HDFC BANK LTD
Form 20-F
July 31, 2015
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

**FORM 20-F**

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended March 31, 2015**

**OR**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from __________ to __________**

**OR**

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

**Commission file number 001-15216**

**HDFC BANK LIMITED**

**(Exact name of Registrant as specified in its charter)**

**Not Applicable**

**(Translation of Registrant s name into English)**

**India**

**(Jurisdiction of incorporation or organization)**

**HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400013, India**

**(Address of principal executive offices)**

**Name: Sanjay Dongre, Executive Vice President (Legal) and Company Secretary**

**Telephone: 91-22-2490-2934 /or 91-22-2498-8484, Ext. 3473**

**Email: sanjay.dongre@hdfcbank.com**

**Address: 2nd floor, Process House, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India.**

**(Name, telephone, e-mail and/or facsimile number and address of company contact person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

| Title of each class | Name of each exchange on which registered |
|---|---|
| American Depositary Shares, each representing three | The New York Stock Exchange |
| Equity Shares, Par value Rs. 2.0 per share | |

**Securities registered or to be registered pursuant to Section 12(g) of the Act: Not Applicable**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: Not Applicable**

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

**Equity Shares, as of March 31, 2015 2,506,495,317**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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## EXCHANGE RATES AND CERTAIN DEFINED TERMS

In this document, all references to we, us, our, HDFC Bank or the Bank shall mean HDFC Bank Limited or whe context requires also to its subsidiaries whose financials are consolidated for accounting purposes. References to the U.S. or United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. References to the Companies Act in the document mean the Companies Act, 1956 (to the extent such enactment remains in force) and the Companies Act, 2013 (to the extent notified as of the date of this report) and all rules and regulations issued thereunder. References to $ or US$ or dollars or U.S. dollars are to the legal currenc of the United States and references to Rs. , INR , rupees or Indian rupees are to the legal currency of India.

Our financial statements are presented in Indian rupees and in some cases translated into U.S. dollars. The financial statements and all other financial data included in this report, except as otherwise noted, are prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. U.S. GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India s Banking Regulation Act and related regulations issued by the Reserve Bank of India (RBI) (collectively Indian GAAP ), which form the basis of our statutory general purpose financial statements in India. Principal differences insofar as they relate to us include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred income taxes, stock-based compensation, employee benefits, loan origination fees, derivative financial instruments, business combinations and the presentation format and disclosures of the financial statements and related notes. References to a particular fiscal year are to our fiscal year ended March 31 of such year.

Fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of the equity shares on the Indian stock exchanges and, as a result, will affect the market price of our American Depositary Shares (ADSs) in the United States. These fluctuations will also affect the conversion into U.S. dollars by the depositary of any cash dividends paid in Indian rupees on the equity shares represented by ADSs.

In fiscal 2011, the rupee was range bound as capital flows just about managed to balance the drag from external debt servicing and the current account deficit. However, in fiscal year 2012, the Indian rupee depreciated coming under pressure amidst a widening current account deficit, thin capital inflows and rising global uncertainty spurred by lingering financial and economic instability in Europe and the United States. This trend continued in fiscal 2013. During fiscal 2014, the rupee came under immense and sustained selling pressure driven by growing anxiety about domestic growth prospects and global risk aversion. However, the Indian rupee s performance has improved during fiscal 2015, depreciating by 1.3%. The depreciation of the Indian rupee primarily reflects investor expectations that reforms implemented by India s new government will lead to an improvement in the long-term growth outlook (the high and low during fiscal 2015 was Rs. 63.67 per US$ and Rs 58.30 per US$, respectively). The following table sets forth, for the periods indicated, information concerning the exchange rates between Indian rupees and U.S. dollars based on the noon buying rate in the city of New York for cable transfers of Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

| Fiscal Year | Period End(1) | Average(1)(2) | High | Low |
|---|---|---|---|---|
| 2011 | 44.54 | 45.49 | 47.49 | 43.90 |
| 2012 | 50.89 | 47.81 | 53.71 | 44.00 |
| 2013 | 54.52 | 54.36 | 57.13 | 50.64 |
| 2014 | 60.00 | 60.35 | 68.80 | 53.65 |
| 2015 | 62.31 | 61.11 | 63.67 | 58.30 |

(1) The noon buying rate at each period end and the average rate for each period differed from the exchange rates used in the preparation of our financial statements.
(2) Represents the average of the noon buying rate for all days during the period.

