

Social Value Creation

Sustaining our team

Our Approach

We expect our employees to actively endorse and support our corporate values. We promote diversity, equal opportunity and creativity of our staff by creating an environment they could train and develop to their full potential. We strive to maintain a high standard of occupational health and safety and maintain cordial labour relationships 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 Specialized Bank, developing human capital to reach the high standards maintained by 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 high priorities and areas that needed rapid and inclusive training and development.

Team Profile and Development.

As depicted in the profile indicators below, since 2007, we have increased or permanent carder from 286 members to 505 members to support the operational expansion and the percentage of professionals qualified in related fields from 34 % to 46%. The average age of our staff is below the industry average which is a valuable asset to our organization due to the high potential for development in line with the standards of the competitive banking environment. Comprehensive training and orientation programs which were conducted on regular basis resulted in 85 percent of staff gearing themselves to meet the new challenges and setting themselves goals aligned to the Bank's vision of achieving a sustainable business growth.

Highlights 2011

+19%

Staff Strength

+11%

Emoluments

+96%

Training Hours

Strategic Priorities

- Strengthening
- Capacity Building
- Satisfaction



Recognition of Service

HDFC Team appreciates the valuable contribution made by the former GM/CEO, Mr. Suresh Amerasekera during his 3 years of service at HDFC Bank and wish him all the success for his future career.

HDFC Team also appreciates the service rendered by the retired staff members in achieving the standard and goals during the past and wish them and their families all the success for future endeavors.

Social Value Creation contd.

Team Profile indicators	2011	2010	2009	2008	2007
No of Staff	505	425	364	289	286
Percentage of Women	42%	45%	46%	52%	52%
Percentage of Graduates	19%	19%	21%	17%	17%
Percentage of Professionals (Including Banking)	46%	45%	41%	34%	34%
Average Age (Years)	35	36	37	39	39
Average Service Period (Years)	8.4	8.8	9.64	11	11
Average Absenteeism	8.33%	8.40%	10.60%	No information	
Average Medical Consultation – LKR	31,770	47,024	40,228	22728	30104
Percentage of Employees Covered by Collective Agreement	98%	98%	98%	98%	98%
Turnover Index	2.37%	2.58%	4.67%	1.70%	1.70%
Average Gross Salary- LKR	42,497	47,266	57,371	42,696	39,943
Average Basic Wage –LKR	17,479	18,266	15,849	17861	17643
Average Cost Per Employee – Monthly – LKR	60,000	64,000	61,000	84,000	67,000

HR Practices and Governance

HR Practices and Policy

We are 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. Also we adhere to other relevant human resource standards and regulations very stringently. We refer 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 recognize the right of unionization.

All material HR matters are referred to the Board HR subcommittee. New recruitments and promotions are effected in accordance with the HR policy on recruitment and promotion and based on the carder plan approved under the corporate plan of the Bank.

Performance Review Recognition

Performance appraisal

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 and heads of divisions
- ii) Executives, clerical and allied grades
- iii) Promotional assistants - mobile banking
- iv) Office assistants and drivers

Annual appraisals are conducted for the entire staff of the Bank. Employee feedback and results of the staff satisfaction surveys enable us to identify specific training and development needs. Fund mobilization and recovery targets are given to all the staff members with the objective of creating a competitive environment for skill management and development of human capital.

Branch wise loan, recovery and fund mobilization targets are some of the other strategies used in performance review and productivity development. A system to review, reward and recognize annual targets is in place in respects of branch operations.

Staff Satisfaction

The staff satisfaction survey is considered as the key strategy used to identify staff attitudes, training and development needs. In the survey conducted in 2011, 376 employees responded to a confidential questionnaire representing 75% of the total staff. The results of the survey are as follows.

