

Environmental Value Creation

Resources efficient and environmental friendly house designs always become affordable not only to the personal cash flow of the household, but also to the economy, environment and society at large.

Our Approach

Since publishing our first sustainability report 6 years ago, recording, documentation and communication of environmental data has been a priority for HDFC Bank. By focusing on environmental challenges, we strive to be an active partner in achieving the country's Millennium Development Goals on environmental sustainability by year 2015. HDFC Bank as a financial institution also concerns our risk exposure on the cash flow and assets quality due to any form of climate change. Our commitment to environment sustainability includes **environmentally responsible lending, promoting sustainable housing, and being sustainable in our daily operations.**

Why Environment is Material?

We are mindful that, our core business of facilitating human settlement has a significant indirect impact on the eco system and climate change. 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 carbon and waste.

A 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. Therefore, the way houses are designed, planned and constructed poses an enormous challenge to the ecosystem and environment.

HDFC Bank grants facilities with 10 to 15 years longer repayment periods during which degree of risk exposure on repayment cash flow, quality and value of collateral due to environmental change is unpredictable.

656,231 Kwh

Electricity Consumed

23,051 Ltr

Fuel Consumed

207,738 Km

Business Travel

4,077kg

Paper Recycled

Our Strategic Priorities

- Reduce Electricity Consumption
- Reduce Staff Transport
- Minimize Fuel Consumption
- Reduce Paper

Therefore the Bank's exposure to climate change risk is material on the quality of financial assets and mortgaged properties. On the other hand, over 70% of our facilities have been extended to customers from low and middle income families whose income is fully or partly earned from economic sectors such as farming, agriculture, fisheries etc. This segment frequently faces the challenge of extreme weather conditions and natural disasters such as flood, storms, drought, ambient temperature and water availability etc. This group also often faces the challenges of weather pattern related illness or diseases and income variations and job security.

Our Facets of Managing Environmental Responsibility

Environmentally Responsible lending	Promoting Sustainable Housing and Living	Being sustainable in daily operation
<p>Gathering our pool of knowledge and experience, it is apparent that regulatory complied designs and construction always minimise the negative impact of development and promotes more resource efficient construction.</p> <p>Resources efficient and environmental friendly house designs always become affordable not only to the personal cash flow of the household, but also to the economy, environment and society at large.</p> <p>Hence for construction loans, we ensure that all plans are prepared by adequately qualified planners and approved by relevant local authority. In a case of a purchase loan we ensure that subject property is properly approved and street line and non-wasting certificates are obtained in the name of the customer.</p>	<p>We believe that sustainable housing can mitigate the negative impact of house construction. Housing construction and maintenance requires a substantial amount of natural resources such as energy, soil, wood, cement, water, electricity and gas etc. At the same time housing is a major source of greenhouse gas emission.</p> <p>We believe that, for a house is to be sustainable its construction and maintenance should be affordable to the households and resource efficient to the country and environment. Meanwhile, house should be constructed in conformity with the relevant development and environmental rules and regulation for the house is to be environmentally responsible.</p>	<p>HDFC Bank consumes a large amount of natural resources such as electricity, water and fuel etc in our daily operations which directly impacts substantial amount of greenhouse gas emission.</p> <p>As a responsible corporate citizen, we are committed for efficient and sustainable use of these global resources and weather it is directly or indirectly and manage our carbon footprints.</p>

Environmental Policy, Governance and Goals

In 2010, the Bank approved the Environment Safeguard Policy, which strengthened the Bank's mandate to set more rigorous standards for lending operations, manage own carbon footprints, resource utilization and supply chain management. This policy is being implemented by the Bank to reach its long term environmental goals. Programs are being formulated to enhance knowledge and awareness of the staff on environmental aspects of business operations. The Policy is available at our website www.hdfc.lk for stakeholder reference.

