



HDFC Bank Sri Lanka

Policy on Board Committees

Document review and approval

Revision history

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1	Poornima Lenora	28 th September 2024	1

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Reviewer	Date reviewed
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This document has been approved by

Subject matter experts		
Name	Signature	Date reviewed
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1. Purpose

This policy establishes the structure, composition, and responsibilities of the Board Committees of HDFC Bank of Sri Lanka. It ensures compliance with applicable governance frameworks, enhances oversight, and enables committees to fulfill their strategic, operational, and regulatory obligations effectively.

2. Scope

This policy applies to all Board Committees at HDFC Bank of Sri Lanka, defining their responsibilities and governance frameworks. It provides guidelines to ensure committees are properly structured and function in compliance with the Banking Act Direction No. 12 of 2007 Corporate Governance and the amendments of the Central Bank of Sri Lanka's and the Listing Rules No. 09 Corporate Governance of the Colombo Stock Exchange.

3. Governance Framework

Board Committees at HDFC Bank of Sri Lanka provide oversight and governance in specific areas critical to the bank's performance, risk management, and compliance. Each committee operates under a clearly defined charter and meets regularly to discuss, monitor, and guide relevant areas of the bank's operations. Each committee shall report to the Board and operate in line with established best practices in corporate governance.

4. Committee Structure and Responsibilities

4.1 Audit Committee

- **Purpose**

- To assist the Board in its oversight responsibilities regarding financial reporting, internal controls, and external audits.

- **Composition:**
 - A minimum of three members, at least two of whom shall be independent non-executive directors.
 - The chairperson shall be an independent non-executive director who possesses qualifications and experience in accountancy and/or audit.

- **Roles and Responsibilities:**
 - Oversee the bank's financial reporting and ensure the accuracy, integrity, and compliance of financial statements with applicable laws and standards.
 - Review quarterly and annual financial statements before submission to the Board, paying special attention to changes in accounting policies, key financial issues, and significant transactions.
 - Assess the independence, effectiveness, and performance of external auditors, recommend their appointment, and oversee the audit process.
 - Monitor internal controls and the effectiveness of the bank's internal audit function, ensuring that risk management policies are followed.
 - Address any financial irregularities and review any material financial misconduct or unethical activities reported by auditors or whistle-blowers.

- **Reporting:**
 - Submit an annual report on audit activities, major financial issues, and compliance status.
 - Disclose significant financial matters or irregularities in the Annual Report and ensure timely resolution of key risks identified.

4.2 Nominations and Governance Committee

- **Purpose:**
 - To oversee the nomination process for Board and committee members and to ensure good corporate governance practices.

- **Composition:**
 - A minimum of three members, including at least two independent non-executive directors.
 - The chairperson shall be an independent director.

- **Roles and Responsibilities:**
 - Identify, evaluate, and recommend candidates for Board and committee appointments, ensuring that candidates are fit and proper, diverse, and aligned with the bank's strategic goals.
 - Establish guidelines for Board composition, balancing experience, expertise, and diversity in gender, age, and professional backgrounds.
 - Oversee the process for Board reappointments and re-elections, ensuring that all directors meet the required governance standards.
 - Develop and implement procedures for the performance evaluation of the Board, its committees, and individual directors.
 - The committee shall oversee the development and implementation of the bank's succession plans for both Board members and senior management. Annual reviews shall ensure that the bank is prepared for leadership changes, and emergency succession plans shall be developed for key positions.

- **Reporting:**
 - Provide an annual report on Board appointments, re-elections, and assessments, highlighting diversity metrics and succession plans.
 - Ensure that governance and nomination processes are disclosed in the Annual Report.

4.3 Remuneration Committee

- **Purpose:**
 - To assist the Board in determining the company's remuneration policies and ensuring alignment with company performance.

- **Composition:**
 - A minimum of three members, with the majority being independent non-executive directors.
 - The chairperson shall be an independent director.

- **Roles and Responsibilities:**
 - Develop and recommend the bank's remuneration policies, ensuring that remuneration is fair, competitive, and aligned with long-term objectives.
 - Review and approve compensation packages for executive directors, key management personnel, and senior executives.
 - Ensure that non-executive directors are compensated according to industry standards, maintaining their independence.
 - Review and monitor performance-based compensation structures, ensuring alignment with the bank's performance, risk profile, and regulatory requirements.

- **Reporting:**
 - Disclose remuneration policies and practices in the Annual Report, including executive compensation details and performance incentives.
 - Report annually on the remuneration of executive and non-executive directors.