	2011 % of yes	2010 % of yes	2009 % of yes
Are you happy with your job?	81%	88%	68%
Are you satisfied with your work load?	73%	75%	74%
Do you believe the work load is equally distributed?	52%	49%	45%
Are the leaders in your work environment positive role models?	66%	78%	69%
Does your supervisor keep you well informed about the happenings in the Bank?	65%	79%	67%
Are your views and participation valued?	66%	77%	75%
Do you receive appropriate recognition for your contribution?	53%	55%	56%
Does your salary match your responsibilities?	60%	53%	59%
Are you satisfied with your understanding of the direction and goals of the Bank?	59%	70%	68%

The results portray that an average 81 percent are happy with the job, 60 percent confirm that their salary match their work responsibilities, 66 percent affirm that their views and participation are valued and 73 percent are satisfied with the workload. However, we observe certain negative variations in 2011 compared to the previous years, which we further analyzed and addressed. These include the level of understanding of the direction and goals of the Bank, which has dipped to 59 percent from 70 percent in 2010. Meanwhile 34 percent affirm that their superiors are not positive role models, which is an increase from 22 percent in 2010.

Rewards and Recognition

We are now in the process of addressing these issues, through the implementation of a performance based reward and recognition system coupled with external training and career development opportunities both local and overseas. HDFC also plans to implement an incentive driven culture which will add more scope to individual capabilities while instilling a team based culture within the organization. For the first time, HDFC organized a Award Ceremony to recognize performance of the star performers in March 2011. The best performed branch and staff members in 2010, in the operational areas of credit, recoveries and fund mobilization were recognized rewarded.

Social Value Creation contd.



Manger Monaragala - Best Branch Winner



All Winners with the Corporate Management

Training and Awareness

Staff is kept well informed on product development, policies, procedures and regulatory changes and developments through circulars and internal memos. These communiqués are originated by the respective departments and communicated centrally by the operating department. Procedure manuals are in place for all products and services and are updated regularly. Operational policies are periodically reviewed and updated and the effectiveness of this process is annually inspected by the Bank Supervision Department of the Central Bank. Training programs are conducted on all new products and procedures when necessary.

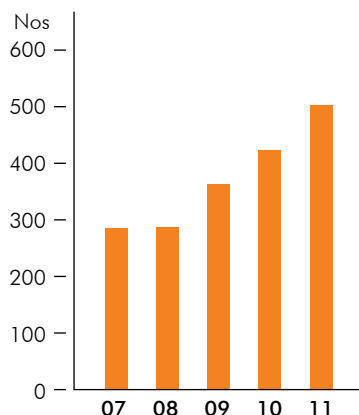
mobilization. The new recruits were mainly school leavers on contract basis who were absorbed to the permanent carder based on their performance. HDFC conducts regular training and orientation programs to improve the performance of the staff and provide a satisfactory career development.

equitable regional distribution of the staff, we gradually reduced the work force in the western province from 64 per cent in 2008 to 55 per cent in 2011, while 49 per cent of the new recruitments in 2011 were mainly from the Central, Southern, Eastern and Northern provinces.

Decent Work Performance Team Strength

During the year the staff strength was increased to 505, from 425 in 2010. Majority of the new recruits were absorbed into operational level as Banking Assistants and Mobile Bankers. This was in line with our strategy that 60 percent of the staff should constitute the sales team in order to accelerate credit growth and saving

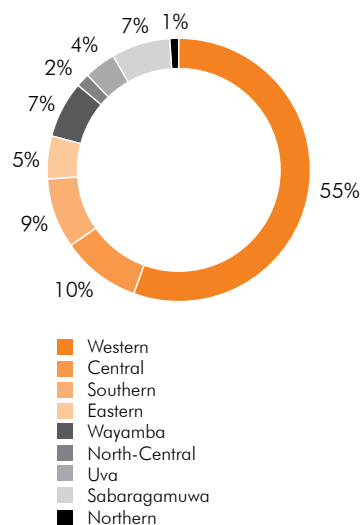
Staff Strength 2011



Provincial Distribution of Staff

Our workforce is mainly concentrated in the western province as 39 percent of the total staff is based in the head office in Colombo. In an effort to promote an