Environmental Rights and Responsible Lending

In driving HDFC towards its objectives, we have been mindful of our responsibility to balance environmental needs with human needs while respecting the human rights aspects of the environment. Corporate goals should not exert an adverse impact on culture, biodiversity and overall uniqueness of our country and environmental rights of the community. In this context HDFC has complied strictly with the environmental regulations, promotes energy conservation and efficiency, educates customers and promotes sustainable management of natural resources.

Environmental Value Creation contd.

We do not approve any facilities for construction which are not properly approved in compliance with the applicable laws and regulations. In the process of mortgage lending, we ensure that mortgage property is properly approved by the local authority and allocation of infrastructure such as road ways, smooth flow of water, assurance of uninterrupted power supply, solid waste disposal and rain water drainage systems are addressed. Housing Project loans must comply with all regulatory bodies which as relevant could be the UDA, CMC, RDA, LLRB, and local authorities, the Condominium Management Authority and/or the Central Environmental Authority.

We are committed to educate our , customers and the society about their right to safeguarding the environment as well as the obligation to respects environmental rights of others which could eventually sustain the uniqueness of the environment of our country for the future generation.

HDFC Environmental Policy

In December 2010, the Board adopted the following Environmental Policy to guide the staff in their day to day operations and to instill a commitment towards environmental sustainability.

1-Environmental Regulations and Legislation

In carrying out business, HDFC should be mindful of balancing environmental needs with human needs. The desire to achieve corporate financial goals should not override the need to conserve the country's bio diversity, culture and overall uniqueness.

In this context, HDFC shall ensure that it grants facilities only against or for properties that are duly approved by the relevant local authority or regulatory body, but also for those in compliance with development regulations and environmental standards. Construction loans will be granted only for housing plans prepared and approved by adequately qualified building planners, in compliance with prevalent legislation and requirements of the relevant regulatory bodies, while at the same time meeting community environmental standards.

2- Promoting Affordable housing

HDFC shall educate and encourage customers on affordable and sustainable design of houses which mitigates the negative impacts of development and create a milieu of healthier and more resource efficient construction. Projects with better energy and water management processes will gain more advantages during project appraisal.

3-Emission control

HDFC will be committed to minimize emissions both directly and indirectly, through measurement and monitoring of staff and customer travels and thereby reducing fuel consumption and minimizing carbon emissions.

4-Natural Resources Utilization

HDFC is committed to conserve global resources by astutely managing fuel, electricity, water and paper consumption throughout its operations, promoting in-house resource saving programs and ensuring that paper will whenever possible, come under the 3R concept of reduce, reuse and recycle.

5-Sustainable Supply Chain Management

The Bank will procure whenever possible, recycled products within reasonable cost boundaries. Consideration will also be given to environmental criteria in the awarding of contracts to prospective suppliers and the selection of products for all HDFC operations.

6-Community and Employee Awareness

HDFC will ensure that every staff member fully comprehends the importance of incorporating environmental considerations into their daily business activities whenever appropriate. We also encourage employees to reflect their commitment to the environment by supporting staff driven voluntary programs for improving in-house greening and educating local communities on environmental conservation and preservation.

Level of Compliance of Lending Operations with Regulatory Requirements

	2011	2010	2009	2008
% of Plan Approval Out of Total Construction Loans	100%	100%	100%	96%
% of Plan Approval Out of EPF Construction Loans	97%	97%	97%	93%
% of Site Plan Approval Out of Total Mortgage Loans	100%	100%	100%	100%
% of Local Authority Complaints / Total Construction Loans	Nil	Nil	Nil	Nil
% of Environmental Dispute / Total Construction Loans	Nil	Nil	Nil	Nil

Managing Carbon Footprint

We identified that fossil fuel consumption caused by business and staff travel, consumption of electricity, water and paper as the core areas of focus in managing the Bank's carbon footprints. Internal indices which were identified in 2009 and 2010, were further developed to monitor green house gas emission and targets were set to quantify carbon dioxide (CO₂) emission in the entire operations of the Bank in 2012.

Business Travel and Fuel Consumption

Increase in CO₂ emission is a serious concern in Sri Lanka, especially in urban and industrialized areas. Whilst consuming a substantial amount of fossil 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 make a positive contribution to reducing CO₂ emission from transport, HDFC emphasizes on reducing vehicle running mileage by developing an index to monitor the mileage per Rs.1 million loans approved.

