and housing spiraling upwards in the Colombo district and an increasing population in the district finding it a challenge to meet their housing needs, HDFC concentrated on disbursing 29 per cent of the loan value and 21 per cent of the loan volume, to the Colombo district. HDFC has an all island branch network of 28 with presence in every district. The second highest disbursement was made in the Gampaha district and special programme launched in the Districts of Vavuniya and Trincomalee for lending and resource mobilization.

Employment Generation and Poverty Alleviation

While our team has 425 members within its permanent cadre, we are proud to be the enabler in generating approximately 10,266 indirect employment opportunities around the country as a result of construction related activities initiated by our housing loans. These opportunities are generated in carpentry, masonry and other related activities. (Estimates based on the statistics of the CBSL).

The construction industry is a primary employment generator and according to the Central Bank of Sri Lanka has created a total of 562,000 job opportunities island wide representing 7.4 per cent of the total employment market in 2009. Total advances granted to the housing industry by commercial banks stood at LKR167.8 Billion. HDFC contributed LKR 3.069 Billion for personal housing needs in over nine provinces.

Sustainability Report contd.

Stakeholder Engagements contd.

Empowering through Financial Inclusion

Financial Literacy and Inclusion

In Sri Lanka, the housing need is significantly larger than the effective demand, due to inadequate access to housing finance. In order to synchronize the effective demand with the actual housing need, it is essential to improve the accessibility of housing finance to low and middle income group. Majority in this segment qualifies to obtain a mortgage loan but is restricted due to inaccessibility. The common hindrances in extending formal banking facilities to this segment are the lack of financial literacy, banking habits, adequate collaterals and proof of income. Financial literacy is becoming increasingly important to the long-term wellbeing of individuals and the communities. Financial inclusion aims to address the lack of access to appropriate low-cost, fair and safe financial services from mainstream providers. Often they are the most vulnerable members of our community who are most at risk of financial exclusion. HDFC experiences that a substantial percentage of this unbanked community loses their wealth by being associated with informal financiers for their housing and day today finance needs.

HDFC uses its resources and expertise to inculcate banking habits, skills and confidence in this community thus enabling them to access formal housing finance. It is a pleasure to mention that a majority of our customers are from this category that constitute 71 per cent of the total customer base of HDFC in 2010. Of the low and middle income group 37% of the customers were from the communities with minimal or zero financial literacy or banking habits.

Mobile Banking Operation

As a strategic approach, HDFC initiated its mobile banking operation (Palm Top) to capture this unbanked segment to formal banking system and promote banking and savings habits among them. The operation was initiated in 2007 and is currently operating successfully throughout the branch network with over 81 Palm Top machines and



HDFC Mobile Bankers

operators. Our promotional assistants, daily visit approximately 15,000 customers island wide, majority of whom are pavement hawkers, boutique/shop keepers, daily waged laborers etc whose income is not permanent. For over 80 per cent of these customers, the average daily deposit is less than LKR 250 per day. It was the very first time that most of these customers were exposed to formal banking channels through our Mobile Bankers. Majority of laborers in the Colombo Manning Market and Central Fish Market became our valued customers. With these operations we aim to create wealth for this segment and provide documentary proof of income for consideration of formal loan facilities. We also encourage them to save part of their daily wage

for retirement and the future well being of their children. For this purpose we educated them to invest monthly LKR 100 – 500 in an attractive children saving plan which assures financial safety for their children.

We have understood the value of this community in the development process of our nation even though their service is not counted in the formal economy. In

2010, over 20,810 new customers were added to HDFC from this segment with an average monthly increase of 1,735 customers. We have launched a special lifestyle development loan for them, secured on a group guarantee scheme.

We have learned that over 60% of this customer group is from urban sector and has less saving habits, but earning substantial income to meet the cost of low income housing, unspoiled, scare to credit and god pay masters. They do not possess retirement plans and strive to create wealth for the next generation. Servicing this group would result significant improvement in their socio economic lives by reducing urban poverty, domestic crimes and improve children's education, health etc.

Contributing to Development Initiatives

HDFC is committed to contribute to the Government's national and regional special development initiatives, by providing affordable housing finance and other ancillary services. Under the directions of the Government, HDFC paid special attention on promoting housing finance to the Agriculture sector and in the Monaragala District, during the year.

Monaragala Development Project

The Integrated Rural Development Project initiated by the Government, in conjunction with the 'Dayatakirula' National Exhibition, was scheduled to be held in Monaragala, in February 2011. HDFC launched a micro loan scheme to finance house repairs and upgrades. Loans were evaluated at the convenience of the customer at mobile public service centers organised under this development project. The Bank launched a special program to promote savings and banking facilities and undertook a project to upgrade a primary School in Buththala and constructing two new buildings.



Promoting financial inclusion

Sustainability Report contd.

Stakeholder Engagements contd.

Agricultural Sector Housing

Rural infrastructure and agriculture are considered important sectors in the development policy formulation process. Therefore HDFC paid special emphasis on extending loan facilities to the community in the agricultural sector.

Sector wise distribution of facilities		
Sector	LKR-M	%
Services	2,140	70%
Industrial	693	23%
Agricultural	231	7%
Other	5	0%
Total	3,069	100%



Promoting financial inclusion



Promoting financial inclusion

Key Performance Indicators - Economic Responsibility

	2010		2009		2008	
Economic Value Creation	LKR-M	%	LKR-M	%	LHR-M	%
Interest Income	2,164.98	96	2,216.37	98	1,941.00	98
Other Income	85.3	4	52.33	2	33.08	2
Total Value Created	2,250.28	100	2,268.70	100	1,974.00	100
Economic Value Distribution						
To Goods & Services Providers	1,505.9	69	1,722.09	76	1,737.00	94
To Employees	314.57	18	277.15	12	236.69	13
To the Government	155.78	7	112.14	5	24.40	1
To the Shareholders (Dividends)	32.35	1	32.35	1	-	
Retaining (Depreciation, Loan Loss Provision, Retained Profit)	241.68	8	124.97	6	-24.00	-9
Total Value Distribution	2,250.28	100	2,268.70	100	1,974.00	100
Contribution to National Housing Stock and Home Ownership						
Cumulative No of Loans up to 31/12/10.	129,935		119,196		113,219	
Cumulative Value of Loans up to 31/12/10 LKR- M	23,570		20,500		19,278	
No of families assisted for house construction during the year	8,993		5,197		4,449	
No of families assisted for other housing purposes during the year	1,746		780		1,110	
No of families assisted to own a house during the year	10,739		5,977		5,559	
Value of the Loans Granted during the year LKR-M	3,069		1,404		1,418	
Average size of Loans Granted during the year LKR-M	0.285		0.235		0.255	
Assisting to Minimise Development Disparities						
Servicing to needy group.	Loan	%	Loans	%	Loans	%
Low Income Group (LIG)	3,930	37	2,600	44	2,345	42
Middle Income Group (MIG)	3,610	34	1,838	31	1,863	34
Wider Income Group (WIG)	3,199	30	1,539	26	1,351	24
Sector wise Distribution of Service - No of Loans						
Service Sector	6,924	64				
Agriculture	1,507	14	No comparative information available			
Industrial	2,300	21				
Other	8	1				

Sustainability Report contd.

Key Performance Indicators - Economic Responsibility contd.

	2010		2009		2008	
	LKR-M	%	LKR-M	%	LHR-M	%
Provincial Distribution of Service -No of Loans						
Western	4,504	42	2418	40	2339	44
Central	1,997	19	1285	21	991	19
Southern	780	7	456	8	384	7
North- Eastern	464	4	153	3	159	3
Uva	643	6	434	7	385	7
North- Central	500	5	224	4	260	5
Sabaragamuwa	828	8	663	1	487	9
North – Western	966	9	344	6	279	5
Northern	57	1	0	0	0	0
Total Loans	10,739	100	5,977	100	5,284	100
Services Provided out of Colombo						
% of loan granted out of Colombo District	8,537	79	4,762	80	3,870	74
% of loan granted out of Western Province	6,239	58	3,559	60	2,945	56
% of loan granted out of Colombo and Gampaha District	7,223	62	4,042	54	3,225	43
Employment Generation and Poverty Ellviation						
Direct employments	425		364		289	
Indirect employments	10,266		4,845		5,118	
Promoting Financial Literacy and Inclusion						
Cumulative No of Mobile Banking Customers.(MBC)	41,568		20,750		12,360	
No of MBCs Promoted During the Year	20,818		7,990		4,850	
MBCs with Avg Daily Deposit is Less than Rs 250/	29,439		18,600		6,560	

Shareholders Responsibility

Highlight 2010

+ **140%**
Profit After Tax YOY

+ **7%**
Shareholders' Fund YOY

+ **272%**
Share Price

Our Strategic Priorities

- Bottom line and shareholder fund.
- Risk management and governance.
- Market capitalization.

Our Approach

The investment commitment displayed continually by our shareholders has always added impetus to our macro vision of providing affordable housing finance. Accordingly, we have strived to balance corporate objectives and shareholder interests, and ensured consistent long term returns to our shareholders while respecting their rights. We have responded to the social, economic and environmental issues inherent in our business. While creating wealth for our shareholders remains a priority in the triple bottom line reporting concept, we also remain cognisant that by creating a sustainable organisation that's driven on the three platforms of economic, social and environmental sustainability, our shareholders in turn will be proud to claim ownership in a respected entity steeped in values, ethics and principles.

Shareholding Structure

Our primary shareholding is with the National Housing Development Authority with the minority stakes held by both individuals and institutions with Perpetual Capital (Pvt) Ltd and Lanka Orix Leasing Company PLC holding 14.03 per cent and 13.19 per cent of the shareholding respectively as at 31st December 2010. We are also proud to be the first state bank in Sri Lanka to have

instituted an Employee Share Ownership Programme, which divested 5 per cent of the Bank's ownership to the staff.

During the year institutional investors have displayed a strong discretion in investing in HDFC shares, thus increasing the institutional share holder base from 74 per cent in 2009 to 91 per cent in 2010. Simultaneously, the stake of the top 20 shareholders also grew from 57 per cent to 89 per cent during the year, reflecting the confidence placed by strategic investors in the Bank.

Shareholder Structure			
	Shareholding		
	2010	2009	2008
Individual	10.1%	25.6%	21.3%
Institutional	90.9%	74.4%	78.7%
Resident	99.8%	99.7%	99.6%
Non resident	00.2%	00.3%	00.4%
Top 20	89.5%	57.5%	74.7
Shareholders	2,118	3,572	3,697

Financial Performance

HDFC recorded a consolidated profit after tax of LKR 135.42 Million compared to LKR 56.45 Million in 2009 recording an YoY rise of 140%. The return on

shareholder funds was 7.59 per cent in 2010 reflecting an YoY increase of 131% compared to 3.28 per cent in 2009. The commendable performance of the bank has enhanced the shareholder confidence as reflected by the highest recorded share price since its listing in the CSE. The table given below indicates the returns we have presented to our shareholders during the last six years.

Returns to Shareholders		
Year	Share Price Rs	Shareholders' Fund Rs M.
2005	191	1,642.87
2006	174	1,800.48
2007	128	1,789.19
2008	56	1,697.10
2009	147	1,721.19
2020	550	1,848.66

Dividends

The Board of Directors has recommended a dividend of LKR 5 per share for approval by the shareholders at the AGM. The dividend payout from 2010 profit will amount to LKR 32 Million.

Sustainability Report contd.

Shareholders Responsibility contd.

Social Recognitions

National Business Excellence Award 2010- First Runner-up , Financial Service Sector, organised by the National Chamber of Commerce of Sri Lanka (NCCSL) in consideration of HDFC's overall performance and the contribution made to the socio economic development of the country

ACCA Sustainability Report Award 2010- Small Scale Category winner for economic, environmental and social impact reporting

ACCA Sustainability Reporting Award 2010- winner of the First Time Reporter on economic, environmental and social impact

HDFC Bank, was awarded the Golden Maco Award 2010, at the Maco Awards organized by Mass Communicators Association of Sri Lanka



Customer and Supplier Responsibility

Highlight 2010

+ 23%
Savings Customers YOY

+ 7%
Deposit Customers YOY

+ 9%
Loan Customers YOY

Our Strategic Priorities.