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The following table sets forth the high and low noon buying rate for the Indian rupee for each of the previous six months:

| Month | Period End | Average | High | Low |
|---|---|---|---|---|
| January 2015 | 62.01 | 62.13 | 63.57 | 61.32 |
| February 2015 | 61.67 | 61.99 | 62.41 | 61.67 |
| March 2015 | 62.31 | 62.48 | 63.06 | 61.76 |
| April 2015 | 63.58 | 62.64 | 63.58 | 61.99 |
| May 2015 | 63.71 | 63.72 | 64.19 | 63.31 |
| June 2015 | 63.59 | 63.78 | 64.21 | 63.43 |

Although we have translated selected Indian rupee amounts in this document into U.S. dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted to U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at US$ 1.00 = Rs. 62.31 on March 31, 2015. The Federal Reserve Bank of New York certifies this rate for customs purposes on each date the rate is given. The noon buying rate on July 17, 2015 was Rs. 63.45 per US$ 1.00.

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## FORWARD-LOOKING STATEMENTS

We have included statements in this report which contain words or phrases such as will, aim, will likely result, believe, expect, will continue, anticipate, estimate, intend, plan, contemplate, seek to, future, ob should, will pursue and similar expressions or variations of these expressions, that are forward-looking statements. Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to implement our strategy successfully, the market acceptance of and demand for various banking services, future levels of our non-performing loans, our growth and expansion, the adequacy of our allowance for credit and investment losses, technological changes, volatility in investment income, our ability to market new products, cash flow projections, the outcome of any legal, tax or regulatory proceedings in India and in other jurisdictions we are or become a party to, the future impact of new accounting standards, our ability to pay dividends, the impact of changes in banking regulations and other regulatory changes on us in India and other jurisdictions, our ability to roll over our short-term funding sources and our exposure to market and operational risks. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what may actually occur in the future. As a result, actual future gains, losses or impact on net income could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general economic and political conditions, instability or uncertainty in India and the other countries which have an impact on our business activities or investments caused by any factor, including terrorist attacks in India, the United States or elsewhere, anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, tensions between India and Pakistan related to the Kashmir region or between India and China, military armament or social unrest in any part of India; the monetary and interest rate policies of the Government of India, natural calamities, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices; the performance of the financial markets in India and globally, changes in Indian and foreign laws and regulations, including tax, accounting and banking regulations, changes in competition and the pricing environment in India, and regional or general changes in asset valuations. For further discussion on the factors that could cause actual results to differ, see *Risk Factors*.

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# BUSINESS

## Overview

We are a new generation private sector bank in India. Our goal is to be the preferred provider of financial services to upper and middle income individuals and corporations in India across metro, urban, semi-urban and rural markets. Our strategy is to provide a comprehensive range of financial products and services to our customers through multiple distribution channels, with what we believe is high quality service, advanced technology platforms and superior execution. We have three principal business activities: retail banking, wholesale banking and treasury operations.

We have grown rapidly since commencing operations in January 1995. In the five years ended March 31, 2015, we expanded our operations from 1,725 branches and 4,232 Automated Teller Machines (ATMs) in 779 cities/towns to 4,014 branches and 11,766 ATMs in 2,464 cities/towns. During the same five year period, our customer base increased from 19.0 million customers to over 32 million customers. On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs. 2,416.5 billion as of March 31, 2010 to Rs. 6,259.0 billion as of March 31, 2015. Our net income has increased from Rs. 24.6 billion for fiscal 2010 to Rs. 99.2 billion for fiscal 2015.

Our financial condition and results of operations are affected by general economic conditions prevailing in India. Fiscal 2015 was a year of consolidation for the Indian economy that had, over the previous two years, weathered a series of domestic and external headwinds. The Government continued to work towards overcoming some of the policy and supply-side bottlenecks facing raw material supply, such as coal mining and natural resources mining (including linkages), and is also in the process of reforming land acquisition and clearance procedures that have dampened domestic investment and growth. As a result, the industrial growth increased from 4.5% in fiscal 2014 to 6.1% in fiscal 2015 and growth in services also gathered momentum increasing from 9.1% in fiscal 2014 to 10.2% in fiscal 2015. These improvements helped offset the drag on agricultural growth, which declined from 3.7% in fiscal 2014 to 0.2% in fiscal 2015 primarily on account of weather disturbances.