Provincial Distribution of Our Team



Team Emoluments and Other Benefits

The average cost per employee was reduced from LKR 64,000 in 2010 to LKR 60,000 in 2011 mainly due to new recruitments. The average remuneration of the Bank is in par with other state banks. As a result of the cost of new recruitments the staff emoluments increased by LKR 30 million in 2011 compared to LKR 272 million in 2010. Apart from the basic salary and emoluments the following benefits are offered to the permanent carder of the Bank:

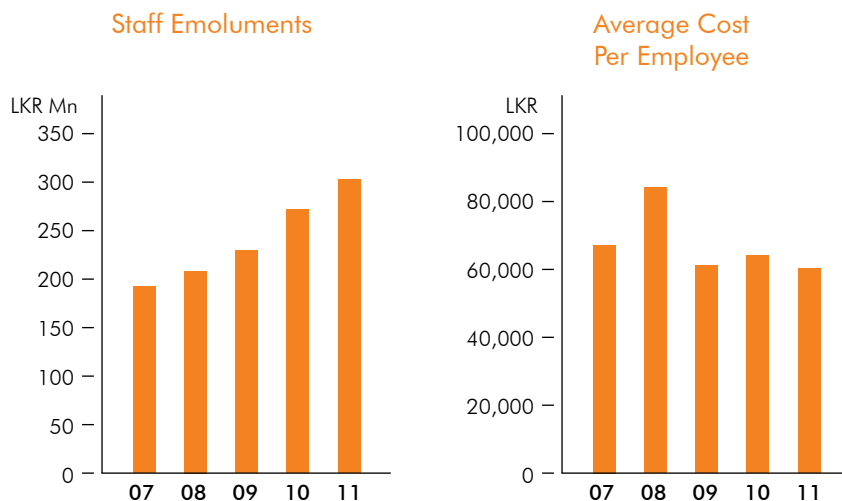
- Employee Share Ownership Program (ESOP)
- Comprehensive medical scheme
- Death donation and funeral assistance scheme
- Special loan scheme for housing, furniture and other housing related matters
- Vehicles loans at a special interest rates
- A distress loan scheme
- Two months bonus per annum
- Special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

During the year Staff Housing Loan entitlement per head was increased from LKR 1.5 Mn to LKR 3 Mn

Staff Turnover

These benefits have a positive influence on curbing employee turnover from 4.67 percent in 2009 to 2.37 percent in 2011 and sharp improvement in productivity

A low staff turnover was recorded in the category of Banking Assistants which was a significant improvement during the year.



Social Value Creation contd.

Key Performance Indicators- Decent Work Performance

Team by Employment Type & Contract	2011	%	2010	%	2009	%	2008	%
Corporate Management	7	1%	7	2%	8	2%	9	3%
Senior Management	16	3%	16	4%	13	4%	11	4%
Junior Management	169	33%	166	39%	169	46%	92	32%
Other Staff	313	62%	236	56%	174	48%	177	61%
Total	505	100%	425	100%	364	100%	289	100%
New Appointments								
Corporate Management	0	0	0	-	1	1%	0	-
Senior Management	0	0	0	-	0	-	0	-
Junior Management	0	0	1	2%	0	-	0	-
Other	80	100%	59	98%	75	99%	3	100%
Total	80	100%	60	100%	76	100%	3	100%
Turnover								
Corporate Management -%	2	0.4%	0	0%	0	0%	-	-
Senior Management -%	0	0.00	1	0%	0.27	0%	-	-
Junior Management -%	1	0.20	1	0%	0	0%	-	-
Other -%	9	1.8%	9	2%	16	4%	-	-
Bank Average-%	12	2.37%	22	3%	4.67	5%		3%
Provincial Distribution of Our Team								
Western	281	55%	246	58%	216	59%	185	64%
Central	49	10%	37	9%	36	10%	24	8%
Southern	44	9%	36	8%	31	9%	21	7%
Eastern	27	5%	12	3%	9	2%	8	3%
Wayamba	34	7%	25	6%	22	6%	16	6%
North-Central	9	2%	13	3%	7	2%	5	2%
Uva	20	4%	18	4%	13	4%	9	3%
Sabaragamuwa	36	7%	33	8%	30	8%	21	7%
Northern	5	1%	5	1%	0	0%	0	0%
Total	505	100%	425	100%	364	100%	289	100%
Team Emoluments : LKR –Mn								
Salaries	230	76%	206	76%	180	81%	160	66%
Overtime	11	4%	7	3%	2	1%	8	3%
Bonus	34	11%	35	13%	29	13%	25	10%
Staff Medical	16	5%	14	5%	12	5%	9	4%
Leave Encashment	8	3%	8	3%	-		6	2%
Incentives	3	1%	2	1%	-		34	14%
Total LKR -Mn	302	100%	272	100%	223	100%	242	100%