- Enhance customer reach
- Enhance customer base
- Customer Satisfaction

Customer Responsibility Our Approach

We recognise that our responsibility extends beyond the bottom line, to deliver value to our customers and business partners with whom we interact. We strive to exceed expectations of the customers by providing customised products and services. We emphasise that,

- Affordability,
- Flexibility-customized solutions,
- Accessibility-customer reach,
- Efficient IT based processes,
- Customer satisfaction,

are as the main facets of our customer responsibility. Since 2006 we have been improving our operational efficiency, by broad basing the quality of objectives and targets of our service departments and branches. We are an ISO certified entity and one of the first in the industry to obtain quality certification for the entire operations. This emphasizes our commitment to maintaining quality standards on customer service tenets and principles which form the backbone in creating a sustainable organisation.

Customer – Policy and Governance

Our customer responsibility is governed by Board and management committees within several policies approved by the Board, namely the credit policy, recovery policy, IT policy, information security policy, quality policy, and code of ethics. Our customer approach is also governed by regulatory and economic directives issued by the Central Bank of Sri Lanka and in conjunction with the Government housing and economic policies. We strive to be a fair partner in housing finance by respecting customers' rights in the process of loan evaluation, processing, approving, contracting granting and recoveries.

Our Quality Policy

HDFC Bank shall constantly strive to innovate and delivers total financial solution to satisfy customers beyond their expectation in their home and lifestyle needs. This will be driven by;

- Caring customer service, anticipating requirements and delivering proactive solution.
- ISO 9001-2000 based quality management system and enhancing potential of our staff through motivation, development and recognition.

- Caring customer service, anticipating requirements and delivering proactive solution.
- State of the art Information Technology and Communication Systems.
- Continuous improvement, based on effective measures and efficient processes.

Performance on Customer Responsibility Affordability

Our mission is **“to be a dominant player in the financial service sector by delivering innovative solutions to meet the needs of housing and construction sector”** which holistically encompasses domestic, social, cultural and economic facets for a sustainable development, which in turn permeates prosperity and value creation for the nation at large. Our loans therefore aim to convert an aspiration into a reality, making impossibility - a possibility. A house is a fundamental need, achieving which require a large amount of capital that cannot be invested within a short period from average income of a household. We experienced that for a majority of the population, a house is the only life time savings. Our philosophy is that, a mere brick and mortar structure of

Sustainability Report contd.

Customer and Supplier Responsibility contd.

a house is not a harmonious place of living. For a house to become a home, it should be sustainable and affordable to households, when it is built and maintained using resources efficiently to the economy and environment. We presume that housing costing up to 40% of disposable income is affordable for any household. Therefore we are committed to maintain the monthly cost of our facilities within this benchmark, through customised solutions and innovative products and services.

We revised the interest rates of many loans that had been given when the market rates were at its peak and maintained the interest on new facilities at the best possible rates. Loans targeted for the low income segment was kept at the lowest using a specific pricing

strategy. Tenure of loan which was curtailed as a risk management strategy during turbulent market situations was extended to 15 years and above. Processing cost was reduced in many loan categories. Mobilisation of savings contributed to reduce cost of funds as a strategy of making facilities more affordable.

Customised Solutions

HDFC's service tenets are built upon delivering customised solutions via service excellence. With a view to encouraging sustainable development of the industry and in creating an affordable housing culture, it is imperative that HDFC maintains a product portfolio that encompasses the diverse mix of customers that we possess. Our customers have a common

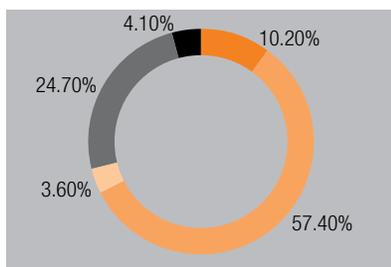
objective of owning a home, however, the criteria to be eligible for a facility differs from customer to customer. Therefore, products and services are developed and facilities are delivered collating a customer's individual requirements, levels and patterns of income, economic activity and available collateral etc. These facilities are extended for physical development of houses such as construction, renovation, extension and purchase of built houses. Our services have been further extended to enable customers to purchase household appliances, furniture, fittings, amenities and accessories. HDFC has also formulated savings, deposit and investment plans tailor-made to suite different customer groups. We identified a dearth in project finance facilities for real estate developers and

CUSTOMIZING SERVICES		
Customizing of Loan Facilities		Deposits/Savings Plans
Customer Need	Loan Products	
• Construction	• Kedella	• Thilina
• Purchase of a house/flat	• Shrama Udana	• Thilina Rakawarana
• Purchase and construction	• Guru Sevana	• Prethilaba
• Redemption existing high interest loans	• Sirisara	• Vishrama Udana
• Extension and reconstruction	• Thilina Home Loan	• HDFC Dana Nidhana
• Renovation, repairs/improvements	• HDFC Home Loan.	• HDFC Fixed Deposits
• Purchase of residential lands	• Farmer's Loan Scheme	• HDFC Mobile Savings
• Purchase of electrical fittings	• Teacher's Loan Scheme	• Arumbu Minor Savings Plan
• Purchase of household accessories	• Project Loans	
• Development loans		
Customized Collaterals		
• Property mortgages		
• EPF backed loans		
• Guarantor loans		
• Group Guarantor loans		
• Cash backed guarantee loans		

we have established a dedicated project loan division to extend facilities to this segment.

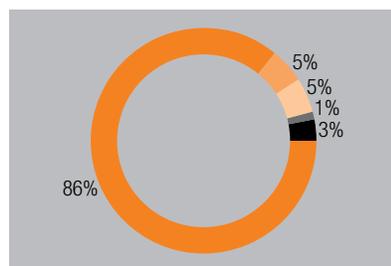
During the year 9,252 facilities were offered for new house construction recording an YoY increase of 78 per cent. Further, 588 facilities were granted for house purchasing while 899 facilities were given for redemption of debts and house hold equipments. The number of facilities offered to EPF members doubled this year to 6,163 facilities as against 3,314 offered in 2009.

Customer wise distribution of service



- General Mortgaged Customers
- EPF Members
- Government Teachers
- Existing Customers (Home Loan)
- Other

Purpose wise distribution of Products 2010



- Construction
- Purchase
- Renovation/repair
- Redemption
- Home Loan

Accessibility and Customer Service

Continuous improvement to customer service is imperative to achieve customer satisfaction. This includes continuous development and upgrading of delivery channels, operational capacity, introducing innovative products and services while motivating our team by providing a conducive environment to work.

Customer Reach and Branch Network

Improving accessibility of our service is a crucial factor in enhancing customer relationships. We recognise that all citizens have an equal right to access our service. Hence HDFC strives to expand our reach in all districts and provinces via fully fledged branches and service centers. We have made our service more accessible island wide via Mobile Banking Units and ATM networks.

During the year we enhanced our geographical presence in the north and the east by opening two branches in Vavniya and Trincomalee. Branch relocation and refurbishment program which was initiated in 2007, continued successfully during the year. Chillaw, Badulla, Tangalle, Kegalle and Ja-Ela branches were relocated in customer convenient locations with improved facilities. Our main branch in Colombo and the Monoragala branch were fully refurbished with contemporary designs and better facilities. Accessibility to our service was increased from 11 ATMs in 2009 to 225 ATMs as a result of strategic alliance signed with Sampath Bank PLC. Number of Mobile Banking units were increased from 55 machines to 81 machines during the year. With the

objective of expanding our geographical presence and customer service, HDFC appointed five regional managers with overall responsibility of regional business development.



Chillaw Branch Relocation

Customer Care Training

During the year providing staff development on customer-care was made a strategic priority. Several indoor and outdoor training programs were conducted using professional trainers. The Mobile Banking team participated in two special customer oriented training programs which bore favorable results through increase in the savings customer base during the year.

New Product and Services

During the year HDFC introduced an attractive minor's savings plan named 'Arumbu' targeting the Tamil speaking community in the north, east and the plantation sector. Another general investment plan named 'Ashcharya' with attractive returns for the customers seeking reasonably attractive returns was launched during the year. HDFC also initiated to sign a strategic alliance with Mobitel with the intention of increasing fee based income by providing value added services to the customers.

Sustainability Report contd.

Customer and Supplier Responsibility contd.



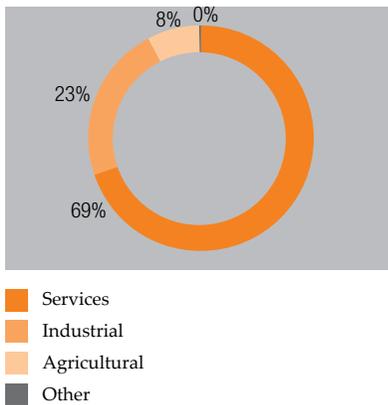
IT Developments

Our user friendly IT initiatives are a hallmark of HDFC IT developments. These developments take place on a continuous basis in conjunction with the competitive market requirements and internal management needs as per the

Initiatives to enhance capacity, customer reach and service - 2010		
Customer Reach and capacity		
Strategy	Objectives	Achievements
Opening two new branches	Enhance geographical presence and customer reach in the North East regions	7% growth in Total Assets
Expansion of mobile banking service to capture non banking community and increase per capita savings	Improve customer reach by providing service at customer door step with special focus on savings	Increased customer base, deposits and savings portfolio by 51%.
Enhancing ATM network	Enhance delivery channels	Increased customer base and deposits
Appointment of Regional Managers	Improve efficiency of operations and expansion of service utilisation	Increased overall growth, profitability and customer reach
Customer care – training	Improve quality of service and customer satisfaction	Growth in loans, savings and deposits and Satisfaction
Regular branch wise promotion	Expanding customer base	Enhanced loans, savings and deposits portfolio
New Products and Services		
Initiative	Description & Objective	Targets & Achievements
Arumbu Minor Savings Plan.	A unique, minor's savings plan designed to mobilise low cost long term funds for financing housing loan portfolio. The product is targeted for children under 12 years with special focus on Tamil speaking community	Improved savings base and result to be consolidated in 2011
Ascharya Investment Certificates	General Investment Plan to mobilise medium term funds. Bank guarantees an attractive return at maturity	Enhance deposit fund. Result to be consolidated in 2011

IT Strategic Plan. Integration of Mobitel and HDFC IT systems for providing TOP UP solutions for pre-paid Mobitel customers and bill collection facilities for post-paid Mobitel customers and the strategic alliance with Sampath Bank which expanded our customer reach through ATMs were significant IT innovations which took place in 2010.

Sector Distribution of Sieves 2010.



Customer Satisfaction

Considering the positive customer response and increase in our customer base it can be construed that HDFC is placed among the best service providers in the housing finance industry. Some of our branches have the expertise to process a housing loan facility to the EPF members within a day. Our goal is to promote this expertise in all our branches. The annual survey on customer perception enabled us to improve our customer service by simplifying procedures and offering tailor-made products whilst providing continuous training on customer care, which in turn has improved our overall customer satisfaction ratio from 53 per cent in 2009 to 80 per cent in 2010.

Customer Satisfaction Survey results			
Survey Criteria	2010	2009	2008
Sample size	4,000	6,000	6,000
Responded	518	1490	2,540
Response	40%	3%	3%
- Excellent			
- Good	35%	36%	29%
- Fair	5%	35%	36%
- Unsatisfactory	0%	23%	30%
- Poor	0%	1%	3%
Overall Rating	80%	53%	46%

Supplier Responsibility Our Approach

Given our business and operational profile, HDFC's interaction with suppliers is limited. Even for that limited portfolio, we strive to be a strategic partner in their interaction with the Bank. We have therefore implemented a comprehensive system that's built on the tenets of transparency and accountability, where controls and monitoring are built in, to ensure that suppliers are treated with meritocracy.

HDFC makes a conscious effort to source suppliers from the vicinity of branches, especially for work related to maintenance and repairs. We allocate resources mainly for stationery expenses. We are committed to ensure that our relationships are with service providers who are registered with HDFC having scrutinised their financial and past records.

Practices and Governance

Standard procurement procedures and ethical practices such as supplier segregation, tender and quotations and evaluation systems are in place. Different committees are vested with responsibilities such as the Tender Boards and the technical evaluation committees based on diversity in the value of supplies. HDFC also follows a high level of transparency and control in tender and procurement procedures. Price negotiations are conducted by a designated team depending on the contract value. HDFC thus has not had any major supplier complaints in the last two years.

