

Social Value Creation

Customer and Supplier Responsibility

Highlights 2011

+24%

Deposit Customer Base

Our Approach

We recognize 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 fair and customized products and services. We emphasize that,

- Socially responsible banking,
- Maintaining affordability of our service ,
- Flexibility-customized solutions,
- Customer satisfaction,

are as the main facets of our customer responsibility. Since obtaining ISO quality certification in 2006, we have been improving our operational efficiency, by broadbasing the quality objectives and targets of our service departments and branches. We were 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 maintain quality standards on customer service tenets and principles which form the backbone in creating a sustainable organization.

+11%

Branches

+38%

ATM Access

+78%

Satisfaction

Strategic Priorities

- Socially Responsible Banking
- Customer Reach
- Customer Satisfaction

Our Facets of Socially Responsible Banking

Product Responsibility	Right of fair information and information security	Managing conflict of interest and corruptions	Improving accessibility of financial service	Promoting financial literacy and inclusion
<p>We strive to be a fair partner in housing finance by respecting human ' rights in the procedure of product development, product advertising, loan evaluating, approving, contracting, granting and recoveries.</p> <p>In the process of loan and deposit product development, a robust design process takes place assuring fairness and compliance with legal and regulatory requirements and voluntary codes of best practices. All loan agreements and , mortgage bonds have been drafted with due screaming on human rights aspects.</p>	<p>We respect the customer rights to know fair information on any banking transaction. Our Communication of Bank's products and services is always based on principles of ethical and responsible advertising.</p> <p>The Bank is extremely conscious of the need to safeguard the interest of its depositors and loan customers and strives to maintain high degree of risk management through system security, internal controls, policies and procedures. We do not levy monopolized interest or charges on our products and services.</p>	<p>We do not encourage any form of corruptions, malpractices and irregularities weather is in public or in house which threaten social wellbeing.</p> <p>We encourage customers to be complied with all applicable laws and regulations and also strive our self to be complied with. We have taken all steps to manage conflict of interest between the Bank, employees and present and prospective customers.</p>	<p>We recognize that all citizens have an equal right to access our service. Equal access to capital for all segment of a community is important from the prospective of maintaining social balance.</p> <p>In this direction, the Bank strives for , continuous improvement and upgrading of delivery channels, operational capacity, introducing innovative products and services which are imperatives to achieve and sustain customer satisfaction.</p>	<p>We recognize that people in the society are not equally knowledgeable on banking and financials.</p> <p>Insufficient financial literacy can result in poor management of resources of individuals threatening social sustainability.</p> <p>We experience that financial deepening gives us enormous opportunities for business expansion particularly in the emerging market of low and middle income segment.</p>

Maintaining Affordability of Our Services

Our mission is to improve 'The Physical Quality of Life through Sustainable Living', 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 an impossibility - a possibility. 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, house is the only life time savings. Our philosophy is that, a mere brick and mortar structure of a house is not a harmonious place of living. For a house to become a home, it should be sustainable to the nature and society and affordable to households, when it is built and maintained.

We presume that housing cost up to 40% of disposable income is affordable for any household. This benchmark depends on variable such as collateral values and income pattern, nature of income source etc. Therefore we strive to maintain the monthly cost of housing , within the 40% benchmark of average household income , through customized solutions and innovative products and services

Social Value Creation *contd.*

Flexibility and Customized Solutions

HDFC's service tenets are built upon delivering customized 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.

Our 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 strive continuous improvement in our processes and services with more customer and user friendly IT based products. The basis of product customizing is more enumerated in the Customized Product Schedule, given below.

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. Many of our branches expertise to process a housing loan facilities to the EPF remembers within a day. Our goal is to reach this processing time as the Bank's average

Policy and Governance

HDFC Bank's responsibility of operating as a fair banker is implemented by several Management Committees and governed by the Board of Directors through several Board Subcommittees such as Recovery Subcommittee, Integrated Risk Management Committee, Valuation Committee, Audit Committee etc. Our customer approach is also governed by the regulatory directions issued by the Central Bank of Sri Lanka, Colombo Stock Exchange(CSE) and industry codes of best practices, ensuring fair and social responsible Banking. Moreover, HDFC Bank is compelled to comply with economic policy directives issued by the Ministry of Finance and Planning of the Government of Sri Lanka, being the founder and the principle shareholder. All these policies and directives guide the Bank to carry out the business within the statutory scope of operation enacted by the Act.