Labour Relation and Human Rights

Right of Unionization and Collective Bargaining

Freedom of association and collective bargaining is a human right of the workers in an organization, as defined by the UN Universal Declarations of Human Rights and ILO conventions. Collective bargaining is a forum of stakeholder engagements that helps to build an institutional framework which contributes to a stable society. Our approach to industrial relation spans beyond the collective bargaining mechanism. We recognize the Ceylon Bank Employee's Union (CBEU), which comprise almost 98 percent of our staff across all executive grades, as a consultative and supportive group that articulates a forum for improved communication, grievance handling, career counseling and creating an environment conducive to healthy employee relations. Our Collective Agreement which was renewed in 2010, for three years with effect from 2009, is available at our corporate web site www.hdfc.lk for public reference. TU is in a position to submit and proposals and recommendations to the chairman to draw the attention of the Board of Directors.

The Bank encourages voluntary and active involvement of staff in, in-house and industry TU activities. The Bank congratulates and supports Mr. Kesara Kottegodage, the president of the HDFC branch of Ceylon Bank Employees Union (CBEU), in his position as the Vice President of the CBEU (parent body) which is one of the largest trade unions in the country.

Minimum Notice Period

HDFC maintains an organizational practice of timely discussion of significant operational changes such as transfers, promotions and disciplinary actions etc with employees and representatives of Trade Union (TU). For this purpose, one month's notice is given where practicable to help minimize any adverse impacts stemming from operating changes. However, it is not defined in the collective agreement.

Grievances Mechanism

The Board nominated Management Committee, namely the Staff Relation Committee, comprise of five members from the Corporate Management, which was appointed in 2010. This Committee was set up for improving effective and timely engagements with the TU and staff grievance handling. The committee is held responsible to give recommendations to the Board through the Chairman. During the year five meeting were held with the TU in relation to matters of staff grievances.

Code of Ethics and Whistle Blowers Protection

The code of conduct of the bank is communicated to all staff with their appointments and made available in all departments for reference purpose. The Board of Directors of the Bank has appointed two officers to receive whistle blowers complaints on corruption malpractices as a regulatory requirement of the Central Bank. These officers are responsible to submit a summary of complaints received to the Board regular interval to the make direction for investigation and necessary actions Mechanism is in place to handle complaints. However whistle blower protection policy is yet to be formulated.

Pending Litigations

There are 5 litigations filed by ex-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.

Social Value Creation contd.

Key Performance Indicators- Labour Relation and Human Right

	2011	2010	2009	2008
No of Staff	505	425	364	289
CEBU Membership	494	419	355	282
Membership %	98%	98%	98%	98%
Employee Benefiting From Full Freedom of Association %	100	100	100	100
No of Pending HR Cases Against the Bank	5	4	No comparative information available	
No of hours of staff trained on HR policies and procedures relevant to operation	1,738	444	No comparative information available	
% of staff trained on HR policies and procedures relevant to operation	20%	3%	No comparative information available	

Occupational Health and Safety

Staff Health Plan

We offer a variety of facilities and benefits to our employees enabling 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 us 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 covered by the staff health plan is 67.30 per cent and majority of them participate voluntarily in organizing health and safety programs.