We have maintained a high level of supplier satisfaction with timely payments, communication and by respecting their human rights by offering equal opportunities for equally qualified partners.

Sustainability Report contd.

Customer and Supplier Responsibility contd.

Key Performance Indicators – Customer Responsibility

Purpose wise Service	2010		2009		2008	
	No of Loans	%	No of Loans	%	No of Loans	%
Construction	9,252	86.2%	5,197	86.7%	4,449	80.0%
Purchase	588	5.5%	350	5.8%	513	9.2%
Renovation/repair	486	4.5%	52	0.9%	246	4.4%
Redemption	67	0.6%	166	2.8%	39	0.7%
Home loan	346	3.2%	212	3.5%	312	5.6%
	10,739	100.0%	5,997	100.0%	5,559	100.0%
Customer wise distribution of service						
General mortgaged loans	1,100	10.2%	692	11.5%	1,028	18.5%
EPF members	6,163	57.4%	3,134	52.3%	2,110	38.0%
Government teachers	387	3.6%	368	6.1%	889	16.0%
Existing customers (Home Loan)	2,648	24.7%	1,240	20.7%	1,196	21.5%
Other	441	4.1%	563	9.4%	336	6.0%
	10,739	100.0%	5,997	100.0%	5,559	100.0%
Customer Reach and Capacity Building						
Permanent work force	425		364		289	
No of Mobile Bankers	81		58		24	
No of Branches	28		26		21	
No of ATMs access	225		10		4	
No of PCs/staff	71%		69%		63%	

Environmental Responsibility

Our Carbon Footprint

836,488 kwh
Electricity consumed

25,952 Ltr
Fuel consumed

273,921 km
Business travel

3,261 kg
Paper recycled

Our Strategic Priorities.

- Reduce electricity consumption
- Minimise fuel consumption
- Reduce paper

Our Approach

The Bank's commitment to environment sustainability includes an effort to minimize the environmental impact of its loan facilities by promoting sustainable housing and being sustainable in its daily operations.

Sustainable Housing: HDFC is mindful that, our core business of facilitating human settlement has a significant indirect impact on the eco system and climate change. Housing is a fundamental need of a human being as it is the place of dwelling we call a home. Over the years we have transformed our focus from housing finance to home finance. Our philosophy is that for a house to become a home it should:

- **Be affordable and resource efficient:** House construction and maintenance requires a substantial amount of natural resources and energy such as soil, wood, cement, water, electricity and gas etc. Hence it involves a large amount of capital and emits a substantial amount of waste. We believe that housing construction and maintenance should be affordable to the households and resources should be utilised efficiently.

- **Create a decent indoor and outdoor environment:** House is the immediate environment of a family and exerts influence on children's education, health, domestic peace and reflects the quality of life and aspirations of the household. In the process of demographic transition, clusters of homes form neighborhood and clusters of neighborhoods form towns and cities. We believe that sustainable planning and construction create a decent indoor and outdoor environment for the well being of the family.

Operating Sustainably: We consume a large amount of natural resources such as electricity, water and fuel etc and therefore we are committed to manage the consumption of these resources and minimise carbon footprints.

In driving HDFC towards its objectives, we have been mindful of our responsibility to balance environmental needs with human needs and respects human rights. Corporate goals should not exert an adverse impact on the culture, biodiversity and overall uniqueness of our country. In this context HDFC has complied strictly

with the environmental regulations, promoted energy conservation and efficiency, educated customers and promoted sustainable management of natural resources. By focusing on these environmental challenges HDFC also strives to be an active partner to the government in achieving Millennium Development Goals of the county and ensuring environmental sustainability by year 2015.

Environmental Policy and Governance

In 2010, the bank approved the Environment Safeguard Policy, which strengthened the Bank's mandate to set more rigorous standards for lending operation, manage own carbon footprint, resource utilisation and supply chain management. The policy is implemented and followed up by the sustainability executive and credit committees. Programs are being formulated to enhance knowledge and awareness of the staff on environmental aspects of the business operation. The Policy is available at our website www.hdfc.lk for stakeholder reference.

Sustainability Report contd.

Environmental Responsibility contd.

Environmental Performance Compliance with Environmental and Development Regulations

Gathering our pool of knowledge and experience, it is apparent that regulatory complied designs and construction always minimise the negative impact of development and promote more resource efficient construction. Hence for construction loans, we ensure that all plans are formulated by adequately qualified planners and approved, while for all mortgage loans, relevant authority approval for allocation of infrastructure such as road ways, smooth flow of water, assurance of uninterrupted power supply, solid waste disposal and rain water drainage must be obtained. Project loans must comply with the regulation of the all the relevant regulatory bodies such as the UDA, CMC, RDA, LLRB, local authorities, the Condominium Management Authority and/or the Central Environmental Authority. The level of compliance with these regulations are as follows

Compliance with Development Regulation	2010	2009	2008
Approved plans / total construction loans	100%	100%	96%
Approved plan/ total of EPF construction loans	97%	97%	93%
Approved site plan/ total mortgage loans	100%	100%	100%
Local authority complaints / total construction loans	Nil	Nil	Nil
Environmental dispute / total construction loans	Nil	Nil	Nil

Managing Carbon Footprint

In the process of implementing the Environmental Policy, in 2010, the Bank identified that fuel consumption caused by business and staff travel, consumption of electricity, water and paper as the main areas of focus in managing the Bank's carbon footprint. Internal indices were further developed to monitor Green House Gas Emission and targets were set to quantify carbon

dioxide (CO₂) emission in the entire operation of the Bank in 2011.

Business Travel and Fuel consumption

Increase in CO₂ emission is a serious concern in Sri Lanka, especially in urban and industrialised areas. Whilst consuming a substantial amount of fuel and causing a threat to the supply of natural resource, the transport sector is responsible for the highest percentage of CO₂ emissions. In order to strengthen our efforts in minimising carbon emissions, we further developed the internal indicators established in 2009 to monitor and control carbon emissions emanating from business and staff travel. The Bank also focused on reducing vehicle running mileage by developing an index to monitor the mileage per LKR 1 Million loans approved. During the year Bank's fleet of vehicles has run 273,921 kilometers and consumed 25,952 liters of diesel and petrol for business purposes. This

translates into ratio of 8.46 Ltr of fuel per LKR 1 Million loans approved and mileage of 89 Kilometers per LKR 1 Million loans approved. During the year the following initiatives were taken to reduce carbon emissions further:

- Disposing vehicles used for over five years and replacing them with cost and fuel efficient new vehicles

- Contracting an efficient courier services for delivering documents and materials
- Authorising branches to hire vehicles locally for business travel
- Deploying regional staff for branch promotions without using staff from head office or other regions

The above initiatives will encourage efficient utilisation of fuel and thereby cost savings would cascade to the Bank's bottom line, while encouraging the management of emissions judiciously.

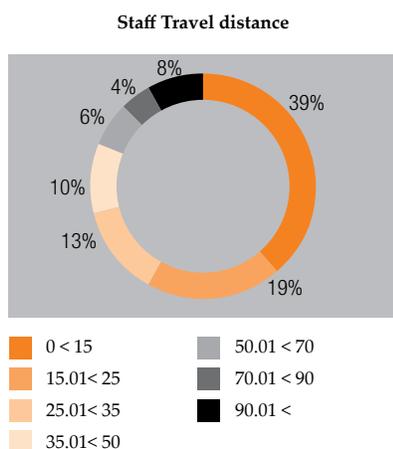
Staff Transport and Emission control

In addition, the Bank is committed to reducing average travel per employee per day from home to office and vice versa. The average travel per employee per day is 75 kilometers in 2010, compared to 52 Kilometers in 2009. This increase is mainly due to new recruitments who were deployed in the North and East. The index will be monitored to reduce the average traveling to a substantial level in 2011. As shown in the following travel index 61 per cent of our staff travels more than 15Kilometers per day. Our goal is to minimize the percentage of employees who travel more than 50 Kilometers per day from 18per cent to 0per cent within the next two years. Accordingly recruitments and transfers will be made based on this travel index. These initiatives will undoubtedly have the following benefits:

- Reduce emissions generated by public and private vehicles influenced by our operations
- Save energy, time and money which eventually permeate the economy to its advantage

- Improve staff efficiency and productivity
- Geographical spread of employees

Daily Travel index schedule		
Travel-Km	Employees	Composition
0 < 15	160	39%
15.01 < 25	80	19%
25.01 < 35	54	13%
35.01 < 50	41	10%
50.01 < 70	26	6%
70.01 < 90	18	4%
90.01 <	33	8%
	412	100%



Electricity and Water Consumption

Internal indices were established to monitor efficiency in consumption of water and electricity. Installation of energy efficient lighting systems and air conditioners in all branches in conjunction with the refurbishment program enabled the bank to conserve electricity consumption per head further, from 2062 units in 2009 to 1986 units in 2010. During the year Bank has taken a step to calculate average electricity

consumption per Sq.ft of building occupied by the Bank which amounted to 13 units in 2010. Bank was also able to reduce water consumption per head from 17 liters to 15 liters in 2010.

Paper Consumption

Waste Management and management of paper consumption were prioritized this year. An internal index was formulated to monitor paper consumption per LKR 1 Million loans approved. In 2009, loan disbursements were made by releasing funds directly to customer savings accounts instead of issuing cheques. Interdepartmental communications were made via emails and intra net whenever possible thus reducing the use of memos. We are also seeking avenues to simplify loan approval process to minimize documentations. These efforts have enabled the bank to reduce average photocopy paper consumption per LKR 1 Million loan approved, from 176 to 148 during the year. There has been considerable savings on print cartridges, maintenance of equipment and the time spent on distribution, handling and filing of documents as well. Going forward, we will continue to improve this ratio further.

Sustainable Procurement and Waste Management

The Bank is committed to procure recycled products whenever possible within reasonable cost boundaries. While the Bank follows a standard procurement procedure for stationery, in compliance with the Bank's environmental policy, this year we promoted procurement of photocopy paper manufactured under the international paper principles; paper produced from planted and renewable forest with environmental responsibility, and brought paper consumption under the 3G concept of reduce, reuse and recycle.

During the year, HDFC provided 3,261kg of waste papers to Neptune Papers (Pvt) Ltd, for recycling purpose. Company has confirmed that our waste management has saved 55 trees, 103,634 liters of Water, 13,044 Kwh of electricity, 5,723 liters of oil and 9 cubic meters of land fill.

Conservation of Biodiversity

Environmental sustainability means managing and protecting our natural resources to make them available for future generations. In Sri Lanka, the natural forest cover has decreased substantially from 80 per cent in 1881 to 24 per cent in 1990 while it has further decreased further by 6.6 per cent from 1990 to 2001. HDFC believes that deforestation has been greatly influenced by the human settlements and recognises its responsibility to safe guard the natural forest. In this context HDFC planted 500 trees, around the play ground of Suboda School, Buttala in line with the Government's 1,100,000 trees program in November 2010.



Promoting Sustainable Housing and Living

HDFC Environmental Policy specifies that every employee should comprehend the importance of incorporating environmental consideration in their daily business activities whenever appropriate. We also encourage employees to reflect their commitment to the environment by supporting

Sustainability Report contd.

Environmental Responsibility contd.

staff driven volunteer programs for promoting in-house greening and educating local communities to improve their environment. HDFC as a leader in housing finance industry believe that youth and children of Sri Lanka must be made aware of the need for these practices to be imbued now for future benefit.

To commemorate the World Habitat Day, the Bank organised a city walk, on the theme of "Better City Better Life." The two kilometer walk with placards and banners ended up at Galle face Green with over 200 participants from the head office, pupils of Colombo Grammar School, Battaramulla, and officers of UN Habitat Sri Lanka office. The objective of the walk was to promote awareness on the importance of maintaining a conducive city environment which is healthy and clean, built around regulations and compliance and devoid of unauthorized constructions which takes its toll on the environment and communities.

The event was highly recognised by environmentalist and city developers and our message was conveyed to city folk.