4.4 Integrated Risk Management Committee

- **Purpose:**

- To oversee risk management policies and ensure the identification and mitigation of key risks.

- **Composition:**

- A minimum of three members, the majority being independent non-executive directors.
- The chairperson shall be an independent director with expertise in risk management or finance.

- **Roles and Responsibilities:**

- Oversee the bank's risk management framework, including the identification, monitoring, and mitigation of key risks such as credit, market, operational, and liquidity risks.
- Review and assess risk management policies and ensure that the bank's risk appetite is defined and adhered to across operations.
- Monitor key risk indicators and ensure that risk exposures remain within approved limits.
- Ensure the adequacy of the bank's business continuity and disaster recovery plans.
- Conduct annual reviews of the bank's stress testing framework to assess financial resilience under adverse conditions.

Reporting:

- Submit periodic reports to the Board on the overall risk profile and highlight any breaches of the risk appetite.
- Ensure a detailed risk management section is included in the Annual Report.

4.5 Related Party Transactions Review Committee

- **Purpose:**
 - Oversee and review transactions between the bank and its related parties to ensure that they are conducted fairly, transparently, and in the best interest of the Bank.

- **Composition:**
 - Composed of a majority of independent directors, with the chairperson shall be an independent non-executive director.

- **Roles and Responsibilities:**
 - Review and approve all related party transactions, ensuring that such transactions are conducted in the best interest of the bank and do not provide undue advantage to related parties.
 - Ensure that all related party transactions are conducted at arm's length and in compliance with regulatory and governance standards.
 - Oversee disclosures of related party transactions in financial statements and the Annual Report.

- **Reporting:**
 - Annual disclosures of related party transactions in the Annual Report, including the nature and value of such transactions.
 - Provide timely reports on any material related party issues to the Board.

4.6 Cost Rationalization Committee

- **Purpose:**
 - To evaluate and recommend strategies for operational efficiency and cost optimization.

- **Composition:**
 - A minimum of three members, the majority being independent non-executive directors.
 - The chairperson shall be an independent non-executive director with financial or cost management expertise.

- **Roles and Responsibilities:**
 - Review the bank has cost structures, recommend strategies for operational efficiency, and cost optimization.
 - Evaluate major expenditures and ensure that costs are aligned with the bank's strategic and financial goals.
 - Monitor cost-cutting measures and assess their effectiveness, ensuring that cost reduction does not negatively affect service delivery or quality.
 - The Cost Rationalization Committee shall define Key Performance Indicators (KPIs) to measure the effectiveness of cost-saving initiatives. KPIs may include reductions in operational expenses, improved cost-to-income ratios, or other relevant benchmarks.

- **Reporting:**
 - Provide periodic reports to the Board, detailing the bank's cost-saving initiatives, expenditure control measures, and cost rationalization strategies.
 - Ensure key cost rationalization achievements and efforts are highlighted in the Annual Report.

5. Committee Operations

5.1 Meetings and Quorum

- Committees shall meet at least monthly/quarterly or as required based on their responsibilities.
- A quorum for committee meetings shall consist of a majority of committee members, including a minimum number of independent directors.
- Each committee shall maintain attendance records, meeting minutes and records of decisions made to the Board/Regulator for review.

5.2 Authority

- Committees have the authority to act within their defined scope, request information from management, and, when necessary, engage external advisors to assist in carrying out their responsibilities.
- Committees have full access to any information or personnel required for decision-making.

5.3 Documentation

- Detailed meeting minutes including discussions, decisions, and actions shall be documented, and key recommendations will be presented to the Board for final approval where required.
- Records shall kept/maintain in accordance with legal and regulatory requirements.

6. Reporting and Disclosures

6.1 Annual Disclosures

- Each committee chair shall be submit an annual report summarizing its activities, decisions, and key issues addressed during the year. This report should be incorporated into the bank's Annual Report.
- Disclosures must include committee composition, meeting attendance, significant decisions made, and any policy updates.

6.2 Public Disclosures

- Significant changes to committee composition, functions, or responsibilities shall be disclosed promptly via market announcements, ensuring transparency to shareholders and regulatory authorities.

7. Policy Review and Updates

- This policy shall be reviewed annually or when required by regulatory changes. Each committee is responsible for providing input on the effectiveness of this policy, and any recommended changes shall be approved by the Board and communicated to all relevant stakeholders.

8. Compliance and Accountability

- Each committee is accountable for adhering to this policy and complying with applicable regulations. Non-compliance must be promptly reported to the Board, and corrective actions must be taken to align operations with this policy.

The Board of Directors approved this Policy on 30th September 2024.