Other Initiatives to Improve Work Life Balance

Apart from the Health Plan, we implement 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 above, the following measures are taken by the Bank to assess and maintain health and safety:

- Business Continuity Plan address all the safety of staff in emergency situations.
- Improving a healthy and a safe environment; nine branches were fully refurbished with new facilities during the year whilst many divisions in the head office were refurbished.
- Arrangements were made to provide safe drinking water and implement a standard lighting system to all branches.
- All female members of the staff at head office participated in two health education programs.
- A chemical treatment campaign was conducted in the head office for the prevention of dengue and all branches were encouraged to follow suit.

- Cost of funeral visits by staff in group vehicles is reimbursed by the Bank subject to a limit of 50 percent.
- 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 needs 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 Cultural Activities

We encourage the staff to develop cultural and sporting talents as it creates camaraderie and promotes a sense of team spirit among the employees. The Buddhist society of the Bank conducts a religious ceremony in the head office annually with financial

contribution from the Bank and staff members. This year, the society conducted a 'Vesak Dansala' and offered ice cream to people in the city in which a large number of staff and ex-staff members participated.



The Christian society celebrated Christmas by organizing Christmas carols together with the staff of the National Housing Development Authority (NHDA), in which a large number of staff from the both organizations participated.

Annual Sport Events

During the year, HDFC Cricket Team was qualified for the quarter finals of 'Nationalized Services Cricket Tournament – 2011' from the 18 teams participated. Further, for the first time, the sport club of the Bank organized an annual sports series including, Carom, Badminton, Elle, Cricket, volleyball, netball and athletics which enabled a majority of the staff members in the head office and branches to participate. HDFC Bank's Chairperson and CEO/GM graced the event.

Key Performance Indicators - Occupational Health & Safety

	2011	2010	2009	2008
Staff covered by the health plan	67.30%	67.00%	69.00%	70.00%
Average medical claimed per employee - LKR	31,777	47,024	40,228	22728
Occupational injury	0	0	0	0
No of occupational diseases	0	0	0	0
No of lost day rate	0	0	0	0
Absenteeism rate	8.33%	8.40%	10.60%	10.80%
Fatality	1	1	1	0

Capacity Maximizing Training and Development

Training and development became a crucial tool for addressing the challenges we experienced as a Bank, since conversion to a Bank from a state corporation. Given the intensity in the competitive banking environment, imbibing a knowledge gaining culture has become imperative to gear our team to face the challenges ahead.

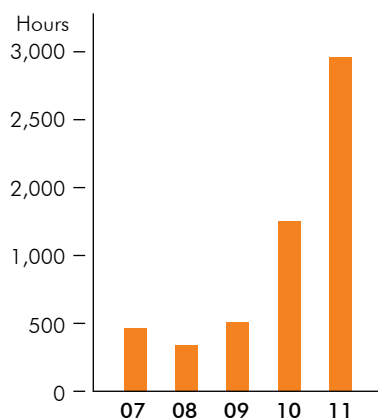
With the objectives of developing knowledge that support the continuity of our staff and facilitating a successful career retirement, we have initiated several programs as mentioned below.

- Granting interest free loans for professional examinations
- Reimbursing 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
- Continuous in-house and external training and orientation programs on new products, services and procedures
- Special programs to improve English and Tamil literacy
- Giving special recognition to the staff promotion policy for obtaining additional banking qualifications after joining the Bank
- Continuous strengthening of the staff engagement process

Social Value Creation *contd.*

As depicted in the table of key performance indicators - capacity maximizing, we significantly increased the number of training hours given to the sales staff and junior executives. Total training hours in 2011, increased by 96 percent compared to 2010. Training hours per employee increased by 65 percent compared to 2010.