Policy and Governance Framework - Socially Responsible Banking

Internal policies assuring fair and socially responsible banking	Regulatory Directions and Voluntary Coded of Practices adopted by HDFC Bank to assure fair and socially responsible Banking
<ul style="list-style-type: none"> • HDFC Staff Code of Conduct • HDFC Information Security Policy. • HDFC Credit Policy • HDFC Recovery policy. • Treasury Investment Policy. • Assets and Liability Policy. • HDFC Sustainability Policy. • HDFC Environmental Policy. • HDFC Community Policy. • HDFC Integrated Risk Management Policy 	<ul style="list-style-type: none"> • Know your customer policy • Antimony laundering policy. • Customer Charter • Misleading and Unethical Advertisements • Display of interest rates, exchange rates and service charges. • Inadequate / Incorrect Disclosures/press statements • Code of best practices for corporate governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and CSE • The Policies on whistle blowing and whistle blowers safeguarding

Our Quality Policy

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

- Caring customer service, anticipating requirements and delivering proactive solutions.
- ISO 9001-2000 based quality management system and enhancing potential of our through motivation, development and recognition.
- Caring customer service, anticipating requirements and delivering proactive solutions.
- State of the art Information Technology and Communications Systems, coupled with continuous improvement based on effective measures and efficient processes

Our Engagements

Socially Responsible Banking

Policy Development and Training

During the year operational policies such as Information Security, Community Participation, Integrated Risk Management, Treasury Investment, Assets and Liability Management were approved by the Board of Directors. Meanwhile, Customer Charter and Staff Code of Conduct were approved to avoid and manage conflict of interest between the Bank, customers and employees. Several operational procedure manuals were redeveloped and revised in line with the advancement of the products and service.

Staff training programs were conducted in the areas of banking related laws, property management, operational manuals, pawning and gold collateralized loans, anti money laundering, risk management, etc. During the year 278 members of the staff were trained spending 2,242 paid hours.

Whistle blowing mechanism and risk management

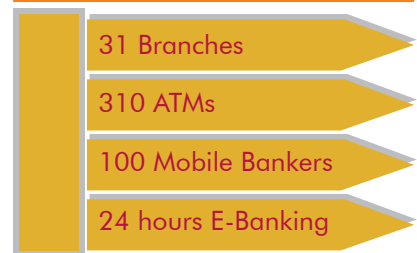
HDFC Bank accepted whistle blowing as a strong mechanism against corruptions, malpractices and irregularities and appointed two members from the corporate management to accept and analyze whistleblower compliance. Further integrated risk officer and compliance officer were appointed to analyze reputational and credit risk arising from corrupt practices and strengthen regulatory and statutory compliance.

Improving Accessibility to Housing Finance

Our Delivery Channels

Improving accessibility of our service is a crucial factor in enhancing customer relationships. We have made our service more accessible island wide via Mobile Banking Units and ATM networks. We provide mobile banking solution in approximately 136 townships through 31 branches and service centers

Our Banking Channels

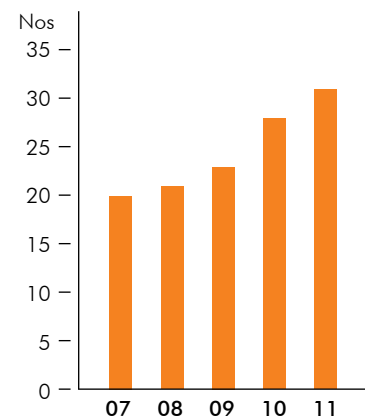


Our Initiatives 2011

Expansion and Improvement of Branch Network

During the year we enhanced our geographical reach by opening three branches in Gampola, Kuliypitiya and Paliyagoda. Branch relocation and refurbishment program which was initiated in 2007, continued successfully during the year. Gampaha, Ja-Ela, Homagama, and , Kurunagala branches were relocated in customer convenient locations with improved facilities. Batticaloa Branch was refurbished with contemporary designs and better facilities.

Branch Network



Social Value Creation contd.