The pressure on domestic drivers of growth, particularly investments, to spearhead domestic economic activity is more acute than usual given the fact that global demand remains weak. While muted domestic growth and increased global supply, especially in the case of oil, have caused commodity prices to decrease and kept India s external and fiscal balances in check, they have also caused export growth to fall. Export growth declined from 7.3% in fiscal 2014 to negative 0.8% in fiscal 2015. The current account deficit declined from 1.7% of GDP in fiscal 2014 to 1.3% of GDP in fiscal 2015 and the fiscal gap shrunk from 4.5% of GDP in fiscal 2014 to 4.0% of GDP in fiscal 2015.

The combination of global disinflationary pressures (a result of falling commodity prices and subdued growth), better supply management of food items, weak domestic demand and subdued corporate pricing power has helped keep domestic inflation in check thereby causing average CPI inflation to fall from 9.0% in fiscal 2014 to 6.0% in fiscal 2015. This, along with the marked improvement in macro stability as a result of a shrinking current account and fiscal deficit and a stabilization of the rupee has created space for the Reserve Bank of India (RBI) to address growth concerns more aggressively. The RBI has reduced its policy rate (the rate at which it lends to banks) by 75 bps since January 2015 and further rate reductions cannot be ruled out. Taken together with an increase in government-led infrastructure investment, the reduction in the RBI policy rate could help to improve domestic credit growth, which has eased from 13.5% in fiscal 2014 to 12.6% in fiscal 2015.

Notwithstanding the pace of growth in India, we believe we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2015, net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.4% of net customer assets. In addition, our net customer assets represented 90.9% of our deposits and

our deposits represented 71.9% of our total liabilities and shareholders equity. The average non-interest bearing current accounts and low-interest bearing savings accounts represented 40.5% of total deposits as of March 31, 2015. These low-cost deposits and the cash float associated with our transactional services, led to an average cost of funds (including equity) for fiscal 2015 of 5.0%.

We had a cash outflow of approximately Rs. 10.0 billion, Rs. 9.7 billion, Rs. 8.9 billion in fiscals 2013, 2014 and 2015, respectively, principally for property, plant and equipment, including our branch network expansion and our technology and communications infrastructure. We have current plans for aggregate capital expenditures of approximately Rs. 12.1 billion in fiscal 2016. This budgeted amount includes Rs. 4.5 billion to expand our branch and back office network, Rs. 0.5 billion to expand our ATM network, Rs. 5.0 billion to upgrade and expand our hardware, data center, network and other systems and the balance primarily to add new equipment in our existing premises, to expand our existing premises and to relocate our branches and back offices. We may use these budgeted amounts for other purposes depending on, among other factors the business environment prevailing at the time, consequently our actual capital expenditures may be higher or lower than our budgeted amounts.

We are part of the HDFC group of companies established by our principal shareholder, Housing Development Finance Corporation Limited (HDFC Limited), a listed public limited company established under the laws of India. HDFC Limited is primarily engaged in financial services, including mortgages, property-related lending and deposit services. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life insurance and other insurance. HDFC Limited and its subsidiaries owned 21.7% of our outstanding equity shares as of March 31, 2015. Our Chairperson and Managing Director are nominated by HDFC Limited and appointed with the approval of our shareholders and the RBI. In addition, Mr. Keki Mistry, Vice Chairman and Chief Executive Officer of HDFC Limited and Mrs. Renu Karnad, Managing Director of HDFC Limited, are members of our Board of Directors and have been appointed independent of HDFC Limited s entitlement to nominate two directors. See also the section *Principal Shareholders* . We have no agreements with HDFC Limited or any of its group companies that restrict us from competing with them or restricting HDFC Limited or any of its group companies from competing with our business. We currently distribute products of HDFC Limited and its group companies, such as home loans of HDFC Limited, life and general insurance products of HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited, respectively, and mutual funds of HDFC Asset Management Company Limited.

We have two subsidiaries as per local laws: HDFC Securities Limited (HSL) and HDB Financial Services Limited (HDBFSL). HSL is primarily in the business of providing brokerage and other investment services through the internet and other channels. HDBFSL is a non-deposit taking non-bank finance company (NBFC) engaged primarily in the business of retail asset financing. We have consolidated the financial statements of Atlas Documentary Facilitators Company Private Ltd. (ADFC), which provides back office transaction processing services, in our U.S. GAAP financial statements.