Training Hours



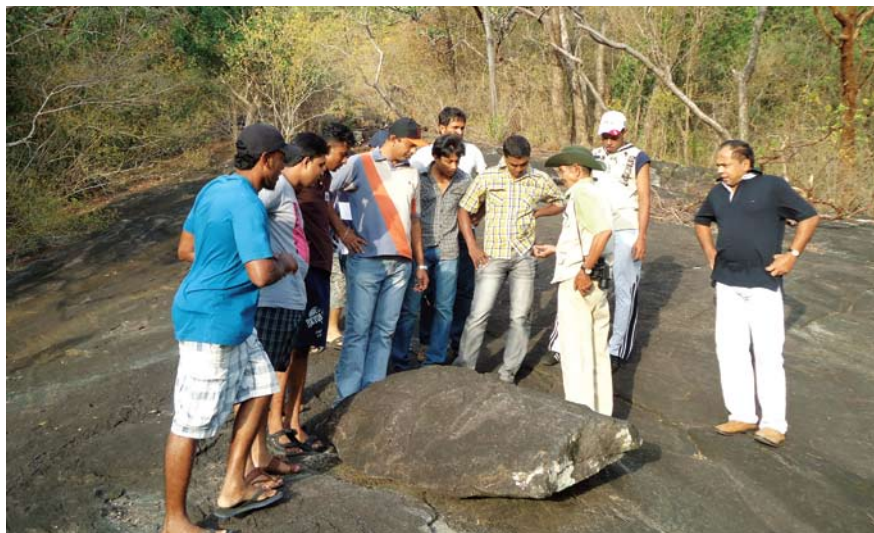
A special training program was conducted for all drivers on cost effective and eco-friendly driving, vehicle maintenance, road ethics and related rules. The training program was conducted by a resource personal from the Motor Traffic Department of the Sri Lanka Policy and the Department of the Registration of Motor Vehicles.



At two day training program was conducted on positive thinking and leadership development at Kandalama Hotel to the best performed group of the mobile bankers in 2010.

Special Training

Since conversion into a licensed specialized bank, the business environment we 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. In response to the training needs identified through customer and staff satisfaction surveys and individual performance appraisals in 2010, customer care was identified as a priority area for training needs, for which over 1,800 hours was dedicated in 2011.





Skill development training at Hotel Kandalama

Professional 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 qualified bankers increased to 25 per cent in 2011 compared to 15 per cent in 2010. The percentage of graduates qualified in the areas of commerce, accounting, economics, arts, geography and valuation amounted to 19 percent of the workforce. These developments have substantially strengthened the capacities of the employees.

Key Performance Indicators - Capacity Maximizing

Training Man Days								
Training Type	2011	%	2010	%	2009	%	2008	%
Internal	2,242	76%	1,474	98%	505	83%	305	75%
External	679	2%	19	1%	101	17%	101	25%
Foreign	24	1%	10	1%	3	0%	2	0%
Total hours	2,945	100%	1,503	100%	609	100%	408	100%
Average training hours per employee	6		4		2		1	
Strengthening with Professional Education								
No. Staff registered for banking exams	128	25%	65	15%	54	15%	26	9%
No of staff completed banking exam	7	1%	5	1%	5	1%	2	1%
No of lawyers qualified	18	4%	16	4%	16	4%	16	6%
No of accountants fully/partly qualified	51	10%	50	12%	50	13%	48	17%
No of IT qualified/partly qualified	33	7%	33	8%	33	9%	32	11%
No of degree holders	97	19%	82	19%	77	21%	51	18%
Other	171	34%	174	41%	130	36%	114	39%
Total	505	100%	425	100%	364	100%	289	100%