Branch Opening - Paliyagoda



Branch Opening - Paliyagoda



Branch Relocation - Kurunegala



Branch Relocation - Kurunegala



Branch Relocation - Homagama

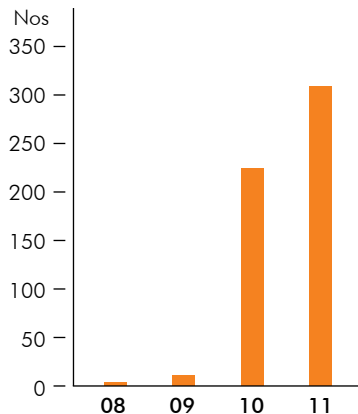
Regional Management

HDFC appointed five regional managers in 2010. These managers were provided with improved office facilities in new office buildings with the objective of improving operational efficiency and productivity which was expected through this initiative.

Enhancing ATM Access

Accessibility through ATMs improved from 225 to 310 via the strategic alliance signed with Sampath Bank PLC in 2010. With this cost effective initiative our customers are facilitated to transact through any Sampath Bank's ATM, throughout the island.

ATM Access



Strengthening of Mobile Banking

Number of Mobile Banking units were increased from 81 operators to 100 operators during the year. With the objective of accelerating our geographical presence and efficiency in customer service, During the year, we expanded the operation in to 105 townships other than towns where HDFC has its branches.

New Product and Services Group Housing Fund Scheme

During the year HDFC introduced an investment plan namely "HDFC Group Housing Fund Scheme" which offers the market highest returns to small long term savings that maintained for retirement needs.

Under this scheme any social group, association, organization, village can establish a their own group investment fund at HDFC Bank where the Bank is agrees to offer an interest rate which is equal to 75% of the interest rate that Bank charged for the lowest priced housing loan at any given time. The product was focused to address the need of the aging population who seeks a return for his investment above the market verage return for catalyzing wealth to the retirement life.

Welcome retirement with confidence INVEST IN the HDFC Group Housing Fund

- Do you know that we are the fastest aging population in South Asia?
- Do you know that in 15 years, our population of 65 years old and above may equal that of Japan and Europe?
- Do you know that in 10 – 15 years one in every 4 individuals will be a senior citizen of over 65 years of age?
- How much longer should we compel ourselves to be a part of this struggle?

Are you thinking of retiring without being a burden to anyone?

The HDFC Group Housing Fund has been introduced to dispel any fear or insecurity you may have about your future.

🏠 What is the HDFC Group Housing Fund?

It is an investment plan which enables you to accumulate wealth, in the golden years of your life

🏠 What should be your initial investment to begin an HDFC Group Housing Fund?

The initial investment is Rs. 500/-

🏠 Is a permanent job a necessity to be a part of the HDFC Group Housing Fund?

An individual with a permanent job or even a self employed individual can acquire membership of the HDFC Group Housing Fund

🏠 Is a monthly fixed deposit a necessity to ensure continuity of the fund after the initial investment?

This is not a necessity. You have the flexibility of depositing any amount above Rs. 100/- at any given time as and when an opportunity arises

Social Value Creation contd.

The 'Ran Naya' Loan Scheme

Ran Naya loan scheme was introduced as a short term loan products with tenure of less than 3 years. 'Ran Naya' loans enable lower and middle income customers to obtain loans against their gold collateral for urgent housing requirements. We will mainly focus on growing the short term market (1- 3 months) initially, by offering competitive interest rates and promoting the product through mobile bankers.

HDFC Lifestyle loans

Lifestyle Loan scheme offers financial facilities to meet lifestyle needs of customers such as purchasing furniture, electrical goods etc. The products will be offered by reputed suppliers to employees of identified companies in the form of group sales.

Advancement of IT Based Processes

Internet Banking

HDFC launched its Internet Banking services in 2011 with the intention of reducing transaction cost to customers in daily banking activities. With introduction e-banking solution, all our customers have been facilitated to conduct their banking transaction by themselves such as inter accounts and banks fund transfers, inquire rates and statements and utility bill payment via internet without having to visit to the Bank. It also provides customers access to banking 24 hours a day, 7 days a week anywhere in the island

HDFC also implemented 'iSwitch' - an ATM Switch and Monitoring System by Interblocks. The new applications enable us to be at the forefront in overall banking operations with quick and innovative products and maintain

a healthy customer service relationship. We are able to offer our customers a wide array of new services, through the ATM network island wide. We intend to avail our facilities to customers from almost any ATM through the linkage Interblocks has with other banks in the future.