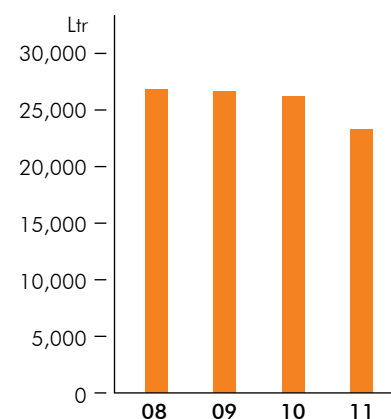
During the year Bank's fleet of vehicles has run 207,738 kilometers and consumed 23,051 liters of diesel and petrol for business purposes. This translates into a ratio of 5 liters of fuel per LKR 1 million loans approved and mileage of 44 kilometers per LKR 1million loan approved, compared to 8 liters and 89 kilometers respectively in 2010, recording a significant control in carbon emission. The following initiatives implemented by the Bank in 2011, greatly contributed to this achievement.

- Disposed three vehicles used for over five years and replaced them with cost and fuel efficient new vehicles
- Conducted training programs on cost effective and eco- friendly use and maintenance of vehicles
- Deployed regional staff for branch promotions without using staff from head office or other regions
- Contracted an efficient courier services for delivering documents and materials
- Decentralized operational authorities to regional level
- Authorized branches to hire local vehicles for business travel

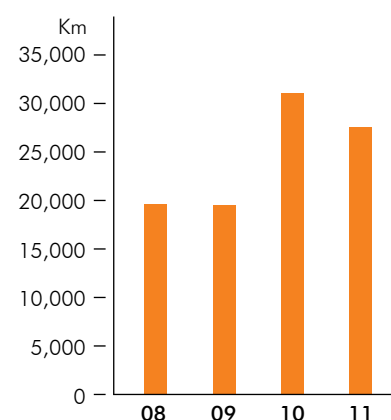
The above initiatives reduced the total business travel mileage 273, 921 Kilometers to 207,738 Kilometers within a year and encouraged efficient utilization of fuel by 11 percent compared to 2010 and this cost savings also cascaded to the Bank's

bottom line, while encouraging the management of greenhouse gas emissions judiciously.

Total Fuel Consumption from Business Travel



Total Staff Transport Mileage Per Day



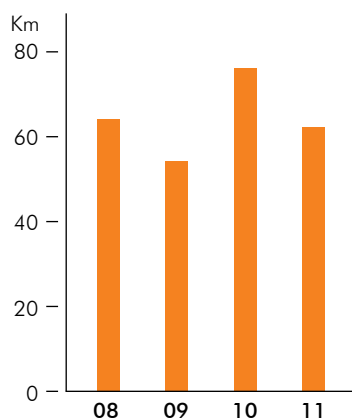
Environmental Value Creation contd.

Staff Transport and Emission control

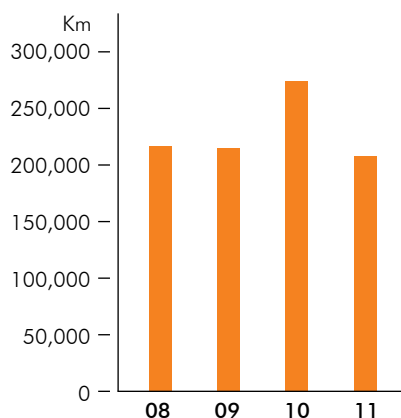
We are also emphasizing the management of greenhouse gas emission induced by employees travelling from home to office and vice versa. We have estimated that our staff has utilized approximately 7.3 Mn kilometers of public transport in 2011 compared to 8.2 Mn Kilometers in 2010. Approximate average demand of public transport per day by our staff was 27,652 kilometers in 2011 compared to 31,115 kilometers in 2010 which showcased an efficiency of 13percent.