Key Performance Indicators - Environmental Responsibility

	2010	2009
Save Electricity, Water and reduce Emission		
Electricity consumption Units	836,488	750,659
Electricity consumption - Units per employee	1986	2062
Electricity consumption per Sq:ft occupied (comparative figures not available 2009)	13	-
Water consumption Ltr	6,331	6,218
Water consumption Ltr- Per employee.	15	17
Paper Consumption- Save Trees, Resources and Reduce Emission		
No of paper purchased-Pkts	900	500
Weight of Photocopy paper purchased- Kgs	2,375	1,275
No of photocopy papers consumed per LKR 1M loan approved	146	178
Waste paper disposed for recycling-Kgs	3,261	2,345
Recycling of disposed papers have saved - Tree	55	-
Water- Liters	103,634	-
Electricity- Kwh	13,044	-
Oil - Liters	5,723	-
Land fill- cubic Meters	9	-
Business Travels, Energy Consumption and Emission Controls		
Diesel and petrol Ltr consumption	25,952	26,405
No of Km run by Bank's vehicles	273,921	214,466
Vehicle mileage per approved loan value LKR 1M	89	153
Fuel Ltr (petrol & diesel) per LKR 1M loan approved.	8	18
Fuel Ltr per loan approved	2.4	4.4
Staff Transport, Energy Consumption and Emission Controls		
Total travelling per day-km	31,115	19,508
Avg traveling per employee per day (Home-office-home) - Head Office- Km	76	54
Avg traveling per employee per day (home-office-home) - Branch-Km	75	50
Avg traveling per employee per day (home-office-home) - Bank-Km	75	52

Social Responsibility - Sustaining Our Team

Highlight 2010

+ **17%**
Staff Strength

+ **14%**
Benefits and emoluments

+ **29%**
Satisfaction YoY up

Strategic Priorities

- Strengthening
- Capacity maximising
- Satisfaction

Our Approach

HDFC expects our employees to actively endorse and support our corporate values. Simultaneously, we promote diversity, equal opportunity and creativity of our staff by creating an environment they could train and develop to their full potential. We endeavor to maintain a high standard of occupational health and safety and maintain a cordial labour relationship with the objective of creating a motivating and healthy environment to retain their services and expertise for a longer period.

Since HDFC was converted from a State Corporation to a Licensed Specialised Bank, developing human capital to reach the high standards maintained within the competitive banking environment has been a challenge. A complete transformation stemming from attitudinal change, increasing productivity, emphasis on quality and aligning vision and mission to customer service tenets and business strategies became increasing priorities and areas that needed rapid and inclusive training and development. Comprehensive orientation programs that were

conducted on regular basis has resulted 80 per cent of the staff adjusting themselves to meet the new challenges and setting themselves goals aligned to our vision to create a sustainable business growth. As depicted in the profile indicators below, the average age of our staff is above the industry average which is a valuable wealth to our organisation as there is a high potential for development in line with the standards of the competitive banking environment.

Team Profile	2010	2009	2008	2007
No of Staff	425	364	289	286
Percentage of Women	45%	46%	52%	52%
Percentage of Graduate	19%	21%	17%	17%
Percentage of Professionals (Including Banking)	45%	41%	34%	34%
Average Age (Years)	36	37	39	39
Average Service Period (Years)	8.8	9.64	11	11
Average Absenteeism	8.40%	10.60%	-	-
Average Medical Consultation - LKR	47,024	40,228	22,728	30,104
Percentage of employees covered by Collective Agreement	98%	98%	98%	98%
Turnover Index	2.58%	4.67%	1.70%	1.70%
Average Gross Salary - LKR	47,266	57,371	42,696	39,943
Average Basic Wage - LKR	18,266	15,849	17861	17643

Sustainability Report contd.

Social Responsibility - Sustaining Our Team contd.

HR Practices and Governance

HDFC is an equal opportunity employer as discrimination based on religion, caste, gender or any other profile is not in our mandate of HR recruitment and development. We also ensure that we follow the ILO declaration on fundamental principles which aim to achieve both economic growth and equity through a combination of social and economic goals. HDFC also follow other relevant human resources standards and regulations very stringently. HDFC refers the Establishment Code for all labour related matters where internal policies and rules are not available. We do not condone child or underage labour nor do we exercise any gender biasness within our organization. Recruitment is based on transparent procedures such as newspaper advertisements, written tests and interviews. Recruitment decisions are based on qualifications, merit and capabilities. Priority is given to internal candidates when filling vacancies. We encourage geographically diversified and multiethnic participation and recognise the right of unionisation.

All material HR matters are referred to the Board HR subcommittee. New recruitments and promotions are effected based on the carder plan approved under the Corporate Plan of the Bank.

Performance Review and Follow up

A staff appraisal system has been formulated to recommend annual salary increments and identify employee attitudes and training and development needs. Separate appraisal systems are in place for the following categories.

- i) Managerial & Heads of Divisions
- ii) Executives, Clerical & Allied Grades
- iii) Office Assistants & Drivers

Annual appraisals are conducted for the entire staff of the Bank. Employee feedback and results of the staff satisfaction survey enable the Bank to identify specific training and development needs. Branch wise loan targets, recoveries and fund mobilisation are some the categories used in performance appraisal. Fund mobilisation targets were given to all the staff members with the objective of creating a competitive environment for skill management and development of human capital.

Training and Awareness

Staff Satisfaction Survey is considered as the key strategy used to identify staff attitudes, training and development needs. 348 employees responded to the survey conducted in 2010, representing 82 per cent of the total staff of the Bank. The results of the survey are highlighted below:

Even though the results showcase that an average of 88 per cent are happy with their job, while 79 per cent claims HDFC employee relations are more than satisfactory and would recommend it as a preferred workplace, we do realise that some areas of gap do exist. These include recognition for contribution at 77 per cent and being sufficiently remunerated at 53 per cent both of which have deteriorated compared to 2009. We are now in the process of addressing these issues through the introduction of a performance related rewards and recognition system with local and overseas training and career development opportunities. HDFC also plans to implement an incentive culture which would add more scope to individual capabilities while promoting a team working culture within the organisation.

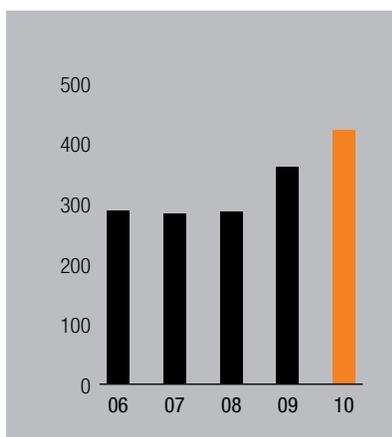
Results of the staff satisfaction survey	2010	2009
	% of Yes	% of Yes
Are you happy with your job?	88%	68%
Are you satisfied with your work load?	75%	74%
Do you believe the work load is equally distributed?	49%	45%
Are the leaders positive role models?	78%	69%
Supervisor keep you well informed what is happening ?	79%	67%
Are your views and contribution valued?	77%	75%
Receive appropriate recognition for your contribution?	55%	56%
Does your salary match your responsibility?	53%	59%
Satisfied with your understanding of the bank's goal?	70%	68%
You recommend your friends to work for HDFC?	79%	75%

Decent Work Performance Team Strength and Provincial Distribution

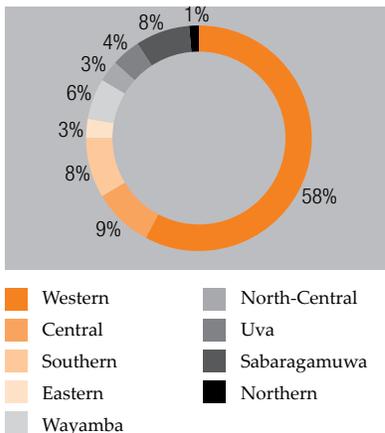
During the year the staff strength was increased to 425, from 364 in 2009. Majority of the new recruits were absorbed into the sales team. This was in line with Bank's strategy that 60 percent of the staff should comprise the sales team in order to accelerate credit growth and savings mobilisation. The new recruits were mainly school leavers recruited on contract basis and absorbed to the permanent carder based on their performance. HDFC conducts regular training and orientation programs to improve performance of the staff and provide a satisfactory career development.

Our workforce is mainly concentrated in the Western province as the 32 per cent of the total staff is based in the head office in Colombo. In an effort to promote an equitable regional staff distribution HDFC reduced the work force in the Western province from 64 per cent in 2008 to 58 per cent in 2010 while 50 per cent of the new recruitments in 2010 were mainly from the north - Central and Northern provinces.

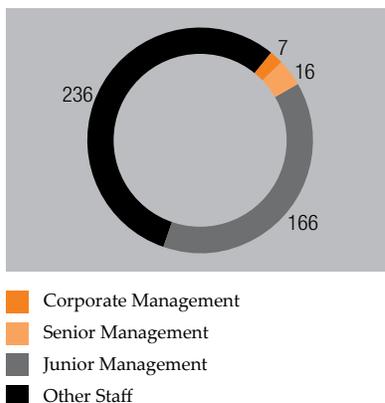
Improving Team Strength



Provincial Distribution of Our Team



Team by Employment Type & Contract



Team Remuneration, Benefits and Turnover

As indicated in the summary of team profile HDFC has reduced the average cost per employee from LKR 57,371 in 2009 to LKR 47,266 in 2010, while maintaining a substantial increase in the average basic salary, mainly as a result of new recruitments. Average remuneration of HDFC is in par with other state banks. Consequent to the collective agreement salary revision and the cost of new recruitments, the staff

emoluments increased by LKR 38 Million in 2010 compared to LKR 267 Million in 2009. Apart from the basic salary and emoluments HDFC offers the following benefits to the permanent carder:

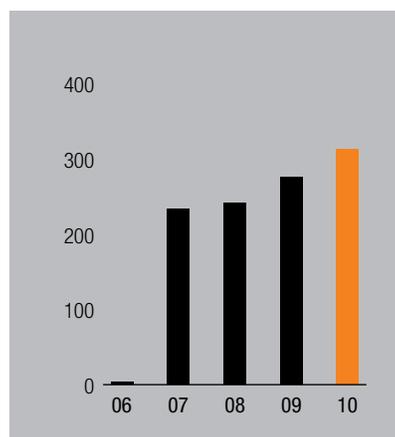
- Employee Share Ownership Program (ESOP)
- Comprehensive medical scheme
- Death donation and funeral assistance scheme
- Special loan scheme for housing, furniture and other housing related matters
- Vehicles loans at a special interest rate
- A distress loan scheme
- Two months bonus per annum
- Special risk allowance for cashiers
- Holiday bungalow facilities owned by the Bank

These benefits have a substantial influence on the employee turnover which has declined from 4.67 per cent in 2009 to 2.58 per cent in 2010. A noteworthy decline from 4.4 per cent to 2.17 per cent in staff turnover was recorded in the category of Banking Assistants which was a significant improvement during the year. Further staff happiness index as improved from 68 per cent to 88 percent in 2010.

Sustainability Report contd.

Social Responsibility - Sustaining Our Team contd.

Team Emoluments



Contributions to Defined Benefits Plans

As per the Employee Provident Fund Act and Employee Trust Fund Act, HDFC is statutorily liable to contribute a sum equal to 12% and 3% of monthly gross salary to the Employee Provident Fund (EPF) and Employee Trust Fund (ETF) respectively to fulfill obligation of the Bank as the employer for the well-being of the employees at their retirements. Employees' contribution to the EPF is 8 per cent of the monthly salary. Further HDFC also liable to make a statutory provision, a sum equal to 50% of the salary to a gratuity fund under the Gratuity Act No 12 of 1983 to provide further retirement benefits to the employees. During the year the Bank has paid LKR 29 Million EPF and ETF contributions and made a provision of LKR 15 Million to employee gratuity fund.