SMS Banking

SMS Banking was another initiative launched during the year making our services more competitive within the industry and even more efficient service to our customers, by taking convenience of banking to every person's fingertips. This facility too enables us to extend banking services 24 hours a day, 365 days of the year and further provide a more efficient service to our customers.

Promoting Financial Literacy and Inclusion

During the year, Bank initiated several programs to improve financial accessibility and literacy among the economically less privileged people. These initiatives are explained in detail under economic value creation.

Our Efforts to Maintain Affordability

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 were kept at the lowest using a specific pricing strategy. Our strategy is that smaller loans lower interest and higher value loan higher interest with negotiable rate. This pricing strategy, showcases HDFC's commitment to service low and middle income market.

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. Mobilization of savings to reach a balance of LKR 1.600 Million also contributed to reduce cost of funds as a strategy of making facilities more affordable.

Meanwhile HDFC improved the mix of funding base and loan portfolio in order to manage maturity risk while improving affordability of services. We developed short term loan products backed by alternative collaterals such as gold, institutional guarantees etc, to facilitate customers with inadequate collateral.

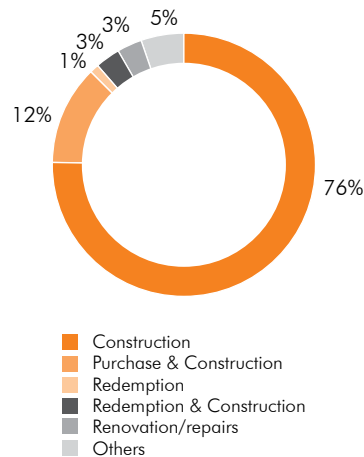
Providing Customized Solutions

During the year 12,142 facilities were offered for new house construction recording an YoY increase of 32 per cent. Further, 697 facilities were granted for house purchasing while 351 facilities were given for redemption and construction and 605 loans were granted for house improvement and repairs. For purchasing of household equipments Bank assisted for 428 families by granting facilities worth of LKR 240 Million. Housing loans worth of LKR 3,567 Million were extended to customers with sources of income from service sector employments and LKR 824 Million was granted to customers from the industrial sector income. The customers from farming and agricultural industry sectors were extended LKR 370 Million worth of facilities.

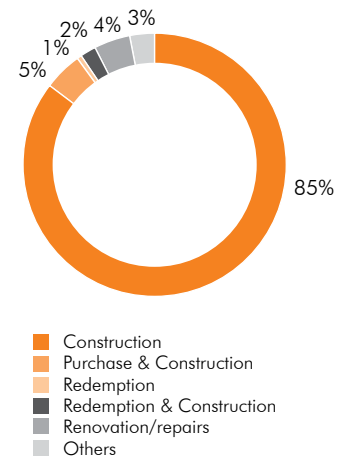
Purpose wise Distribution of Loans 2011

Purpose	LKR-M	No of Loans
Construction	3,594.36	12,142
Purchase & Construction	572.74	697
Redemption	64.16	71
Redemption & Construction	140.98	281
Renovation/repairs	149.76	605
others	240.40	428
Total	4,762.40	14,224

Purposewise Distribution of Service 2011 - Value of Loans LKR Million



Purposewise Distribution of Service 2011 (No of Loans)



Customized Products Schedule

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	* Prathilaba
* 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
		* Group Housing Fund scheme
* Purchase of household accessories	* Project Loans	
* Development loans		
Customized Collaterals.		
* Property mortgages	* Guarantor loans	
* EPF backed loans	* Group Guarantor loans	
* Cash backed guarantee loans	* Institutional Guaranteed loans	
* Gold Collaterals loans		

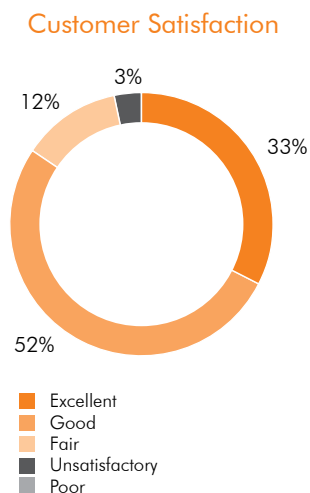
Social Value Creation contd.

