



HDFC Bank Sri Lanka

**Policy on Matters Relating to the
Board of Directors**

2024

Document review and approval

Revision history

Version	Author	Date	Revision
1	Poornima Lenora	24 th September 2024	1

This document has been reviewed by

Reviewer	Date reviewed
1 Prashanie Attygalle	24 th September 2024
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This document has been approved by

Subject matter experts		
Name	Signature	Date reviewed
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1. Purpose

The purpose of this policy is to define the governance framework for the Board of Directors of HDFC Bank of Sri Lanka. The policy establishes guidelines for the Board's composition, roles, responsibilities, operational procedures, evaluation mechanisms, and adherence to corporate governance principles. It aims to ensure that the Board functions effectively and in accordance with regulatory requirements and best practices, while promoting the bank's financial stability and safeguarding the interests of its stakeholders.

2. Legal and Regulatory Compliance

This policy complies with:

- Banking Act No. 30 of 1988 (as amended)
- Central Bank of Sri Lanka (CBSL) Directions
- HDFC Bank Act No. 7 of 1997 and Rules issued
- Rule 9 of the Colombo Stock Exchange (CSE) Corporate Governance Regulations (as applicable)
- International and Sri Lankan Accounting and Auditing Standards

The Board must ensure the continual adherence to local and international legal and regulatory frameworks governing financial institutions, including adherence to anti-money laundering (AML) and counter-terrorism financing (CTF) standards.

3. Board Composition and Structure

Balance of Executive and Non-Executive Directors: The Board shall consist of a mix of Non-Executive and Independent Directors. At least one-third of the Board must be Independent Directors, and Non-Executive Directors must hold the majority of seats.

Diversity and Inclusion: The Board shall reflect diversity in skills, gender, experience, and age. A minimum number of women should be represented, and the Board must have individuals with competencies in banking, finance, law, human resources, and technology, in line with CBSL guidelines.

Maximum Number of Directors: The Board shall consist of and no more than 10 directors, ensuring a healthy balance between decision-making capacity and effective oversight.

Tenure of Directors: No director shall serve on the Board for more than nine consecutive years, including the time served on the Board prior to this policy.

4. Roles and Responsibilities

Board of Directors: The Board is collectively responsible for the governance, strategic direction, and oversight of HDFC Bank. Directors shall act in good faith, with integrity, and in the best interests of the Bank and its stakeholders.

Chairperson and CEO: The roles of Chairperson and GM/CEO shall remain distinct to prevent concentration of authority. The Chairperson must be a Non-Executive Independent Director. The CEO is responsible for the day-to-day operations of the bank.

Committees of the Board: The Board shall establish and oversee key committees, including the Audit Committee, Risk Management Committee, Human Resources and Remuneration Committee, Cost Rationalisation and Nomination and Governance Committee. The Chairperson of the Board cannot chair these committees.

5. Responsibilities of the Board

Strategic Planning: The Board must approve the bank's strategic plans, ensuring alignment with risk management policies and financial objectives, while taking into account market conditions and regulatory requirements.

Risk Management: The Board shall oversee a robust risk management framework, ensuring risks related to credit, market, operational, liquidity, and compliance are objectively and expeditiously identified, adequately monitored and mitigated.

Internal Controls and Audit: The Board must ensure an effective system of internal controls and establish mechanisms to monitor financial reporting, auditing processes, and compliance with CBSL and CSE regulations. The Audit Committee shall oversee the integrity of financial statements and compliance with applicable laws.

Board Policies: The Board is responsible for approving and implementing the following policies:

- Corporate Governance Policy: Governing Board operations, structure, and roles.
- Whistleblower Policy: Protecting employees who report unethical practices.
- Anti-Bribery and Corruption Policy: Ensuring the bank's operations are free from corrupt practices.
- Risk Management Policy: Defining how risks are identified, assessed, and mitigated.
- Sustainability and ESG Policy: Ensuring the bank's activities align with Environmental, Social, and Governance (ESG) principles.

Succession Planning: The Board shall ensure the continuity of leadership through formal succession planning for the CEO and other key management personnel.

6. Board Procedures

Frequency of Meetings: The Board shall meet at least twelve times a year, with additional meetings scheduled as necessary. Special meetings will be able to called with at least 7 days' notice.

Attendance and Participation: Directors must attend at least 75% of all Board meetings. If a director fails to attend two-thirds of the meetings in any 12-month period, they shall cease to hold office. Directors may participate in meetings through audio-visual means.

Agenda and Documentation: The Chairperson, in consultation with the Company Secretary, shall prepare the agenda, ensuring it covers strategic, financial, risk management, and governance matters. Documents shall be circulated at least five days before the meeting.

Quorum: The quorum for any Board meeting must include a majority of Non-Executive Directors, including at least one Independent Director.

Voting and Decision-Making: Decisions shall be made by a majority vote of those present. In the event of a tie, the Chairperson shall cast the deciding vote.

7. Conflicts of Interest and Related Party Transactions

Disclosure of Interests: Directors must disclose any potential perceived or actual conflicts of interest in a timely manner. The Bank shall maintain a register of interests, which shall be updated regularly.

Approval of Related Party Transactions: the Board or the Related Party Transactions Review Committee, ensuring that such transactions are conducted at arm's length and on fair terms, must approve all transactions with related parties.

Abstention from Voting: Directors with conflicts of interest must abstain from participating in deliberations and voting on matters where the conflict exists.

8. Board Committees

The following Committees shall be established:

Audit Committee: Oversees financial reporting, internal and external audits, and compliance.

Risk Management Committee: Monitors all risks facing the Bank and ensures risk mitigation strategies are in place.

Human Resources and Remuneration Committee: Reviews and approves compensation for directors, CEO, and key management personnel.

Nomination and Governance Committee: Oversees the appointment and evaluation of directors and ensures adherence to governance standards.

Cost Rationalisation Committee

Oversees a continuous rationalization of the Banks operating overheads and efficiency in managing costs.

Each Committee must have clearly defined terms of reference and report directly to the Board. In case the Board or Management require an additional subcommittee, it can be established with the approval of the Nomination and Governance Committee.

9. Performance Evaluation

Board and Director Evaluation: The Board shall conduct an annual evaluation of its performance, including individual director performance. The results of the evaluation shall be used to identify areas for improvement and to ensure continuous development of Board capabilities.

GM/CEO and Key Personnel Evaluation: The Remuneration Committee shall evaluate the GM/CEO and key management personnel based on pre-established performance criteria.

10. Disclosures

Annual Corporate Governance Report: HDFC Bank shall publish a detailed corporate governance report in its Annual Report, highlighting Board composition, committee activities, director attendance, related party transactions, and compliance with this policy.

Transparency: The Board shall ensure transparency in all its dealings and provide timely, accurate, and detailed disclosures on material matters to shareholders and regulators.

11. Amendments and Reviews

This policy shall be reviewed annually by the Board to ensure it remains relevant and aligned with evolving governance standards and regulatory requirements. Any changes to the policy must be approved by the Board and disclosed in the Bank's Annual Report.

The Board of Directors approved this Policy on 27th September 2024.