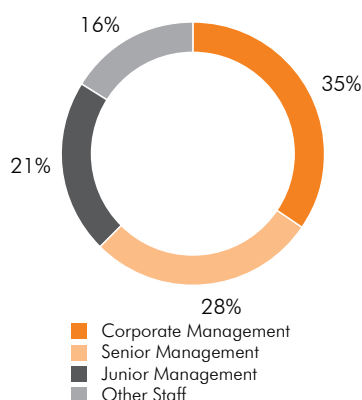
Social Value Creation *contd.*

A Culture of Diversity

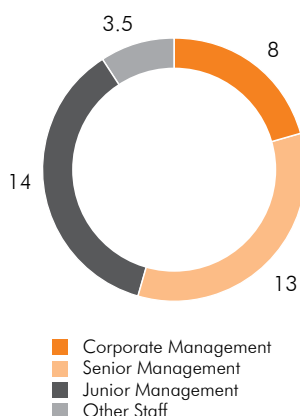
The extent of employee diversity based on gender, age group, service period and ethnicity within an organization is imperative for the stability of the human capital. HDFC is an equal opportunity employer, paying a uniform remuneration for men and women for work of equal value. From inception we have employed a high percentage of women in our organization which amounted to 45 per cent in 2010. During 2011, we strategically recruited more males to strengthen our sales team and thereby reduced the percentage of women in our workforce to 42 per cent by the year end.

The average service period of above eight years indicates the level of stability and the average age of 36 reflects a high potential for development. In 2009, 99 percent 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 2011, we made a conscious effort to recruited staff from minority groups which enabled us to dilute the majority representation from 99 percent to 93 percent by the year end.

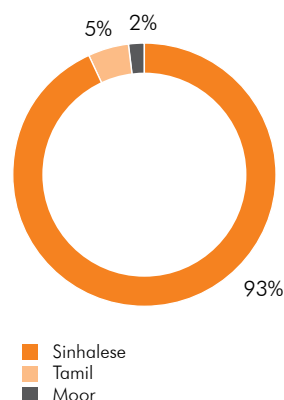
Diversity by Grade



Average Service Period



Ethnic Participation

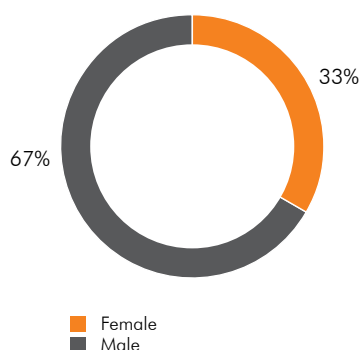


Gender Participation of the Board of Directors

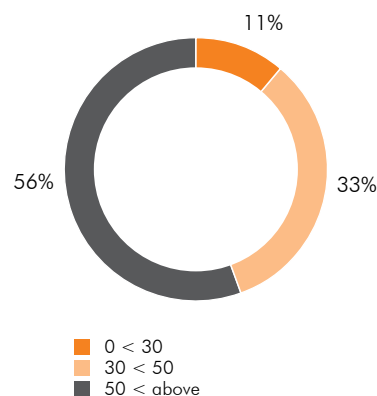
The Board of Directors of the Bank consists of 3 female members including the Chairperson, Mrs S.N.Wickramasinhe. The other two members represent the General Treasury and Ministry of Housing making the female participation 33 percent.

Board consist only one member above 60 years of age and one member below age 30. The Majority of members are between 50 to 60 years.

Board Composition



Board Age Analysis



Key Performance Indicators - Diversity

	2011		2010		2009		2008	
Diversity - by Gender Participation	M	F.M		F.M	M	F.M	M	F.M
Corporate Management	7	0	7	0	8	0	8	0
Senior Management	9	7	9	7	7	6	7	6
Junior Management	71	98	72	98	71	98	71	98
Other Staff	208	105	143	89	112	62	110	64
Total	295	210	231	194	198	166	139	150
Gender	58%	42%	55%	45%	54%	46%	48%	52%
Diversity - By Average Age (Years)								
Corporate Management	52		50		49		51	
Senior Management	42		41		43		46	
Junior Management	32		31		32		41	
Other Staff	24		23		23		38	
Bank	35		36		37		39	
Diversity - by Average Service (Years)								
Corporate Management	8		5		4		44	
Senior Management	13		13		12		11	
Junior Management	14		13		13		13	
Other Staff	3.5		4		9		12	
Average Bank	8		9		10		11	
Diversity - by Ethnic Group								
Sinhalese	471	93%	401	93%	357	99%	No Information	
Tamil	25	5%	14	4%	4	1%		
Moor	9	2%	10	2%	3	0%		
Total	505	100%	425	100%	364	100%		