Improving Customer Satisfaction

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 to our staff. With these initiatives we have been able to improve our overall customer satisfaction ratio from 53 per cent in 2009 to 78 per cent in 2011.

Customer Satisfaction Survey results.

Survey Criteria	2011	2010	2009	2008
Sample size	4,000	4,000	6,000	6,000
Responded	322	518	1490	2,540
Response - Excellent	32%	40%	3%	3%
- Good	51%	35%	36%	29%
- Fair	12%	5%	35%	36%
- Unsatisfactory	3%	0%	23%	30%
- Poor	0%	0%	1%	3%
Overall Rating	78%	80%	53%	46%



Our Commitment to Suppliers 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 us. 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 maintenance and repairs. We allocate resources mainly for stationery expenses. We are committed to ensure that our relationships with suppliers are only with service providers who are registered with HDFC having scrutinized their financial and past records.

Supplier Rights, Governance and Practices

Standard procurement procedures and ethical practices such as supplier registration, tender, quotations and evaluation systems is 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.

Over the 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.

Initiatives to enhance capacity, customer reach and service - 2011

Customer Reach and capacity		
Strategy	Objectives	Achievements
Opening three new Branches	Enhance Geographical presence and customer reach	Substantial increase in lending and deposits
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 and savings portfolio by 45%.
Enhancing ATM access points from 225 to 310	Enhance delivery channels.	Increased customer base and deposits.
Implemented Internet Banking facility	Facilitate customers for cost effective and convention banking	Results consolidates in 2012
Customer care – training	Improve quality of service and customer satisfaction	Improved loans, savings and deposits.
Regular branch wise Promotion.	Expanding customer base.	Enhanced loans, savings and deposits portfolio.
New Products and Services		
Initiative	Description & Objective	Targets & Achievements
HDFC Group Housing Fund Scheme	An investment plan faster catalyzing wealth needed for the aging population while creating a risk pooled long term deposits base to the bank	Performance impressive consolidating in 2012
Gold Loan	Goal collateralized loan	Consolidating in 2012

Key Performance Indicators - Customer Value Creation

Purpose wise Service	2011		2010		2009		2008	
	No of Loan	%	No of Loan	%	No of Loan	%	No of Loan	%
Construction	12,142	85.2	9,252	86.2	5,197	86.7	4,449	80.0
Purchase	697	5.0	588	5.5	350	5.8	513	9.2
Renovation/repair	351	2.1	486	4.5	52	0.9	246	4.4
Redemption	886	6.3	67	0.6	166	2.8	39	0.7
Home loans	428	2.0	346	3.2	212	3.5	312	5.6
	14,224	100.0	10,739	100.0	5,997	100.0	5,559	100.0

Social Value Creation contd.

Purpose wise Service	2011		2010		2009		2008	
	No of Loan	%	No of Loan	%	No of Loan	%	No of Loan	%
Customer wise distribution of service								
General mortgaged loans	1,325	9.1	1100	10.2	692	11.5	1028	18.5
EPF members	8,545	60.3	6163	57.4	3134	52.3	2110	38.0
Government teachers	203	1.0	387	3.6	368	6.1	889	16.0
Existing customers (Home Loan)	375	3.3	2648	24.7	1240	20.7	1196	21.5
Other	3,776	27.0	441	4.1	563	9.4	336	6.0
	14,224	100.0	10739	100.0	5997	100.0	5559	100.0
Customer Reach and Capacity Building								
Permanent work force	505		425		364		289	
No of Mobile Bankers	100		81		58		24	
No of Branches	31		28		26		21	
No of ATMs access	310		225		10		4	
No of PCs/staff	72%		71%		69%		63%	
Customer Rights								
No cases filed by customers on Human Rights grounds	4		2		3		2	
No of cases filed by the Bank	1		1		1		0	
Total litigations on Human Rights grounds	5		3		3		2	