However, we succeeded in improving the staff travel index by 17 percent during the year. The average travel per employee per day is estimated as 62 kilometers in 2011, compared to 75 kilometers in 2010. This improvement was achieved as a result of the implementation of the recruitment policy of hiring employees from the locality of the branches and staff transfer policy. Average travel time is fairly high at HDFC due to the district based branch network. Strategies will be implemented to manage the travel index further as a medium term goal.

Average Staff Travel Index
Per Day



Business Travel
Mileage



As shown in the following travel index schedule , 49 percent of our staff travels more than 25 kilometers per day and 26% of our staff travels more than 50 Kilometers per day . Since 2010, our goal is to minimize the percentage of employees who travel more than 50 kilometers per day from 18 percent to 10 percent and increase the percentage of staff who travels less than 25 Kilometers per day from 58 % to 65% , within a period of two years. However , the Bank has not been able to achieve a progress in both targets in 2011. We continue to focus on this direction and staff recruitments and transfers will be effected fairly, based on this index. Our objective of this exercise is to manage the environmental footprint of the Bank as follows.

- Reduce emissions generated by public and private vehicles induced by our operations
- Conserve fossil fuel reserve of the planet and save money of the national economy
- Save time which eventually permeates to the advantage of the economy
- Geographical spread of employees
- Improve staff efficiency and productivity

Staff Travel Index Schedule

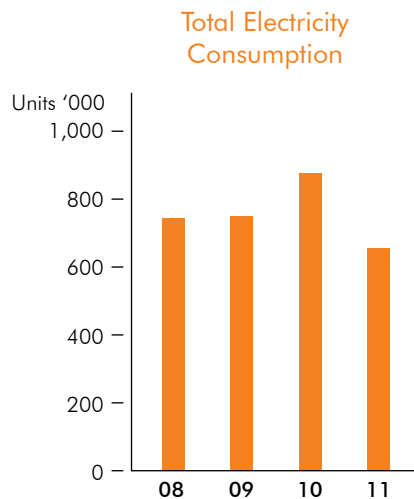
Travel-Km	2011		2010	
	Employees	Composition	Employees	Composition
0 < 15	149	33%	160	39%
15.01 < 25	80	18%	80	19%
25.01 < 35	59	13%	54	13%
35.01 < 50	43	10%	41	10%
50.01 < 70	29	6%	26	6%
70.01 < 90	21	5%	18	4%
90.01 <	67	15%	33	8%
Total	448	100%	412	100%

Electricity Consumption and Emission Control

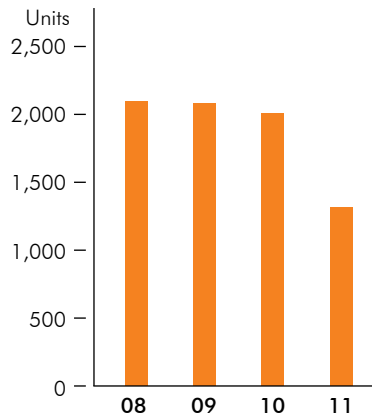
Substantial amount of electricity supply in the country is fueled by fossil fuel which is a nonrenewable energy source. Therefore sustainable consumption of electricity can largely contribute to reducing climate change and conserving fossil fuel reserve in the world. Integration of this climate responsibility to daily operations of the Bank is an aspect of environmental

management at HDFC. During the year, we paid special attention to reduce the overall electricity consumption of our operation. Our strategies have resulted in a 25 percent reduction in the number of units consumed in 2011, Year on Year. Installation of energy efficient lighting systems and air conditioners in conjunction with the refurbishment program enabled us to achieve this improvement.

Further, we have established internal indices for the purpose of monitoring efficiency in consumption of electricity per employee and Sq.ft of building occupied by the Bank. We were able to reduce the index of electricity consumption per employee from 1,986 units to 1,299 units and per sq:ft index from 13 units to 8 in 2011, through staff education and awareness programs.