Our principal corporate and registered office is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. Our telephone number is 91-22-6652-1000. Our agent in the United States for the 2001, 2005, 2007 and 2015 ADS offerings is Depositary Management Corporation, 570 Lexington Avenue, New York, NY 10022.

## Our Competitive Strengths

We attribute our growth and continuing success to the following competitive strengths:

### *We have a strong brand and extensive reach through a large distribution network*

We believe our HDFC Bank brand is one of the strongest brands in the Indian banking industry and was in August 2014, acknowledged as the most valuable brand in India in the inaugural edition of the BrandZ Top 50 Most Valuable Indian Brands study. The study was conducted by WPP research agency Millward Brown, which specializes in brand equity research and brand valuation. We have capitalized on our strong brand by establishing an extensive branch network throughout India serving a broad range of customers in urban, semi-urban and rural regions. As of March 31, 2015, we had 4,014 branches and 11,766 ATMs in 2,464 cities and towns and over 32 million customers. Our branch network is further complemented by our digital strategy, including online and mobile banking solutions, to provide our customers with access to on-demand banking services, which we believe allows us to develop strong and loyal relationships with our customers.

### *We provide a wide range of products and high quality service to our clients in order to meet their banking needs*

Whether in retail banking, wholesale banking or treasury operations, we consider ourselves a one-stop shop for our customers banking needs. This includes the services that we can provide to our customers, both directly and indirectly

through back-office operational execution and the range of products we offer. We consider our high quality service to be a vital component of our business and believe in pursuing excellence in execution through multiple internal initiatives focused on continuous executional improvements. This pursuit of high quality service and operational execution directly supports our ability to offer a wide range of banking products. Our retail banking products range from retail loans to deposit products and other products and services, such as private banking, depositary accounts, foreign exchange services, distribution of third party products (such as insurance and mutual funds), bill payments and sales of gold and silver bullion. In addition, we offer our customers brokerage accounts through our subsidiary HSL. On the wholesale banking side we offer customers working capital loans, term loans, bill collections, letters of credit and guarantees and foreign exchange and derivative products. We also offer a range of deposit and transaction banking services such as cash management, custodial and clearing bank services and correspondent banking. We collect taxes for the government and are bankers to companies in respect of issuances of equity shares and bonds to the public. We are able to provide this wide-range of products across our branch network, meaning we can provide our targeted rural customers banking products and services similar to those provided to our urban customers, which we believe provides us a competitive advantage. Our wide range of products and focus on superior service and execution also creates multiple cross-selling opportunities for us and we believe, promotes customer retention.

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***We have achieved robust and consistent financial performance while preserving asset quality during our growth***

On account of our superior operational execution, broad range of products, expansion in our geographical reach and the resultant increase in market penetration through our extensive branch network, our assets have grown from Rs. 5,125.4 billion as of March 31, 2014 to Rs. 6,259.0 billion as of March 31, 2015. Our net income has increased from Rs. 79.3 billion for fiscal 2014 to Rs. 99.2 billion for fiscal 2015. In addition to the significant growth in our assets and net revenue, we remain focused on maintaining a high level of asset quality. Our gross non-performing customer assets as a percentage of total customer assets was 1.0% as of March 31, 2015 and our net non-performing customer assets was 0.4% of net customer assets. Our net interest margin was 4.7% in fiscal 2014 and 4.8% in fiscal 2015, net income as a percentage of average total shareholders equity was 15.6% in fiscal 2014 and 16.1% in fiscal 2015 and net income as a percentage of average total assets was 1.8% in fiscal 2014 and 1.9% in fiscal 2015. Our current and savings account deposits as a percentage of our total deposits were 44.0% as of March 31, 2015.

***We have an advanced technology platform***

We continue to make substantial investments in our advanced technology platform and systems and expand our electronically linked branch network. We have implemented mobile data based networking options in semi-urban and rural areas where telecom infrastructure and data connectivity are weak. These networks have enabled us to improve our core banking services in such areas and provide a link between our branches and data centers.

Our direct banking platforms are stable and robust, enabling new ways to connect with our customers to cross-sell various products and improve customer retention. We introduced our bilingual mobile banking application and person-to-person smartphone payment solution, Chillr. In addition, we have initiated measures to enhance our e-commerce processing capabilities in order to meet increasing transaction volumes as customers adopt newer self-service technologies, including our recently launched electronic wallet, PayZapp.

