

Financial Value Creation

Shareholders

A Significant Recovery in Our Share Price

Our Approach

Our shareholders have provided the startup capital and the entrepreneurship to initiate HDFC as a legal entity to carryout banking business. Therefore, the first priority of the Bank in its financial and statutory obligation is to the shareholders / investors who ensure the existence of the Bank. The investment commitment displayed continually by our shareholders has always added impetus to our corporate objective of providing affordable housing finance.

Accordingly, we strive to balance corporate objectives and shareholder interests ensuring constant growth and stability through financial value creation and wealth maximizing through market capitalization, while promoting fairness and transparency. We have responded to the social, economic and environmental issues inherent in our business to ensure a stable growth.

While creating wealth for our shareholders remains a priority in the triple bottom line reporting concept, we also remain cognizant that by creating a sustainable organization 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.

Share capital

| | 2011 | 2010 |
|---------------------|------------------|------------------|
| Stated Capital- LKR | 962,092,936 | 962,092,936 |
| No of Shares | 6,471,052 | 6,471,052 |
| No of Shareholders | 1,615 | 2,118 |
| Voting Rights | 1 Vote per Share | 1 Vote per Share |
| Class of Shares | Ordinary Shares | Ordinary Shares |

91%

Institutional Share Holding

1,615

No of Shareholders
(Previous year 2,118)

90%

Top Five Shareholding

Rs 1,900

Highest Share Price in the History

Strategic priorities 2011

- Enhance Statutory Support
- Market Capitalization
- Credit Rating
- Brand Building

Financial Value Creation Shareholders *contd.*

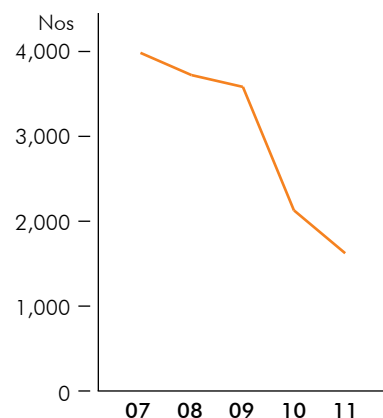
Shareholding Structure

No of Shareholders

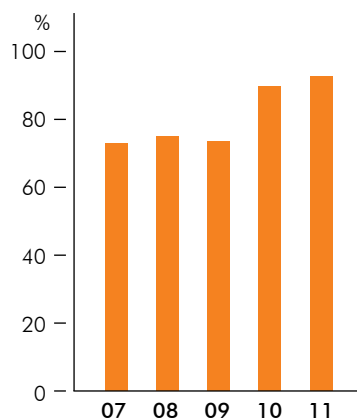
| Year | Shareholders | Holding of 20 largest shareholders | Public Shareholding |
|------|--------------|------------------------------------|---------------------|
| 2006 | 4,411 | 71.86% | 49.19% |
| 2007 | 3,972 | 72.69% | 49.90% |
| 2008 | 3,710 | 74.75% | 50.25% |
| 2009 | 3,572 | 73.54% | 50.21% |
| 2010 | 2,118 | 89.50% | 23.01% |
| 2011 | 1,615 | 92.60% | 21.22% |

Number of shareholders which was recorded as 4,411 in 2006 has declined drastically to 1,615 as at 31st December 2011, as a result of consolidating shares in the hand of limited number of shareholders. Over the same period percentage of shares held by the 20 largest shareholders has increased from 71.86 percent to 92.60 percent, reflecting the confidence placed by strategic investors in the Bank. The list of 20 largest shareholders is given in page No 231 of this annual report. Meanwhile, the 5 largest shareholders hold 90 percent of the shares of the Bank as at the end of 2011, showcasing the strategic long-term interest.