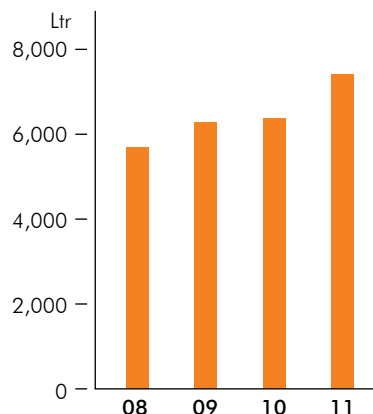
Total Electricity Consumption Per Employee



Water Consumption and Emission Control

During the year, the Bank has consumed 7,340 liters of water on its operations compared to 6,331 liters in 2010, which was mainly due to the increase of floor area and branch offices and the rise in the number of staff. However the index of water consumption per employee was maintained at the same level as 2010.

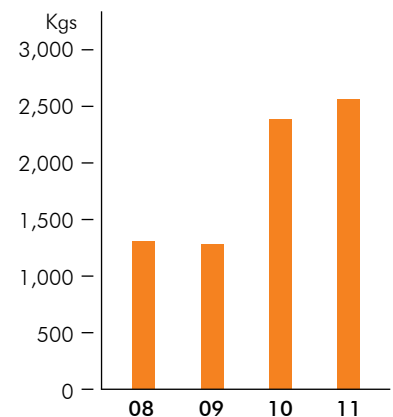
Water Consumption



Paper Consumption

Waste Management and management of paper consumption were prioritized this year. We sought avenues to simplify the loan approval process to minimize documentations. These efforts enabled us to reduce average photocopy paper consumed per Rs. 1 million loans approved, from 148 to 103 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 as a medium term goal.

Paper Consumption



Sustainable Procurement of papers

We are committed to procure recycled products whenever possible within reasonable cost boundaries. While we follow a standard procurement procedure for stationery, in compliance with the Bank's environmental policy, we promote procurement of photocopy paper manufactured under the international paper principles; paper produced from planted and renewable

Environmental Value Creation *contd.*

forest with environmental responsibility, and brought paper consumption under the 3G concept of reduce, reuse and recycle. During the year we purchased 2,558 kgs of photocopy papers compared to 2,375 kgs in 2010. The increased consumption was mainly due to high volume of lending.

Waste Management and Emission Set Off

During the year, the Bank provided 4,0771 kg of waste papers to Neptune Papers (Pvt) Ltd, for recycling purpose. Company has confirmed that, our waste has saved 69 fully grown trees, 129,567 liters of water, 16,308 Kwh of electricity, 7155 liters of oil, and 12 cubic meters of land fill and reduced green house gas emission by 4,077kg of carbon equivalent.

Emission Source	Emission/Resources Consumed by the Bank	Resources saved/ Reduced by the Bank by Recycling	Net Savings/ (Consumption)
No of Trees	Not quantified	69	
Fossil Fuel Liters	23,051	7,155	(15,896)
Electricity – Kwh	656,231Kwh	16,308 Kwh	(639,923)
Water – Liters	7,340	129,567	122,227
Greenhouse Gas Emission -Kh	Not quantified	4,077	

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 percent in 1881 to 24 percent in 1990 while it has further decreased by 6.6percent from 1990 to 2001. According to statistics, average 40,000 ha of forest area are cleared every year, for agricultural and residential purposes. We are mindful that our core business causes deforestation substantially through expansion of residential development. In this context we encourage schools and communities on tree planting. In 2011, HDFC Bank planted 200 trees, incorporation with the children of Suboda School , Buttala, in tandem with the Dayata Kirula exhibition, conducted in February 2011.



Promoting Sustainable Housing and Living

We believe that, environmental challenges due to residential expansion can be substantially mitigate by promoting sustainable housing - resources efficient and environmentally and socially affordable housing. 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 staff driven voluntary programs for promoting in-house greening and educating local communities to improve their

environment habits. HDFC as a leader in housing finance industry believes that, by promoting sustainability practices to every home loan customer could contribute substantially to improve awareness of the people in every geographical region. The Bank also believes that youth and children of Sri Lanka must be made aware of the need for these practices to be imbued now for future benefit.