Key Performance Indicators - Decent Work Performance

	2010	%	2009	%	2008	%
Team by employment type & contract						
Corporate Management	7	2%	8	2%	9	3%
Senior Management	16	4%	13	4%	11	4%
Junior Management	166	39%	169	46%	92	32%
Other Staff	236	56%	174	48%	177	61%
Total	425	100%	364	100%	289	100%
New Appointments						
Corporate Management	0		1	1%	0	
Senior Management	0		0		0	
Junior Management	1	2%	0		0	
Other	59	98%	75	99%	3	100%
Total	60	100%	76	100%	3	100%
Turnover						
Corporate Management - %	0	0%	0	0%	-	
Senior Management - %	1	0%	0.27	0%	-	
Junior Management - %	1	23%	0	0%	-	
Other - %	9	2%	16	4%	-	
Bank Average - %	22	3%	4.67	5%		3%
Provincial Distribution of our team						
Western	246	58%	216	59%	185	64%
Central	37	9%	36	10%	24	8%
Southern	36	8%	31	9%	21	7%
Eastern	12	3%	9	2%	8	3%
Wayamba	25	6%	22	6%	16	6%
North-Central	13	3%	7	2%	5	2%
Uva	18	4%	13	4%	9	3%
Sabaragamuwa	33	8%	30	8%	21	7%
Northern	5	1%	0	0%	0	0%
Total	425	100%	364	100%	289	100%
Team Emoluments : LKR -M						
Salaries	206	66%	180	65%	160	66%
Overtime	7	2%	2	1%	8	3%
Bonus	35	11%	29	11%	25	10%
Staff Medical	14	4%	12	4%	9	4%
Encasement of leave	8	3%	6	2%	6	2%
Contribution to defined benefits plans - Gratuity	15	5%	21	8%	12	5%
- EPF	23	7%	21	7%	18	7%
- ETF	6	2%	5	2%	4	2%
Total Rs M	314	100%	276	100%	242	100%

Labour Relation and Human Rights

Freedom of association and collective bargaining is a human right of the workers in an organisation, as defined by the UN Universal Declarations of Human Rights and ILO conventions. Collective bargaining is a forum of stakeholder engagement that helps to build institutional framework and is seen by many as contributing to a stable society. HDFC approach to industrial relations spans beyond the collective bargaining mechanism. HDFC recognizes Ceylon Bank Employee's Union (CBEU), comprising almost 98% of our staff across all executive grades, as a consultative and supportive group that articulate a forum for improved communication, grievance handling and, career counseling. Collective Agreement is available at the corporate web site www.hdfc.lk for public reference.

HDFC maintains an organisational practice of ensuring timely discussion of significant operational changes such as transfers, promotion, disciplinary actions etc with employees and representatives of Trade Union (TU). For this purpose, one month notice is given as a practice where practicable to help to minimise any adverse impacts from operating changes on employees. Nevertheless it is not defined in the collective agreement.

Collective Agreement was renewed during the period and compensations and other benefits of employees were renegotiated and enhanced. Board nominated Management Committee, namely Staff Relation Committee, comprising of five members from the Corporate Management was appointed for improving effective and timely engagement with the TU and staff grievances handling.

There are 4 litigations filed by ex-employees and existing employees against the Bank on grounds of human rights against discrimination. Staff Relation Committee appointed in 2010, was delegated with the responsibility of engaging with staff and the TU to make recommendation to the management to minimize reoccurrence of such staff grievances and ensure a smooth relationship.

Staff participation at TU activities

The Bank encourages voluntary and active involvement of our staff in in-house and industrial TU activities. The Bank congratulated Mr. Kesara Kottegodage, the president of the HDFC branch of Ceylon Bank Employees Union (CBEU), when he was elected as the Vice President of the CBEU (parent body) one of the largest trade union in the country.

Work life balance Promoting Wellbeing

We offer our employees a variety of facilities and benefits to enable them to maintain a healthy work life balance and thereby reduce stress levels and be more work oriented. Creating a healthy work life balance is imperative to improve productivity and commitment of the staff. HDFC Staff Health Plan was an important initiative taken by the Bank to achieve this balance, apart from the numerous welfare initiatives including concessionary housing, vehicle and distress loans, insurance and death donations. The percentage of workforce represented by the staff health plan is 67.30 per cent and majority of them participate voluntarily in organising health and safety programs.

Apart from the Health Plan, HDFC implements a range of health and safety measures to maintain a hazard free office environment. Some of these initiatives include, promoting healthy housekeeping practices, providing cashiers and managers risk allowance and a difficult area allowance. Health facilities under the Health Plan and other benefits are covered by the collective agreement. Apart from the measures above, the following initiatives were taken by us in 2010 to maintain health and safety:

Key Performance Indicators - Labour relation and Human Right cases

	2010	2009	2008
No of Staff	425	364	289
CEBU membership	419	355	282
Membership %	98%	98%	98%
Employee benefiting from full freedom of association %	100	100	100
No of pending HR cases against the Bank	4		

Sustainability Report contd.

Social Responsibility - Sustaining Our Team contd.

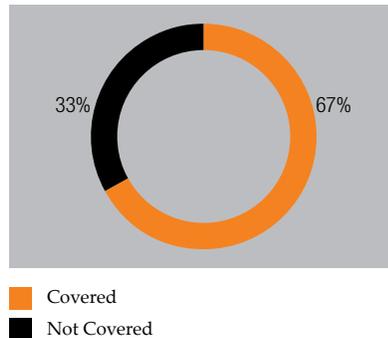
- Implementation of Business Continuity Plan to address emergency situations
- To facilitate a healthy and a safe environment, five branches were relocated and two branch were fully refurbished
- Arrangement were made to provide safe drinking water and standard lighting systems to all branches
- All female members of the staff at Head Office participated in a health education program.
- Security was provided to branches with ATM facilities for the first time
- Educational seminar on currency notes was organised for all promotional assistants to minimise risk of accepting counterfeit notes.
- A Chemical treatment campaign was conducted in the head office for Dengue prevention and all branches were encouraged to follow suit.
- The HDFC Community Policy approved by the Board in 2010, acknowledges Bank's commitment to sponsor a needy person for a medical, sports or educational need and encourages voluntary staff participation.

These initiatives demonstrate HDFC's commitment to health and safety and these strategies has enabled us to maintain zero-accidents, zero occupational diseases and lost days and also achieve a sharp decline in absenteeism and average medical claims.

Cultural and Sport Events

HDFC encourages the staff to develop cultural and sporting talents as it creates camaraderie and promotes a sense of team spirit among our employees. The

Staff Covered by Health Plan



Buddhist society of HDFC conducts a Pirith and an almsgiving ceremony in the head office annually with financial contribution from the Bank and staff members. This year the ceremony was conducted in March with the participation of a large number of staff and the former Chairman and CEO/ General Managers as special guests. The Buddhist and Christian societies celebrated Wesak and Christmas by organising a Bhakthi Gee ceremony and participating in Christmas carols organized by NHDA respectively.

During the year, HDFC Bank Cricket team participated in several six-a-side matches organised by the Central Bank and People's Bank.

Capacity Maximizing Training and Development

Given the challenges we experienced due to the Bank's profile conversion and the fact that we were now within the orbit of a competitive banking environment, training and development became a vital tool for our sustainability as a bank and a business. Recognising that our team needs to be geared for the challenges ahead, it became imperative that a knowledge gaining culture is imbued into the everyday operations of the Bank.

With the objectives of developing knowledge that support the continuity of our staff and assisting them to successful career retirement, we have initiated several programs as mentioned below.

- Granting interest free loans for professional examinations
- Reimbursement of course fees for examination passed and qualifications gathered while in employment
- Encouraging all new recruits to obtain a banking qualification within a specified period
- Financing industry training and workshops

Key Performance Indicators - Occupational Health & Safety

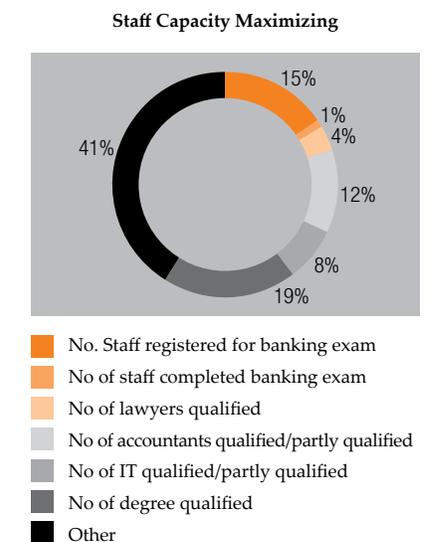
	2010	2009	2008
Staff covered by the health plan	67.00%	69.00%	70.00%
Average medical claimed per employee- LKR	47,024	40,228	22728
Occupational injury	0	0	0
No of occupational diseases	0	0	0
No of lost day rate	0	0	0
Absenteeism rate	8.40%	10.60%	10.80%
Fatality	1	1	0

- Continuous in-house and external training and orientation programs
- Special programs to improve English and Tamil literacy
- Special recognition is given in the staff promotion policy for obtaining additional banking qualifications after joining the bank

As depicted in the table below, we significantly increased the number of training hours given to the sales staff and junior executives. Total training hours in 2010 increased by 147 per cent compared to 2009.

Special Training on Customer Care

In response to the training needs identified through customer and staff satisfaction surveys and individual performance appraisals a special three day training and orientation program



was conducted on customer care for our staff at all levels. Since conversion into a licensed specialised bank, the business environment we have to compete in has become increasingly competitive. In this context we have identified specific training needs for our staff especially

in the areas of customer care, customer rights, industry practices, banking law, governance, anti-corruption, risk management, development regulations, organizational policies and procedures etc. with a focus on customer orientation.

Further Education

The conducive strategies implemented in the recent years have resulted in a significant qualitative improvement in our workforce. The numbers registered with the Institute of Bankers for professional banking examinations and banking qualified increased to 16 per cent in 2010 compared to 10 per cent in 2009. The percentage of graduates qualified in the areas of commerce, accounting, economics, arts, geography and valuation amounted to 19 per cent of the workforce. These developments have substantially strengthened the sustainability of the Bank.

Key Performance Indicators - Capacity Maximizing

	2010	%	2009	%	2008	%
Training Type - Training man days						
Internal	1,474	98%	505	83%	305	75%
External	19	1%	101	17%	101	25%
Foreign	10	1%	3	0%	2	0%
Key Performance Indicators - Diversity						
Total Days	1,503		609		408	
Average training days per employee	4		2		1	
Strengthening with Professionally Qualification						
No. Staff registered for banking exam	65	15%	54	15%	26	9%
No of staff completed banking exam	5	1%	5	1%	2	1%
No of lawyers qualified	16	4%	16	4%	16	6%
No of accountants qualified/partly qualified	50	12%	49	13%	48	17%
No of IT qualified/partly qualified	33	8%	33	9%	32	11%
No of degree qualified	82	19%	77	21%	51	18%
Other	174	41%	130	36%	114	39%
Total	425		364		289	

Sustainability Report contd.

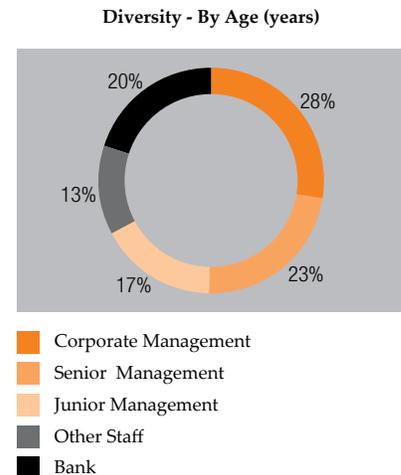
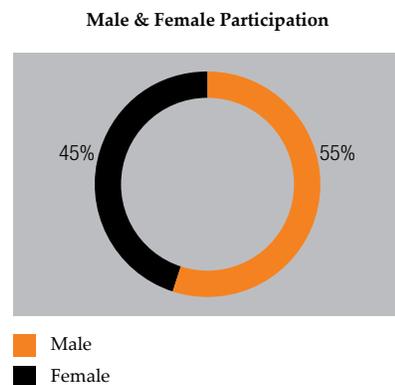
Social Responsibility - Sustaining Our Team contd.

Diversity and Equal Opportunity

The extent of employee diversity based on gender, age group, service period and ethnicity within an organisation is imperative for the stability of the human capital. HDFC is an equal opportunity employer, paying a uniform remuneration for men and women for work of equal value. From the inception we have employed a high percentage of women in our organisation which amounted to 46 per cent in 2009. During 2010, we strategically recruited more males to strengthen our sales team and thereby reduced the percentage of women in our workforce to 45 per cent by the year end.