No of Shareholders



% of Shares Held by 20 Largest Shareholders



Shareholders' Structural Information

| Structural Data | 2011 | | 2010 | | 2009 | |
|------------------------------------|-----------|--------|-----------|--------|-----------|--------|
| No of Shares | 6,471,052 | | 6,471,052 | | 6,471,052 | |
| Government Shareholding | 3,300,221 | 51% | 3,300,221 | 51% | 3,300,221 | 51% |
| Private Shareholding | 3,170,831 | 49% | 3,170,831 | 49% | 3,170,831 | 49% |
| Institutional Shareholding | 5,875,938 | 91% | 5,815,746 | 90% | 4,808,803 | 74% |
| Individual Shareholding | 595,114 | 9% | 655,276 | 10% | 1,662,219 | 26% |
| No of Institutional Shareholders | 96 | 6% | 117 | 6% | 160 | 4% |
| No of Individual Shareholders | 1,519 | 94% | 2,001 | 94% | 3,412 | 99.91% |
| No of Shares Held by Residents | 6,462,851 | 99.91% | 6,463,151 | 99.88% | 6,451,721 | 0.09% |
| No of Shares Held by Non-Residents | 8,201 | 0.09% | 7,901 | 0.12% | 19,301 | 0.29% |
| No of Resident Shareholders | 1,602 | 99% | 2,103 | | 3,556 | |
| No of Non-Resident Shareholders | 13 | 1% | 15 | | 16 | |
| Holding of 5 Largest Shareholders | 5,793,848 | 89.53% | 5,407,991 | 83.57% | 3,726,522 | 57.59% |
| Holding of 20 Largest Shareholders | 5,991,977 | 92.60% | 5,584,991 | 90.37% | 3,726,522 | 57.59% |

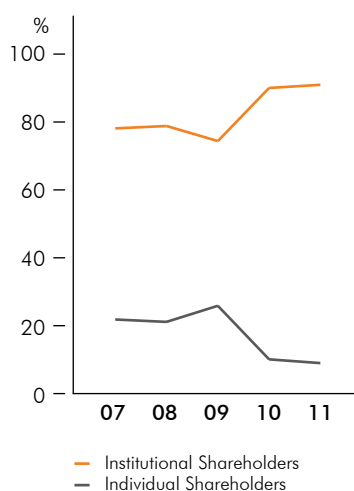
Public Shareholding

As per the Rule No 7.6(iv) of the CSE, the percentage of public shareholding as at 31st December 2011 was 21.22 percent as against 23.01 percent recorded at 31st December 2010. Over the last four years, the percentage of public shareholding has declined substantially from the level of 50.25 percent in 2008.

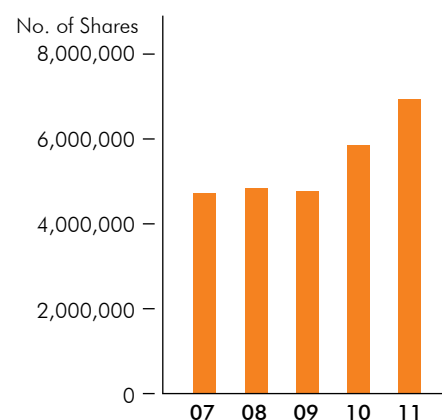
Institutional and Individual Shareholders

Over the last three years, 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 2011, reflecting their long term interest. It is also notable to mention that 91 percent of shares are being held by 96 institutional shareholders. Other than the 51 percent of the Government stake, 40 percent is been held by four leading corporate bodies in the country.

Institutional and Individual Shareholdings



Shares Held by 20 Largest Shareholders



Financial Value Creation Shareholders *contd.*

Distribution of Shares as at 31st December 2011

| | No of Shareholders | No of Shares | % |
|---------------------|--------------------|--------------|--------|
| 1 – 1,000 | 1,525 | 219,302 | 3.39 |
| 1,001 – 10,000 | 66 | 213,973 | 3.30 |
| 10,001 – 100,000 | 10 | 471,151 | 7.28 |
| 100,001 – 1,000,000 | 4 | 2,348,626 | 36.29 |
| Over 1,000,000 | 1 | 3,218,000 | 49.73 |
| Total | 1,615 | 6,471,052 | 100.00 |