We have also developed robust data analytics capabilities that allow us to market and cross-sell our products to customers through both traditional relationship management and interactive, on-demand methods depending on how particular customers choose to interact with us. We have also implemented state-of-the-art engineered systems technology for some of the important backend operational systems, including doubling the capacity of our operational customer relationship management system.

***We have an experienced management team***

Many of the members of our management have had a long tenure with us, which gives us a deep bench of experienced managers. They have substantial experience in banking or other industries and share our common vision of excellence in execution. Having a management team with such breadth and depth of experience is well suited to leverage the competitive strengths we have already developed across our large, diverse and growing branch network as well as allowing our management team to focus on creating new opportunities for our business. See also the section *Management* .

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## Our Business Strategy

Our business strategy emphasizes the following elements:

***Increase our market share of India s expanding banking and financial services industry***

In addition to benefiting from the overall growth in India s economy and financial services industry, we believe we can increase our market share by continuing to focus on our competitive strengths, including our strong HDFC Bank brand and our extensive branch and ATM networks, to increase our market penetration.

***Increase our geographical reach***

As of March 31, 2015, we had 4,014 branches, 11,766 ATMs in 2,464 cities and towns. We believe we can continue expanding our branch footprint, particularly by focusing on rural and semi-urban areas. We believe these areas represent a significant opportunity for our continued growth as we expand banking services to those areas which have traditionally been underserved and which, by entering such markets, will enable us to establish new customer bases. We also believe that delivering banking services which are integrated with our existing business and product groups helps us to provide viable opportunities to the sections of the rural and semi-urban customer base that is consistent with our targeted customer profile throughout India.

***Cross-sell our broad financial product portfolio across our customer base***

We are able to offer our complete suite of financial products across our branch network, including in our rural locations. By matching our broad customer base with our ability to offer our complete suite of products to both rural and urban customers across the retail banking, wholesale banking and treasury product lines, we believe that we can continue to generate organic growth by cross-selling different products by proactively offering our customers complementary products as their relationships with us develop and their financial needs grow and evolve.

***Continue our investments in technology to support our digital strategy***

We believe the increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of reaching our customers. As a result, we are continuously investing in technology as a means of improving our customers banking experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with their banking accounts with us. While we currently provide a range of options for customers to access their accounts, including net banking, telephone banking, and banking applications on mobile devices, we believe additional investments in our technology infrastructure to further develop our digital strategy will allow us to cross-sell a wider range of products on our digital platform in response to our customers needs and thereby expand our relationship with our customers across a range of customer segments. We believe a comprehensive digital strategy will provide benefits in developing long-term customer relationships by allowing customers to interact with us and access their accounts wherever and whenever they desire.

***Maintain strong asset quality through disciplined credit risk management***

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, and by putting in place what we believe are comprehensive risk assessment processes and diligent risk monitoring and remediation procedures. Our gross non-performing customer assets as a percentage of total customer assets was 1.0% as of March 31, 2015 and our net non-performing customer assets as a percentage of net customer assets was 0.4% as

of March 31, 2015. As of March 31, 2015, our gross restructured loans as a percentage of gross non-performing loans were 10.6%. We believe we can maintain strong asset quality appropriate to the loan portfolio composition while achieving growth.

***Maintain a low cost of funds***

We believe we can maintain a relatively low-cost funding base as compared to our competitors, by leveraging our strengths and expanding our base of retail savings and current deposits and increasing the free float generated by transaction services, such as cash management and stock exchange clearing. Our average cost of funds (including equity) was at 5.1% for fiscal 2014 and 5.0% for the fiscal 2015.