The average service period of above five years indicates the level of stability and average age of 36 reflects a high potential

for development. In 2009, 99 per cent of our workforce comprised of Sinhalese which was identified as a constraint for sustainable regional expansion of the Bank. In order to expand the ethnic diversity in 2010, we made a conscious effort to recruited staff from minority groups which enabled us to dilute the majority representation from 99 per cent to 93 per cent by the year end.



Key Performance Indicators - Diversity and Equal Opportunity

	2010		2009		2008	
	M	F.M	M	F.M	M	F.M
Diversity- by Gender Participation						
Corporate Management	7	0	8	0	0	
Senior Management	9	7	7	6		
Junior Management	72	98	71	98		
Other Staff	143	89	112	62		
Total	231	194	198	166	139	150
Gender	55%	45%	54%	46%	48%	52%
Diversity - By Age (years)						
Corporate Management	50		49		51	
Senior Management	41		43		46	
Junior Management	31		32		41	
Other Staff	23		23		38	
Bank	36		37		39	
Diversity- by average service (years)						
Corporate Management	5		4		46	
Senior Management	13		12		11	
Junior Management	13		13		13	
Other Staff	4		9		12	
Average Bank	9		10		11	
Diversity- by Ethnic Group						
Sinhalese	401	93%	357	99%		
Tamil	14	4%	4	1%		
Moor	10	2%	3	0%		
Total	425	100%	364	100%		

Social Responsibility - Sustaining Community

Highlight 2010

+ 55%
Investment in Community

Our Approach

The community is an important Stakeholder of HDFC. The ethos of our bank is focused on sustaining the community given that our core business is fulfilling a primary need of the community which is shelter. Over the past two and half decades we have made a significant contribution to improve the physical quality of life of the low and middle income segment of our nation by facilitating affordable housing finance in order to fulfill their dream of owning a home which itself creates a sustainable environment for them to built their future upon. We also acknowledge our responsibility to involve ourselves with the community which enables us to build deep relationships with customers and promote the reputation and image of the bank. Investment in the community is most effective when is built on a foundation of mutual benefit and a long term partnership.

Policy and Governance

Our community investment policy focuses mainly on the following six strategic directives;

- Sustainable housing and living
- Financial inclusion
- Clean water and health

- Education and Sports
- Donation and sponsorships
- Volunteerism on disaster management

HDFC Community policy is available at www.hdfc.lk for public reference. During the year Bank has invested over LKR 4.492 Million in the process of policy implementation representing 2% of cash earnings before tax.

Our community participation responsibilities are governed by the CSR steering Committee headed by the Chief Executive Officer/ General Manager represented by DGM (Finance), AGM (Business Development & Marketing), AGM (IT), Manager Technical, Manager Treasury and a representative of the Trade Union. CSR projects and activities are proposed, identified, screened and evaluated based on social cost benefits and is submitted for Board approval. Project implementation is assigned to

Community Policy at a glance

The Bank recognises that it has an inbound responsibility for sustainable development of the industry, and improvement of physical quality of lives of people, hence committed;

1. to promote innovative housing technologies that are economical to the common man and equitable to the country and environment
2. to focus on providing banking facilities to non banking communities and proliferate banking and saving habits among them
3. to enhance accessibility to clean water and healthcare
4. to contribute and participate in the society to achieve the goal of Universal Primary Education by the year 2015.
5. to participate in promotion of sports in schools and society
6. to donate and sponsor community organisations and individuals for medical, sports, education and in times of natural disasters. Also ensure that all donations and sponsorships are properly recorded, accounted and disclosed and encourage voluntary staff participation

Sustainability Report contd.

Social Responsibility - Sustaining Community contd.

the CSR Project Committee represented by a member from each functional department. The outcome of each project is reported to the Board on the completion of a project.

Community Performance Promoting Sustainable Living and Financial Inclusion

THILINA THARU Art Competition

For the second consecutive year we organized an island wide art competition to commemorate UN Habitat day 2010, jointly with the UN Habitat Sri Lanka office and the aesthetic division of the Ministry of Education. The competition was launched under the theme "Better City better Life" in conjunction with the UN Habitat theme 2010. The program is opened to children from grade one grade twelve and organized annually with the objectives of:

- Promoting environmental education and sustainable living
- Promoting aesthetic talent of children
- Inculcating savings habits among our future generation.

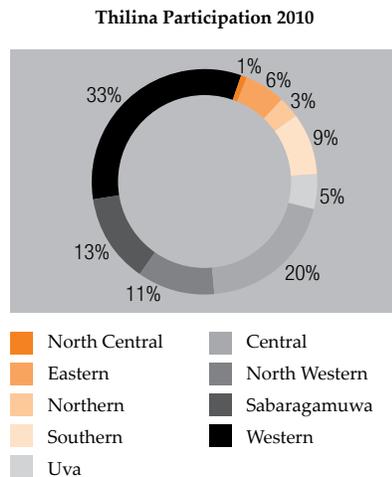
The competition was opened from 1st July to 30th October and 13,879 paintings were submitted from schools and preschools island wide. There was a high level of participation from the children of North and East which was commended by all stakeholders. Awards and certificates were distributed at a ceremony held at the John de Silva Art Center where 176 students from all provinces participated. Total project investment was Rs 2.108 Million. Please refer www.hdfc.lk for more details of the project.

Recognising differently able children

Two students from Yasodara Vidyalaya, Colombo, were awarded with gifts and certificates under a special category for differently abled children.



Thilina Tharu winners- national level



Part of the gathering at the Thilina Tharu ceremony



Children performing at the Thilina Tharu ceremony



Recognising talent of differently able children

Participation for the Thilina Tharu Competition

	2010	2009
North Central	86	117
Eastern	807	671
Northern	406	106
Southern	1,302	1,788
Uva	649	102
Central	2,728	1,492
North Western	1,520	188
Sabaragamuwa	1,831	1,654
Western	4,552	5,513
Total	13,879	11,631

Children Savings with Bank's Sponsorships

To inculcate savings habits among school children, HDFC launched a "THILINA" minor savings accounts in schools and preschools with an initial deposit of LKR

100/= from the Bank. This was conducted in all districts via the branches. We invested LKR 530,600 on this program in 2010.

THILINA Certificates for Displaced Children

To commemorate the opening of HDFC Vavuniya Branch, the Bank extended an investment certificate named THILINA Rakawarana to 50 deserving children in the north and east. Our initial investment was LKR 300,000/- and we guaranteed a return of LKR 950,000/ on maturity to these children upon reaching the age of eighteen.

Promoting Clean Water and Health

HDFC Eye Camp

Poor eye health is a key health issue faced by a majority of Sri Lankans. Due to negligence and lack of knowledge many are facing this issue especially among the low income segment of our country. Recognising the importance of eye health in promoting the sustainability of this segment, we organised an eye camp at the Manning Market in Colombo in commemoration of World Health Day 2010. The camp was organised for the daily waged shop assistants and labourers with the cooperation of the traders' welfare associations in Manning Market. More than 525 blue collar workers who obtained the services of the camp in the Manning Market are our valued customers who use our Palm Top banking facility for daily deposits. Majority of them participated for a vision care program for the first time and the summary of the outcome of the eye camp is given below:

No of beneficiaries and testing results	No of heads	
persons attended the camp	525	
persons needed eye glasses	235	45%
persons needed near vision correction	125	53%
persons needed single vision wear	16	7%
persons needed Bifocal for distance.	41	17%
persons needed Bifocal for constant use	53	23%
persons needed reading Glasses	125	
persons needed custom made spectacles	110	

Bank granted customised glasses for all needy participants and total cost invested on this project was LKR 315,406.

Promoting Education

Suboda Primary School Development Project, Buththala

Suboda Vidyalaya is a school situated in Buththala, facing Kathragama road, providing education up to grade 10. There are approximately 100 students who have undergone many hardships due to lack of adequate building space, study material, library facilities, sports, sanitary and water facilities. The lack of teachers and the threat of wild elephants were the other issues faced by the school. When we initiated this project the school was virtually neglected with a steady decline in the number of students majority of whom were from the low income families.

HDFC sports club selected to rehabilitate Suboda Vidyalaya as a CSR project and Board approval was obtained to implement the program in conjunction with the Monaragala Integrated Rural Development Project organized under the Dayata Kirula exhibition scheduled to be held in February 2011 in Monaragala. An estimated cost of LKR 3.5million is being spent to develop and rehabilitate the school. Refurbishing

of existing buildings, construction of new buildings, repairing the existing sanitary and water facilities, promoting commercial cultivation and putting up a bio fence for protection from wild elephants are some of the activities undertaken by the project. Apart from that 500 teak plants were also planted around the school premises. This is a project funded by the Bank and staff with substantial assistance from villages by volunteer labour and materials. During the year Bank has spent Rs 500,000/- towards this project The program is scheduled to be completed by February 2011. Please refer our web site www.hdfc.lk for more details of the program.



Foundation laying Buttala Suboda School development Project

Sustainability Report contd.

Social Responsibility - Sustaining Community contd.

Assisting Schools with Study Materials

This project was initiated last year to assist rural children of less privileged families with educational materials. During the year, we distributed school bags and books to 85 children in Butthala at a cost of LKR 40,000.

Donation and Sponsorships

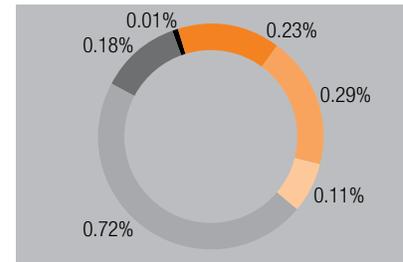
During the year, Bank has spent LKR 1.3 Million as donation and sponsorships for social events organised in various organizations, societies and schools, for the wellbeing of the society and the industry. Some of the significant donations and sponsorships are as follows:

- Sponsorship of the Samurdhi Staff welfare societies - LKR 102,000
- Sponsorship of the 'Thunkal Dakma' Fund raising program - LKR 335,000
- Dayata Kirula national exhibition - LKR 305,000.

Staff Voluntarism

HDFC encourages voluntary staff participation in community projects and in the event of natural disasters. Voluntary participation in community projects is imbued to HDFC employees, by creating a platform for them to actively participate in CSR projects and community development and social activities initiated by the CSR Committee and the Sport Club. Our staff donated generously towards supporting their fellow members in need of financial assistance due to hospitalisation, housing, education, and flood etc. During the year staff has donated over LKR 1.6 million for this purpose.

Community Investment 2010 as a Percentage of PBT



- Promoting sustainable housing & living
- Promoting financial inclusion
- Promoting clean water and health
- Promoting educational, cultural and sport activities
- Donation and sponsorships
- Staff voluntarism (paid hours)

Key performance indicators - Community Investments

Event	2010	
	Amount - Rs.	As % of PBT
Promoting sustainable housing & living	665,000	0.23%
Promoting financial inclusion	830,600	0.29%
Promoting clean water and health	315,400	0.11%
Promoting educational, cultural and sport activities	2,108,000	0.72%
Donation and sponsorships	535,000	0.18%
Staff voluntarism (paid hours)	38,500	0.01%
Bank contribution towards social well-being	4,492,500	1.54%
Staff voluntarism towards social well-being		
Total		

Impacts and challenges in maintaining the triple bottom line

It must be noted that economic, social and environmental sustainability is inextricably linked and in order to create a sustainable organisation, all three facets must be in place. In general, the housing and housing finance industries are challenged via numerous impediments with a housing finance institution like ours in particular, facing more threats than regular banking institutions. The impediments detailed below do have a significant impact on our bottom line and poses immense challenges to maintaining a sustainable milieu for a going business concern. It is these challenges and other constantly emerging threats that has spurred HDFC to be pragmatic in our view for the future.