Value Created to Shareholders

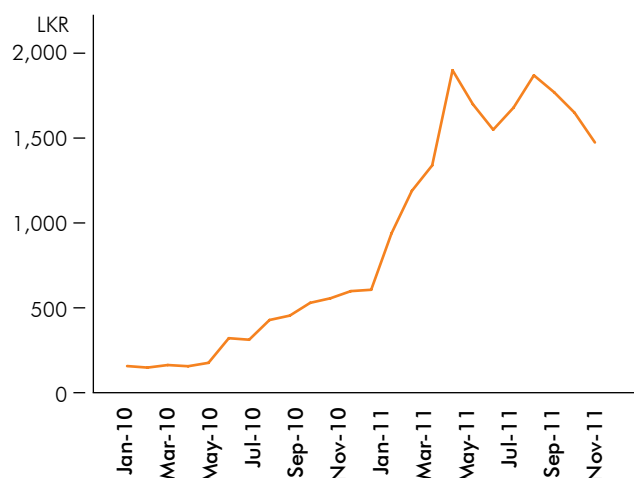
The Stock Market

In the course of 2011, we saw a significant upturn in the Colombo Stock Exchange (CSE), although a degree of uncertainty persisted in the last quarter of the year. The healthy start to the year was followed by a period of stabilization and then recovery. It was probably the only exchange to record positive year-to-date growth in the region as at September 30, 2011. The All Share Price Index of the CSE recorded a 2.23 percent growth during this period.

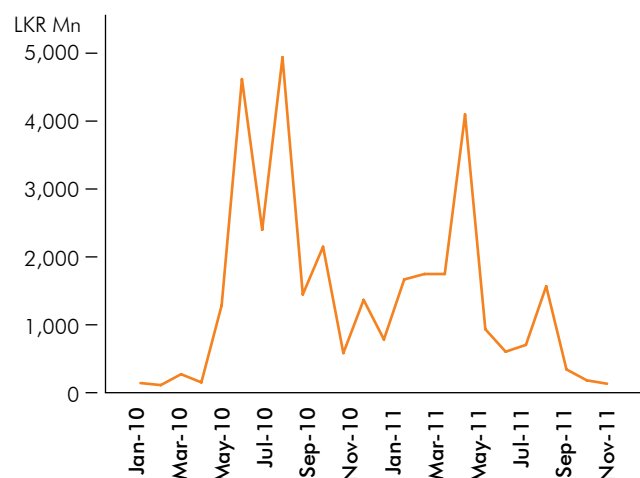
Increased Share Price and Market Capitalization

HDFC Bank's closing share price rose by 155 percent to LKR 1,400 in the reporting year compared to LKR 550 in 2010. HDFC recorded the highest market price of LKR 1,900 in May 2011 at the CSE, since listing in 2005, accounting for a market capitalization of LKR 12,294 million. At the same time, substantial intraday price volatility decreased as the markets became less nervous. During the year, traded lowest price was LKR 554 in January. However, throughout the year, HDFC's share price performed well compared to the industry index. Market capitalization at the balance sheet date was LKR 9,059 million, which represent approximately 0.31 percent of the total market capitalization.

HDFC Share Price



HDFC Market Turnover



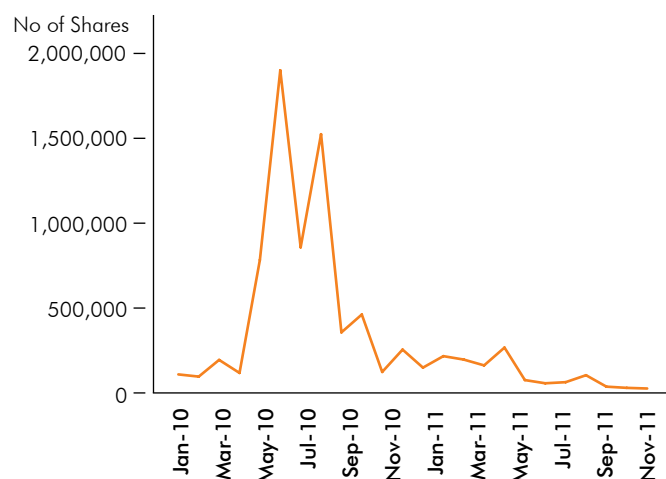
Share Trading Information -2011

| Quarter 2011 | Price -LKR | | | Volume |
|-----------------|------------|--------|---------|---------|
| | Highest | Lowest | Closing | |
| 1st Q | 940 | 554 | 911 | 365,000 |
| 2nd Q | 1,900 | 1,228 | 1,547 | 448,700 |
| 3rd Q | 1,869 | 1,352 | 1,798 | 157,500 |
| 4th Q | 1,689 | 1,271 | 1,389 | 367,000 |

Volume of Shares Traded

HDFC share is fairly illiquid in the market, since it has largely consolidated into the hand of few strategic corporate investors. However, during the year 1,192,100 shares were traded at a total market value of LKR 1,444 million.