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**Our Principal Business Activities**

Our principal business activities consist of retail banking, wholesale banking and treasury operations. The following table sets forth our net revenues attributable to each area for the last three years.

| | Year ended March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | |
| | (in millions, except percentages) | | | | | | |
| Retail banking | Rs.173,367.6 | 82.7% | Rs.199,306.9 | 81.0% | Rs. 245,670.7 | US$ 3,942.7 | 82.2% |
| Wholesale banking | 32,100.7 | 15.3% | 39,302.8 | 16.0% | 45,416.6 | 728.9 | 15.2% |
| Treasury operations | 4,097.6 | 2.0% | 7,368.8 | 3.0% | 7,910.3 | 127.1 | 2.6% |
| Net revenue | Rs.209,565.9 | 100.0% | Rs.245,978.5 | 100.0% | Rs. 298,997.6 | US$ 4,798.7 | 100.0% |

**Retail Banking**

***Overview***

We consider ourselves a one-stop shop for the financial needs of upper and middle income individuals. We provide a comprehensive range of financial products including deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services and other services. Our retail banking loan products include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes, which together account for more than a third of our total retail banking loans. We group these loans as part of our retail banking business considering, among other things, the customer profile, the nature of the product, the differing risks and returns, our organization structure and our internal business reporting mechanism. Such grouping ensures optimum utilization and deployment of specialized resources in our retail banking business. We also have specific products designed for lower income individuals through our Sustainable Livelihood Initiative (SLI). Through this initiative, we reach out to the un-banked and under-banked segments of the Indian population.

We actively market our services through our branches and alternate sales channels, as well as through our relationships with automobile dealers and corporate clients. We seek to establish a relationship with a retail customer and then expand it by offering more products. As part of our growth strategy we continue to expand our distribution channels so as to make it easier for the customer to do business with us. We believe this strategy, together with the general growth of the Indian economy and the Indian upper and middle classes, affords us significant opportunities for growth.

As of March 31, 2015, we had 4,014 branches and 11,766 ATMs in 2,464 cities and towns. We also provide telephone banking, internet and mobile banking to our customers. We plan to continue to expand our branch and ATM network as well as our other distribution channels, subject to regulatory guidelines/approvals.

***Retail Loans and Other Asset Products***

We offer a wide range of retail loans, including loans for the purchase of automobiles, personal loans, retail business banking loans, loans for the purchase of commercial vehicles and construction equipment finance, two-wheeler loans, credit cards and loans against securities. Our retail loans were 69.0% of our gross loans of which 17.9% were unsecured as of March 31, 2015. Apart from our branches, we use our ATMs and the internet to promote our loan products and we employ additional sales methods depending on the type of products. We perform our own credit analysis of the borrowers and the value of the collateral, if the loan is secured. See *Risk Management Credit Risk Retail Credit Risk* . We also buy mortgage and other asset-backed securities and invest in retail loan portfolios through assignments. In addition to taking collateral in many cases, we generally obtain post-dated checks covering all payments at the time a retail loan is made. It is a criminal offense in India to issue a bad check. We also sometimes obtain instructions to debit the customer s account directly for making payments. Our unsecured personal loans, which are not supported by any collateral, are a greater credit risk for us than our secured loan portfolio. We may be unable to collect in part or at all on an unsecured personal loan in the event of non-payment by the borrower. Accordingly, personal loans are granted at a higher loan yield since they carry a higher credit risk as compared to secured loans. Also see *Risk Factors Our unsecured loan portfolio is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, we may be unable to collect the unpaid balance* .

The following table shows the gross book value and share of our retail credit products:

| | At March 31, 2015 Value (in millions) | | % of Total Value |
|---|---|---|---|
| **Retail Loans:** | | | |
| Auto loans | Rs. 486,251.7 | US$ 7,803.8 | 17.7% |
| Personal loans / Credit Cards | 449,381.7 | 7,212.0 | 16.4% |
| Retail business banking | 660,456.7 | 10,599.5 | 24.1% |
| Commercial vehicle and construction equipment finance | 305,995.4 | 4,910.9 | 11.1% |
| Housing loans | 241,368.8 | 3,873.7 | 8.8% |
| Other Retail Loans | 577,534.2 | 9,268.6 | 21.0% |
| Total retail loans | 2,720,988.5 | 43,668.5 | 99.1% |
| Mortgage-backed securities | 1,332.1 | 21.4 | 0.1% |
| Asset-backed securities | 23,283.3 | 373.7 | 0.8% |
| Total retail assets | Rs. 2,745,603.9 | US$ 44,063.6 | 100.0% |

Note: The figures above exclude securitized-out receivables. Mortgaged-backed securities and asset-backed securities are reflected at fair values.

*Auto Loans*

We offer loans at fixed interest rates for financing new and used automobile purchases. In addition to our general marketing efforts for retail loans, we market this product through our relationships with car dealers, direct sales agents, corporate packages and joint promotion programs with automobile manufacturers.