Habitat Day Walk

To commemorate the World Habitat Day 2011, the Bank organized a city walk, on the theme of "Cities and Climate Change". The two kilometer walk with placards and banners ended up at Gall face Green with over 250 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 of environmental challenges facing the city due to non-inclusive developments which takes its toll on the environment and communities. The Bank also aimed to promote the importance of maintaining a conducive city environment which is healthy and clean, built around regulations and compliance and devoid of unauthorized constructions.

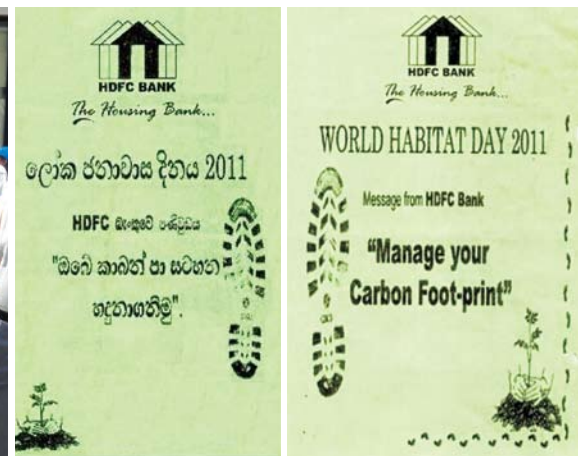


How to Manage Your Carbon Footprint

The Bank also published a booklet on the theme "Manage your carbon footprint" and distributed among the city dwellers. The booklet was aimed at providing guidance on ways of indentifying carbon footprints, and how people could contribute to its management in social life, office life, at home and during home construction. The booklet is kept in the counters of all branches and encouraged to be distributed among the customers.



1st booklet handed over to the Chairperson



Environmental Value Creation contd.

Key Performance Indicators - Environmental Value Creation

	2011	2010	2009
Save Electricity, Water			
Electricity Consumption -Kwh	656,231	836,488	750,659
Electricity Consumption -Kwh Per Employee. Per Annum	1,299	1986	2,062
Electricity Consumption per Sq:ft Occupied (Comparative Figures Not Available 2009) -Kwh	8	13	No information
Water Consumption Ltrs	7,340	6,331	6218
Water Consumption Ltrs- Per Employee. Per Annum	15	15	17
Paper Consumption- Save Trees, Resources and Reduce Emission			
No of Paper Purchased- Pkts	984	900	500
Weight of Photocopy Paper Purchased-Kgs	2,558	2,375	1,275
No of Photocopy Papers Consumed per Rs.1Mn Loans Approved	103	146	178
Waste Paper Disposed for Recycling-Kgs	4,077	3,261	2,345
Savings of Recycled Disposed Papers – Trees	69	55	No information
Water - Ltrs	129,567	103,634	No information
Electricity -Kwh	16,308	13,044	No information
Oil - Ltrs	7,155	5,723	No information
Land Fill -Cubic Meters	12	9	
Business Travels, Fuel Consumption and Emission Controls			
Diesel and Petrol Ltrs Consumption	23,051	25,050	26,405
No of Km Run by Bank's Vehicles	207,738	273,921	214,466
Vehicle Mileage Per Approved Loan Value Rs.1Mn	44	89	153
Fuel Ltr (Petrol & Diesel) Per Rs.1Mn Loan Approved	5	8	18
Fuel Ltr Per Loan Approved	1.6	2.4	4.4
Staff Transport , Fuel Consumption and Emission Controls			
Public Transport Utilized by HDFC Staff During the Years -Km	7,300,200	8,214,360	5,150,112
Public Transport Utilized by HDFC Staff Per Day -Km	27,652	31,115	19,508
Avg Traveling Per Employee Per Day (Home-Office-Home)-Head Office- Km	52	76	54
Avg Traveling Per Employee Per Day (Home-Office-Home)-Branch-Km	65	75	50
Avg Traveling Per Employee Per Day (Home-Office-Home)-Bank-Km	62	75	52