No of HDFC Shares Traded



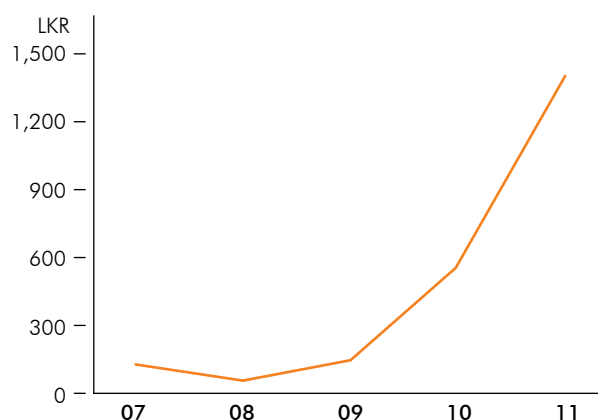
Improved Long - Term Return

Although equity markets picked up again in 2011, the severe price decline continued in the latter part of the year resulting in a negative long-term shareholder return. However, our share holders have earned a strong wealth compared to the initial public offer price of LKR 220 in 2005. Over the long-term, this corresponds to an average annual return of 89 percent.

Direct Return to Shareholders

| Year | Share Price LKR | Shareholders' Fund LKR-Mn |
|------|--------------------|------------------------------|
| 2005 | 191 | 1,643 |
| 2006 | 174 | 1,800 |
| 2007 | 128 | 1,789 |
| 2008 | 56 | 1,697 |
| 2009 | 147 | 1,721 |
| 2010 | 550 | 1,848 |
| 2011 | 1,400 | 2,125 |

Share Price 2007 - 2011



Financial Value Creation Shareholders contd.

Earning Per Share

The earnings per share (EPS) of LKR 47.90 in 2011, recorded a strong growth of 140 percent compared to the last year's EPS of LKR 20.91. This is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issues during the year.

Challenge of Meeting the Minimum Core Capital

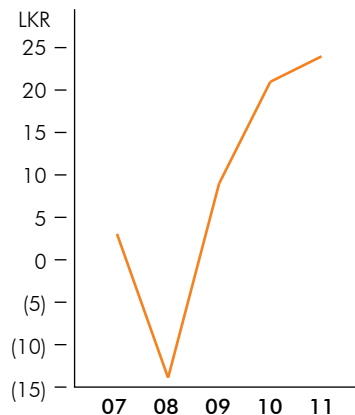
Tier-1 Capital

It is a mandatory requirement of the CBSL, that all Licensed Specialized Banks to meet the minimum capital (Tier-1) requirement of LKR 2,000 million by the end of 2011. HDFC Bank has been marching towards achieving this target from internally generated funds because of the structural and statutory challenges faced by the Bank on raising new equity or debt capital before the deadline. The Bank is proud to announce that it could meet this regulatory requirement comfortably on 31st December 2011.

HDFC is remorseful about the decision to keep back the dividend

Following a challenging environment in 2009 and 2010, HDFC Bank achieved a commendable result of LKR 310 million in 2011. Upon recommendations of the management, the Board of Directors have decided to utilize this fund to maintain a comfortable solvency zone ratio after achieving the Tier-1 capital requirement of the Bank up to the statutory minimum. This decision will invariably improve the soundness of the balance sheet and fundamentals of the share for stronger long-term prospects. Tier-1 capital ratio increased by 1.17 percentage points to a record 21.34 percent at year-end, entirely from HDFC's own resources.

Earning Per Share (EPS)



Financial Reporting and Social Branding

Financial Reporting

Shareholders and the public are regularly kept up to date, mainly through the annual reports and the interim reports. HDFC Bank's annual report won the 1st place in the ACCA Sustainability Reporting Award 2011, under small scale category enterprises recognizing our commitment to publish a more transparent annual report to our shareholders. We also won a certificate of recognition at the Annual Report Award Ceremony 2011, conducted by the Institute of Chartered Accountants of Sri Lanka.

Financial Statements and related notes of this report have been audited by the Auditor General and other qualitative informations and compliance with GRI are assured by an independent Auditor the report is also referred to the Accounting Standards Monitoring Boards to review the compliance with accounting standards.