Challenge	Our strategies to overcome
Housing finance in general should be long-term and low cost to make it affordable to an average income household. The difficulty in sourcing long-term matching funds is a challenge in developing economies such as Sri Lanka.	<ul style="list-style-type: none"> ● Strive to increase risk pooled savings and deposit funds by enhancing customer reach and with new savings and deposits products ● Arrangement of long-term borrowings from other banks and financial institutions through secondary mortgage market operations ● Efficient portfolio management in both assets and liabilities ● Efficient assets and liability and financial risk management operation
Housing finance should be long term in nature. But prediction of long-term macro economic variables is a significant challenge in emerging economies like Sri Lanka.	<ul style="list-style-type: none"> ● Maintain adjustable interest policy ● Maintain a diversified portfolio ● Be vigilant on market behavior ● Be regulatory complied and sound ● Efficient portfolio management in both assets and liabilities ● Efficient asset and liability and financial risk management operations
Above 75% of our customers are from the low and middle income group with poor financial literacy, inadequate collaterals and lack of documentation of proof of income for credit evaluations.	<ul style="list-style-type: none"> ● Expansion of mobile banking operation to promote financial inclusion ● Acceptance of alternative securities ● Exercising a more corporate approach in credit evaluation ● Diversification of lending based on income ● Providing ancillary services such as technical, valuation and legal services ● Close monitoring and follow-up
The need for governance as real estate forms one of the largest asset bases of the country and is prone to artificial pricing, unhealthy competition, lack of accountability long term vision and transparency	<ul style="list-style-type: none"> ● Establish an in-house valuation, technical and legal department ● Comply with the regulation of local authorities and other regulatory bodies ● Be compliant with industry standards and good governance practices ● Regular credit review and customer relations ● Be compliant with external codes and best practices in finance and construction industries
Growth in the housing sector is constrained due to artificial rise in land prices, high wages in the construction industry, high cost of building materials and lack of skilled labour	<ul style="list-style-type: none"> ● Maintain affordability of finance ● Promote low cost affordable housing technologies ● Promote awareness on sustainable construction and living ● Promote geographical diversity in lending ● Knowledge based products and services
Maintaining affordability and accessibility of service to masses with open market competition	<ul style="list-style-type: none"> ● Efficient risk management ● Research and development on new customised products and services ● Improve quality of service and customer satisfaction ● Development of staff through training and customer orientation ● Promote financial inclusion and enhance accessibility for housing finance

Sustainability Report contd.

Social Responsibility - Sustaining Community contd.

Commitment to focused engagements - 2010

Commitments made in 2009	Status
<ul style="list-style-type: none"> The branch network will be added to with ten more customer service centers, primarily in the North and East 	In progress
<ul style="list-style-type: none"> The strategic Sampath Bank ATM tie up, which was scheduled for completion in 2010 to ensure that our ATM network will be accessible islandwide, encompassing a total of 225. 	Achieved
<ul style="list-style-type: none"> IT processes and systems are being enhanced for seamless connectivity and efficiency, especially in loan approval and disbursements. 	Partly achieved and in progress.
<ul style="list-style-type: none"> More ethnic diversity will be seen within the team and a policy to recruit staff proportionately from all ethnic groups is being established 	Partly achieved and in progress
<ul style="list-style-type: none"> New financial instruments, currently being researched, will be introduced to raise long term matching funds, in addition to structured debt instruments as an attractive investment option 	Partly achieved and in progress.
<ul style="list-style-type: none"> Investing heavily on the overall improvement of the operational quality of the Bank and in upping the customer service tenets via surveys, mystery customers and indices 	In progress.

Focused Engagements - 2011

Stakeholder	Focused Engagements
Government	Maximize direct economic value creation
	Enhance value and number of housing loans with especial focus on low and middle income groups
	Focus on expanding banking services in the north and east
	Actively participate in government's special regional development projects
	Enhance lending to customers from agriculture and agricultural industries
	Enhance strategies to attract unbanked community and empower them through savings and housing loans
Shareholders	Timely and regular publication of quarterly financial results and Annual Report 2011
	Reconstruction of corporate website to communicate wider range of corporate information including economic, environmental and social performance
	Enhance profitability and shareholders fund with efficient portfolio management
	Strengthen strategies for risk management
	Maintain above the industry average growth
	Enhance brand and corporate image
Customer	Enhance customer reach by opening five new branches and through ATMs
	Diversify the product range with new customized loan, savings and deposit products
	Enhance mobile banking operation with 30 new operators to provide customer convenient and friendly service
	Introduce new value added services at customer convenience
	Introduce code of ethics and customer relations

Stakeholder	Focused Engagements
Environment	Implement a branch wise competition to promote efficient utilisation of energy and resources
	Initiate to quantify GHG emission and manage own carbon footprint
	Initiate to introduce green products, green operations and cost effective housing technologies
	Strive to inculcate sustainable living and construction practices
	Implement 'one tree for one loan' project to improve and protect bio- diversity
	Strive to reduce indirect energy consumption from staff transport
Employee	Continue with career development and training with special focus on foreign training
	Introduction of a unique branch performance appraisal system which encompass career training, development, rewarding star performers
	Review HR policies
	Appointment of the head of HR- recruit a highly capable qualified and experienced professional able to face challenges of development and expansion
	Expansion of field sales through new recruitments for Palm Top operations
	More ethnic and geographical diversity within the staff
Community	Complete school development project at Monaragala in February 2011
	Implement Computer literacy center project already approved by the Board to promote IT education
	Investment on promoting education by assisting schools
	Continue with Thilina Tharu Children's Art exhibition in 2011
	Continue with the community awareness program on sustainable living in conjunction with the world Habitat day 2011

Assurance Report



Tel : +94-11-2421878-79-70
+94-11-2387002-03
Fax : +94-11-2336064
E-mail : bdopartners@bdo.lk
Website : www.bdo.lk

Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

Independent Assurance Report in Relation to the Sustainability Report – 2010

Introduction and Scope of the Engagement

The management of HDFC Bank ("Bank") engaged us to provide an independent assurance on the following elements of the Sustainability Report 2010 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 69 of the Report.
- Limited assurance on key performance indicators and other information presented in the Report.

Responsibility of the Management on the Report

The Management of the bank is responsible for the preparation and presentation of the Report in accordance with the Bank's sustainability practices and policies which are derived from Global Reporting Initiatives (GRI-G3) Sustainability Reporting Guidelines. These responsibilities include among other things, identification of stakeholders and material issues, determining the sustainable performance criteria for reporting and establishing appropriate processes and internal control systems to measure and report the sustainability performance criteria.

Our Responsibility

Our responsibility is to perform a reasonable and limited assurance engagement and express conclusions based on the work performed in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("ICASL").

Reasonable assurance is a high level of assurance. However, reasonable assurance is not an absolute level of assurance because there are inherent limitations of assurance engagement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

This Report is made solely to the Bank in accordance with our engagement letter dated January 24, 2011. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our

engagement, we have complied with the independence requirements of the Code of Ethics for professional Accountants issued by the ICASL.

Assurance Procedures Carried Out

Financial Information

We reconciled the information on financial performance as reported on page 69 of the Report with the audited financial statements of the Bank for the years ended December 31, 2009 and 2010.

Key Performance Indicators

We reviewed the reliability of the data/information on Key Performance Indicators for the year ended December 31, 2010 based on reviews of:

- the systems used to generate, aggregate and report these information;
- the information reported by the relevant business units to corporate level;
- the information validation processes at corporate and business level;
- the information trends in discussions with management and
- the calculation performed by the Bank on a sample basis through recalculation.

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Partners : S. Rajapakse FCA, MBA, Ms. M.S.E. Raymond FCA, S. G. Ranjith ACA, Tishan H. Subasinghe FCA, CISA
H.S. Rathnaweera ACA, Ashane J.W. Jayasekara ACA, MBA, H.M. Saman Siri Lal ACA
Consultant : V. Sinnadorai FCA



Tel : +94-11-2421878-79-70
+94-11-2387002-03
Fax : +94-11-2336064
E-mail : bdopartners@bdo.lk
Website : www.bdo.lk

Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

Other Information

We planned and performed following assurance procedures on other information presented in the Report:

- Inquiring relevant Bank's personnel to understand the process for collection, analysis, aggregation and presentation of information in the Report.
- Reviewing the system used to generate, aggregate and report the information in the Report.
- Interviewing the senior management and relevant staff at corporate level and selected business unit level and obtained the evidence concerning sustainability strategy and policies for material issues and implementation of those across operation of the Bank.
- Reviewing and validating the information contained in the Report.
- Reading the information presented in the Report to determine whether that information is in line with our overall knowledge of, and experience with, sustainability performance of the Bank.

Conclusion

Based on the procedures performed, as described above, we conclude that:

- The information on financial performance as specified on page 69 of the Report is properly derived from the audited financial Statements of the Bank for the years ended December 31, 2009 and 2010.
- Nothing has come to our attention that causes us to believe that key performance indicators and other information presented in the Report are not presented, in all material respects, in accordance with the Bank's sustainability practices and policies which are derived from GRI (G3) Sustainability Reporting Guidelines.

BDO Partners

Chartered Accountants
March 23, 2011
Colombo

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Partners : S. Rajapakse FCA, MBA. Ms. M.S.E. Raymond FCA. S. G. Ranjith ACA. Tishan H. Subasinghe FCA, CISA
H.S. Rathnawera ACA. Ashane J.W. Jayasekara ACA. MBA. H.M. Saman Siri Lal ACA
Consultant : V. Sinnadorai FCA

Global Reporting Initiative (GRI) Index

The Global Reporting Initiative (GRI) G3 reporting framework, has been used as a guide in the preparation of the Sustainability Report 2010. This index provides a comprehensive listing of the GRI Indicators reported by HDFC Bank, including the financial service sector supplement on social and environmental performance.

Indicators that have been addressed within the Sustainability Report are marked as SR and indicators that have been addressed within the Annual Report are marked as AR in the index reporting section of the GRI index schedule.

On the basis of the reported indicators, disclosure of approaches on sustainable business practices and independent assurance HDFC Bank assessed its Sustainability Report 2010 as a B+ level report.

		C	C+	B	B+	A	A+
Mandatory	Self declared						
Optional	Third party checked.				✓		
	GRI checked						

GRI Index - 2010			
PROFILE			
	Index	Reporting Section in AR and SR	Page
1	Strategy & Analysis		
1.1	Chairman and CEO's comments	AR- Chairman's statement. AR- Chairman's statement on Governance AR- CEO's Review Statement. SR- CEO's Sustainability Statement	11 - 13 109 - 110 15 - 17 55
1.2	Description of key impacts, risks and opportunities	AR- Chairman's statement. AR- CEO's Review Statement. AR- Management Discussing and Analysis SR- Key Impacts and Challenges SR- Sustainability Approach. AR- Risk Management Report	11 - 13 15 - 17 31 - 40 95 56 - 58 43 - 51
2	Organizational profile		
2.1	Name of the organization	AR- Corporate Information - Inner Back Cover	192
2.2	Primary brands, products, and services	AR- Products and Services. SR- Customer Responsibility.	8 - 9 73 - 76
2.3	Operational structure of the organisation	AR- Corporate Information - Inner Back Cover AR- Corporate Governance	192 110
2.4	Location of the organisation's headquarters	AR- Corporate Information - Inner Back Cover	192
2.5	Countries where the organisation is active	Sri Lanka.	-
2.6	Nature of ownership and legal form	AR- Corporate Information - Inner Back Cover AR- Ten year summary - Profile	192 184

2.7	Markets	SR- Economic Responsibility SR- Customer Responsibility	63 - 70 73 - 78
2.8	Scale of reporting organisation	AR- Ten year summary - Profile	184
2.9	Significant changes during the period	None	-
2.10	Awards received during the period	SR- Awards and Recognitions	72
3	Report Parameters		
	Report Profile		
3.1	Reporting period	SR- Reporting period	54
3.2	Date of most recent previous report	SR- Reporting period	54
3.3	Reporting cycle	12 months Period	-
3.4	Contact persons for queries on the report	SR- Editorial information	54
	Report Scope and Boundaries		
3.5	Process for defining report content	SR- Reporting framework and guide lines	54
3.6	Boundary of the report	SR- Defining report boundary AR- Accounting Policies	54 168 - 170
3.7	Limitations on the scope or boundary of the report	SR- Defining report boundary SR- Specific limitations	54 54
3.8	Basis for reporting on subsidiaries	SR- Specific limitations	54
3.9	Data measurement /calculation techniques	SR- Data measurement	54
3.10	Comparability with previous reports	SR- Defining report boundary	54
3.11	Significant changes from previous reporting	None	-
	GRI Content Index		
3.12	GRI Compliance Index	SR- GRI Index	100 - 107
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4	Governance, Commitments & Engagement		
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4.2	Chairman of the Board	AR- Chairman's Statement AR- Corporate Governance. AR- Chairman's Statement on Governance.	11 - 13 110 109
4.3	Highest governance body	AR- Corporate Governance	109 - 143
4.4	Methods for shareholders and employees to propose recommendations to the Board	SR- Labour relations and HR AR- Corporate Governance -13	87 109 - 143

Global Reporting Initiative (GRI) Index contd.