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*Personal Loans / Credit Cards*

We offer unsecured personal loans at fixed rates to specific customer segments, including salaried individuals and self-employed professionals. In addition, we offer unsecured personal loans to small businesses and individual businessmen.

We also offer credit cards from VISA and MasterCard range including gold, silver, corporate, platinum, titanium, signature, infinite, regalia, superia and world credit cards. During fiscal 2015, the Bank launched three premium variants of credit cards under the Diners brand under an exclusive arrangement with Diners. This enables the Bank to cater to the specific needs of super-premium customers requiring global card benefits. We had approximately 5.1 million and 6.0 million cards outstanding as of March 31, 2014 and March 31, 2015, respectively.

*Retail Business Banking*

We address the borrowing needs of the community of small businessmen primarily located near our bank branches by offering facilities such as credit lines, term loans for expansion or addition of facilities and discounting of receivables. We classify these business banking loans as a retail product. Such lending is typically secured with current assets as well as immovable property and fixed assets in some cases. We also offer letters of credit, guarantees and other basic trade finance products, foreign exchange and cash management services to such businesses.

*Commercial Vehicles and Construction Equipment Finance*

We provide secured financing for commercial vehicles and provide working capital, bank guarantees and trade advances to transport operators. In addition to funding domestic assets, we also finance imported assets for which we open foreign letters of credit and offer treasury services, such as forward exchange covers. We coordinate with manufacturers to jointly promote our financing options to their clients.

*Housing Loans*

We provide home loans through an arrangement with our principal shareholder HDFC Limited. Under this arrangement we sell loans provided by HDFC Limited through our branches. HDFC Limited approves and disburses the loans, which are kept on in their books, and we receive a sourcing fee for these loans. We have an option but not an obligation to purchase up to 70% of the fully disbursed home loans sourced under this arrangement through either the issue of mortgage backed pass through certificates (PTCs) or a direct assignment of the loans. The balance is retained by HDFC Limited.

***Other Retail Loans***

*Two-Wheeler Loans*

We offer loans for financing the purchase of scooters and motorcycles. We market this product in ways similar to our marketing of auto loans.

*Loans Against Securities*

We offer loans against equity shares, mutual fund units, bonds issued by the RBI and other securities that are on our approved list. We limit our loans against equity shares to Rs. 2.0 million per retail customer in line with regulatory guidelines and limit the amount of our total exposure secured by particular securities. We lend only against shares in

book-entry (dematerialized) form, which ensures that we obtain perfected and first-priority security interests. The minimum margin for lending against shares is prescribed by the RBI.

We also offer loans which primarily include overdrafts against time deposits, health care equipment financing loans, tractor loans, loans against gold and ornaments, loans to self-help groups and small loans to farmers.

*Loan Assignments*

We purchase loan portfolios, generally in India, from other banks, financial institutions and financial companies, which are similar to asset-backed securities, except that such loans are not represented by PTCs. Some of these loans also qualify toward our directed lending obligations.

*Kisan Gold Card (Agri Loans)*

Under the Kisan Gold Card, funds are extended to farmers in accordance with the RBI s Kisan Credit Card (KCC) scheme in order to assist the farmers in financing certain farming expenses, such as the production of crops, post-harvest repair and maintenance and the domestic consumption needs of the farmers. The amount of funding available is based on the farmer s cropping pattern, the amount of land under utilization and the scale of financing and asset costs. The Bank offers both cash credit and term loan facilities under this product.

*Loans Against Gold Jewelry*

We offer loans against gold jewelry to specific customer segments, including women and farmers. Such loans are offered with monthly interest payments and a bullet maturity. These loans also have margin requirements in the event of a decrease in the value of the gold collateral due to fluctuations in market prices of gold. Loans against gold jewelry are also extended to existing auto loan, personal loan or home loan customers in order to cater to their additional funding needs.