IFRS Implementation

We strive to develop our annual reporting framework inline with national and international developments to enable shareholders and prospective investors to make balance investment decisions of our shares and other financial instruments. Financial statements of 2012 will be prepared in accordance with International Financial Reporting Standards (IFRS) which provide a higher degree of transparency and facilitate comparability with our national and international peers.

Economic and Social Contribution

During the year, HDFC Bank won a merit award at the National Business Excellence Awards, conducted by the National Chamber of Commerce of Sri Lanka.

Credit Ratings Unchanged

Credit rating is important to make an independent judgment of our affairs to shareholders and investors. Fitch Rating Lanka (Pvt) Ltd, the credit rating agency, reaffirmed the national long-term rating of HDFC Bank at BBB+ (lka) with a stable outlook. This is the second consecutive year where HDFC was affirmed the same rating.

Financial Calendar 2012

HDFC Bank is committed to publish annual reports and quarterly reports on a timely manner and submit the required information to the CSE on the stipulated dates. Quarterly accounts of 2012 will be published within two months following the quarter end and the Annual Report before the end of April 2013.

Future Prospects

Enhancement of Scope of Operation and Share Value

Permission to carryout business enumerated Schedule 1V of the Banking Act

As a Licensed Specialized Bank , HDFC was not permitted to carryout businesses enumerated in Schedule 1V of the Banking Act, because of the statutory restrictions enforced by the HDFC Act. These boundaries restricted our playing field in the competitive banking industry. This was a major concern for our shareholders, regulators and employees, with the view of enhancing profitability, operational efficiency, risk management and maintaining of industry norms.

As per the amendment Act No 45 of 2011, approved by the Parliament on 21st November 2011, HDFC Bank is now permitted to carry out banking businesses listed under the schedule 1V of the Banking Act within the primary objective of housing finance.

Subdivision of Ordinary Shares of the Bank

With the above amendment, the Bank was also permitted to split the LKR 100.00 ordinary share of the bank in to LKR 10.00. This split will be implemented in 2012, with the approval of the shareholders in an extraordinary general meeting.

New Products and Services

The Bank is moderating its activities within the above statutory boundary and is developing its product portfolio to enhance the competitiveness of operations thus easing the challenge of risk management and maintaining industry norms. These initiatives would enhance profitability and generate strong long-term results to the shareholders while increasing liquidity of HDFC shares in the market.

Funding Needs

HDFC Bank is in need of long –term capital to cushion the equity/assets ratio which has been deteriorating over the years, intensifying the challenge of raising long term funds within the turbulent macroeconomic environment. The Bank has intensified discussions with fixed-income investors and banks who prefer to deal with adjustable long term advances as well as with investors who are increasingly making investment decisions on the basis of sustainability criteria of meet funding needs.

Increasing Interest in our Annual General Meeting

The Annual General Meeting of HDFC was held on 9th May 2011, in Colombo with substantial representation of shareholders, than in the previous year. The Management Board Chairman's customary report on the development of the business in the past year was followed by a question and answer session between the shareholders and management on HDFC's current position and future prospects.

Key performance Indicators - Share Price and Trading

| | 2011 | 2010 | 2009 |
|---|-----------|-----------|-----------|
| Total Number of Shares Traded | 1,192,100 | 6,623,900 | 1,510,700 |
| Market Value of Shares Traded –LKR-Mn | 1,444 | 1,938 | 194 |
| Monthly Average Traded – Shares | 99,341 | 551,991 | 125,891 |
| Price and Market Capitalization | | | |
| Share Price - Highest – LKR | 1,900 | 600 | 192 |
| Lowest – LKR | 546 | 135 | 49 |
| Closing – LKR | 1,400 | 550 | 147 |
| Market Capitalization/Closing – LKR- Mn | 9,059 | 3,548 | 948 |
| Net Assets Value per Share – LKR | 328 | 284 | 266 |
| Dividend per Share – LKR | - | 5 | 5 |
| Dividend Pay Out Ratio | - | 25% | 57% |
| Earnings per Share – LKR | 47.85 | 20.91 | 8.72 |
| Price Earnings Ratio-Time | 29.26 | 26.30 | 16.94 |