4.5	Remuneration of senior executives	AR- Corporate Governance	134 - 137
4.6	Processes for avoiding conflicts of interests of the Board	AR- Corporate Governance, AR- Directors' interests	131 179
4.7	Processes for determining the competence of Board members	AR- Corporate Governance	111 - 125
4.8	Mission, values, code of conduct, etc.	AR-Mission and Vision	2 - 3
4.9	Monitoring of the sustainability work by the Board	SR- Sustainability Governance. AR- Corporate Governance	56 109 - 146
4.10	Processes of evaluating the performance of the Board Commitments to External Initiatives	AR- Corporate Governance	133 - 134
4.11	Application of the precautionary principle	AR- Risk Management report. SR- Precautionary approach and risk mgt.	43 - 51 57
4.12	Compliance to external voluntary codes, principles or other initiatives	SR- Association to external codes and initiatives SR- Environmental Performance AR- Risk Management report	57 80 43 - 44
4.13	Membership in organisations	SR- Association with organisations AR- Risk Management Report	57 43 - 44
4.14	List of stakeholder groups	SR- Key stakeholder groups and commitments	59 - 60
4.15	Basis for identification and selection of important stakeholders.	SR- Basis of recognizing stakeholders and engagement with them.	57
4.16	Approach to stakeholder engagements.	SR- Key Stakeholders groups and Commitments SR- Our approach – on each stakeholder group	59 - 60 63, 71, 79, 83, 91,
4.17	Key topics and concerns raised through dialogue with stakeholders.	AR- Management discussion SR- Key stakeholders groups and commitments	31 - 42 59 - 60
ECONOMIC PERFORMANCE INDICATORS			
	Disclosure of Management Approach	SR- Our Approach , Policy and Governance	63
EC1	Direct economic value and distribution	SR- Direct economic value creation. SR- Key performance indicators- economic	63 - 64 69 - 70
EC2	Risks to the organisation due to climate change	AR- Risk Management and mitigating strategies in place- Market risk	44, 48 - 49
EC3	Coverage of the organisation's defined benefit plan and obligations	SR- Contribution to defined benefits plan SR- Key performance indicators- decent work	86 86
EC4	Financial assistance received from the Government	None	-
EC5	Standard entry level wage compared to local minimum wage	Not reported	-
EC6	Purchases from local suppliers	SR- Supplier responsibility	77

EC7	Recruitment of senior management from the local community	Not reported	-
EC8	Investment on infrastructure and services provided to the public	SR- Community participation SR- Key performance indicators - community investment	91-94 94
EC9	Significant indirect economic impact from operations	SR- Economic responsibility SR- Key performance indicators- economic	63-68 69, 70
ENVIRONMENTAL PERFORMANCE INDICATORS			
	Disclosure of Management Approach	SR-Our Approach, Policy and Governance	79
	Material		
EN1	Materials used by weight or volume	SR-Paper consumption , key performance indicators	82, 81
EN2	Recycled input materials	SR- Sustainable procurement and waste management SR- Key performance indicators - environment	81 82
	Energy		
EN3	Direct energy consumption	SR- Business Travels and fuel consumption. SR- Key performance indicators - environment	80, 81 82
EN4	Indirect energy consumption	SR- Staff transport and emission controls SR- Key performance indicators - environment	80, 81 82
EN5	Energy saved due to conservation and efficiency improvement	SR- Managing carbon footprint. SR- Key performance indicators - environment	80, 81 82
EN6	Initiatives to provide energy-efficient or renewable energy based products and services and consequent reduction in energy requirements	SR- Managing carbon footprint SR- Promoting sustainable housing. SR- Key performance indicators - environment	80, 81 81 82
EN7	Initiatives to reduce indirect energy consumption and reduction achieved	SR- Managing carbon footprint. SR- Key performance indicators - environment	80, 81 82
	Water		
EN8	Total water withdrawal	SR- Electricity and water consumption SR- Key performance indicators - environment	81 82
	Emission, Effluents and Waste		
EN16	Direct and indirect greenhouse gas emissions	SR- Managing Carbon Footprint. SR- Key performance indicators - environment	80, 81 82
EN17	Other relevant indirect greenhouse gas emissions	Not quantified.	-
EN18	Initiatives to reduce greenhouse gas emissions	SR- Managing carbon footprint SR- Key performance indicators - environment	80, 81 82
EN22	Total weight of waste discharged by type and disposal method	SR- Paper consumption SR- Procurement and waste management SR- Key performance indicators - environment	81 81 82
EN23	Total number and volume of significant spills	Not applicable	-

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	Products & Services		
EN26	Actions to reduce environmental impact of products and services	SR- Compliance with environmental and development regulations SR- Promoting sustainable housing and living SR- Key performance indicators - environment	80 81 82
EN27	Products sold and use of recyclable packaging materials	Not Applicable	-
	Compliance		
EN28	Fines for non-compliance with applicable environmental laws	No violation or fines paid by the Bank	-
	Transport		
EN29	Environmental impact from transport	SR- Business travels and fuel consumption. SR- Staff travel and emission controls. SR- Key performance indicators - environment	80 80, 81 82
EN30	Total environmental protection expenditure	Not quantified	-
SOCIAL PERFORMANCE INDICATORS			
	Labour Practices and Decent work		
	Management approach	SR- Our approach, HR Practices and governance SR- Training awareness	83, 84 84
LA1	Breakdown of total workforce	SR- Decent work performance SR- Key performance indicators - decent work	85 86
LA2	Employee turnover	SR Team remuneration, benefits and turnover SR- Key performance indicators - decent work	85 86
LA3	Benefits provided to employees	SR Team remuneration, benefits and turnover SR- Key performance indicators - decent work	85 86
	Labour/Management relations		
LA4	Collective agreements covered by employees	SR- Labour relations and human rights SR- Key performance Indicators - labour relation	87 87
LA5	Minimum notice period(s) regarding operational changes	SR- Labour relations and human rights	87
	Occupational Health & Safety		
LA6	Total workforce represented in health and safety committees	SR- Work life balance SR- Key performance indicators - occupational health	87 88
LA7	Rates of injury, occupational diseases, lost days	SR- Work life balance SR- Key performance indicators - occupational health	87 88
LA8	Programs to assist workforce regarding serious diseases	SR- Work life balance SR- Key performance indicators - occupational health	87 88
LA9	Health and safety topics covered in union agreements	SR- Work life balance SR- Key performance indicators - occupational health	87 88

	Training & Education		
LA10	Average hours of training per year per employee	SR- Training and awareness SR- Capacity maximising SR- Key performance indicators - capacity max	84 88 89
LA11	Management of lifelong learning	SR- Capacity maximising SR- Key performance indicators - capacity max	88 89
LA12	Per centage of employees receiving regular performance reviews	SR- Performance review and follow up	84
	Diversity and Equal Opportunities		
LA13	Composition and diversity of workforce	SR- Diversity and equal opportunity SR- Key performance indicators - decent work SR- Key performance indicators - diversity	90 96 90
LA14	Basic salary ratio of men to women	SR- Diversity and equal opportunity SR- Key performance indicators - diversity	90 90
HUMAN RIGHTS			
	Management approach	SR- Our approach – customer, shareholder, suppliers, employees, environment	63, 71, 73, 79, 83, 84
HR1	Consideration for human rights on investments	SR- Our Approach – customer	73
HR2	Human rights in the supplier chain	SR- Our Approach – supplier	77
HR3	Training and education in human rights	SR- Capacity maximising SR- Key performance indicators - capacity max	88 89
	Non- Discrimination		
HR4	Total number of incidents of discrimination and actions taken	SR- Labour relation and human rights SR- Key Performance Indicator - Labour Relation & HR	87 87
	Freedom of association and collective bargaining		
HR5	FOA may be at a significant risk and actions taken	SR- Labour relation and human rights	87
	Child, Forced and Compulsory Labour		
HR6	Operations with risk of incidents of child labour	SR- HR practice and governance	84
HR7	Incidents of forced or compulsory labour and actions taken	SR- HR practice and governance	84
	Security Practices & Indigenous Rights		
HR8	Security personnel trained on human rights	Coordinate with head of security	-
HR9	Violations involving rights of indigenous persons	Not Applicable	-
SOCIETY			
	Management Approach	SR - Our approach, policy and governance - Economy SR - Our approach, policy and governance - Community	63, 64 91, 92

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	Community		
SO1	Impact of operations on communities	SR- Community responsibility SR- Economic responsibility	91 - 94 63 - 70
	Corruption		
SO2	Business units analyzed for risk related to corruption	AR- Risk Management SR- Precautionary approach and management	43 - 51 57
SO3	Training on anti-corruption policies and procedures	SR- Capacity maximising	88 - 89
SO4	Actions taken in response to incidents of corruption	No reported incidents	-
	Public Policy		
SO5	Participation in public policy development and lobbying	Not Reported	-
SO6	Total value of financial contributions to political parties, etc.	None	-
	Ant- Competitive Behavior		
SO7	Total number of legal actions for anti-competitive behavior	No reported incidents	-
	Compliance		
SO8	Monetary value of fines for non-compliance with laws	None	-
PRODUCT RESPONSIBILITY			
	Management Approach	SR- Our approach - Customer Responsibility	73
PR2	Non-compliance with regulations	Not applicable	-
PR3	Type of products and service information	Not applicable	-
PR4	Non-compliance with regulations on information	Not applicable	-
PR5	Practices related to customer satisfaction	SR- Customer Satisfaction SR- HDFC Quality Policy	77 73
PR6	Programs on adherence to laws, standards and voluntary codes for marketing communications	Not reported	-
PR7	Non-compliance with regulations and marketing	No reported incidents	-
PR8	Breach of customer privacy	None	-
PR9	Monetary value of fines for non-compliance	None	-
FINANCIAL SERVICE SECTOR SUPPLEMENT.			
	Specific Disclosure on Management Approach		
FS1	Policies with specific environmental and social components applied to business lines	SR- Environmental policy SR- Community policy. SR- Stakeholder communication policy. SR- HDFC quality policy	79 91 59 - 60 73

FS2	Procedures for assessing and screening environmental and social risks in business lines	SR- Stakeholder engagement	63 - 94
FS3	Processes for monitoring environmental and social requirements	SR- Compliance with environmental and development regulations. SR- Stakeholder engagement. SR- Environmental key performance indicators.	80 63 - 94 82
FS4	Process(es) for improving staff competency to implement environmental and social policies	SR- Capacity maximising	88
FS5	Interactions with clients/investors/ business partners on environmental and social risks and opportunities	SR- Environmental responsibility SR- Environmental key performance indicators.	79 - 82 82
FS6	Analysis of the portfolio based on region and size	SR- Economic responsibility SR- Key performance indicators - Economic. SR- Customer responsibility SR- Key performance indicators - Customer.	63 - 70 69, 70 73 - 78 78
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line analysed based on purpose	SR- Economic responsibility SR- Customer responsibility SR- Community responsibility	63 - 70 73 - 78 91 - 94
FS8	Monetary value of products and services designed to deliver a specific environmental benefit	SR- Environmental responsibility	79 - 82
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies	Annual audit of CBSL and, ISO and regular monitoring by the compliance department on policy implementation	122, 144, 56, 57
FS 11	Percentage of assets subject to positive and negative environmental or social screening	Not reported	-
FS12	Voting policy(ies) applied on environmental or social issues for shareholders with voting rights	None	-
FS13	Access points to less populated or economically disadvantaged areas	SR- Economic responsibility SR- Customer responsibility	63 - 70 73 - 78
FS14	Initiatives to improve access to financial services for people who do not have access to formal banking channels	SR- Economic responsibility SR- Customer responsibility	63 - 70 73 - 78
	Indicator Protocol	Specific Commentaries	
EC1		SR- Sustaining community SR- Key performance indicators - community invest	91 - 94 94
EN16		SR- Managing carbon footprint SR- Key performance indicators	80, 82 82
HR1		The functions of loan processing, approval, contracting, disbursement, follow up and recoveries are conducted with due respect to human rights	73 - 74