**Retail Deposit Products**

Retail deposits provide us with a low cost, stable funding base and have been a key focus area for us since commencing operations. Retail deposits represented approximately 79.1% of our total deposits as of March 31, 2015. The following chart shows the book value of our retail deposits by our various deposit products:

| | At March 31, 2015 | | |
|---|---|---|---|
| | Value (in millions) | | % of total |
| Savings | Rs.1,218,433.3 | US$ 19,554.4 | 34.2% |
| Current | 428,976.5 | 6,884.6 | 12.0% |
| Time | 1,914,617.4 | 30,727.3 | 53.8% |
| Total | Rs.3,562,027.2 | US$ 57,166.3 | 100.0% |

Our individual retail account holders have access to the benefits of a wide range of direct banking services, including debit and ATM cards, access to internet and phone banking services, access to our growing branch and ATM network, access to our other distribution channels and eligibility for utility bill payments and other services. Our retail deposit products include the following:

Savings accounts, which are demand deposits, primarily for individuals and trusts.

Current accounts, which are non-interest bearing checking accounts designed primarily for business customers. Customers have a choice of regular and premium product offerings with different minimum average quarterly account balance requirements.

Time deposits, which pay a fixed return over a predetermined time period.

We also offer special value-added accounts, which offer our customers added value and convenience. These include a time deposit account that allows for automatic transfers from a time deposit account to a savings account, as well as a time deposit account with an automatic overdraft facility.

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## Other Retail Services and Products

### *Debit Cards*

We had around 17.4 million and 21.6 million debit cards outstanding as of March 31, 2014 and March 31, 2015, respectively. The cards can be used at ATMs and point-of-sales terminals in India and in other countries across the world.

### *Individual Depositary Accounts*

We provide depositary accounts to individual retail customers for holding debt and equity instruments. Securities traded on the Indian exchanges are generally not held through a broker s account or in a street name. Instead, an individual has his own account with a depositary participant. Depositary participants, including us, provide services through the major depositaries established by the two major stock exchanges. Depositary participants record ownership details and effectuate transfers in book-entry form on behalf of the buyers and sellers of securities. We provide a complete package of services, including account opening, registration of transfers and other transactions and information reporting.

### *Mutual Fund Sales*

We offer our retail customers units in most of the large and reputable mutual funds in India. In some cases we earn front-end commissions for new sales and additional fees in subsequent years. We distribute mutual fund products primarily through our branches and our private banking advisors.

### *Insurance*

We have arrangements with HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited to distribute their life insurance and general insurance products, respectively, to our customers. We earn upfront commissions on new premiums collected as well as some trailing income in subsequent years in certain cases while the policy is still in force. Our commission income for the fiscal 2015 includes fees of Rs. 4,540.1 million in respect of life insurance business and Rs. 1,370.7 million in respect of general insurance business.

### *Investment Advice*

We offer our customers a broad range of investment advice, including advice regarding the purchase of Indian debt, equity shares and mutual funds. We provide our high net worth private banking customers with a personal investment advisor who can consult with them on their individual investment needs.

### *Bill Payment Services*

We offer our customers utility bill payment services for leading utility companies, including electricity, telephone and internet service providers. Customers can also review and access their bill details through our direct banking channels. We believe this is a valuable convenience that we offer our customers. We offer these services to customers through multiple distribution channels ATMs, telephone banking, internet banking and mobile telephone banking.

### *Corporate Salary Accounts*

We offer Corporate Salary Accounts, which allow employers to make salary payments to a group of employees with a single transfer. We then transfer the funds into the employees individual accounts and offer them preferred services, such as lower minimum balance requirements. As of March 31, 2015, these accounts constituted approximately 28% of our savings deposits by value.

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### *Non-Resident Indian Services*

Non-resident Indians are an important target market segment for us given their relative affluence and strong ties with family members in India. Our non-resident deposits amounted to Rs. 692.1 billion as of March 31, 2015.

### *Retail Foreign Exchange*

We purchase foreign currency from and sell foreign currency to retail customers in the form of cash, traveler s checks, demand drafts, foreign exchange cards and other remittances. We also carry out foreign currency check collections.

## Customers and Marketing

Our target market for our retail services is comprised of upper and middle income individuals and high net worth customers. As of March 31, 2015, around 17% of our retail deposit customers contributed approximately 78% of our retail deposits. We market our products through our branches, telemarketing and a dedicated sales staff for niche market segments. We also use third-party agents and direct sales associates to market certain products and to identify prospective new customers.

Additionally, we obtain new customers through joint marketing efforts with our wholesale banking department, such as our Corporate Salary Account package. We cross-sell many of our retail products to our customers. We also market our auto loan and two-wheeler loan products through joint efforts with relevant manufacturers and distributors.

We have programs that target other particular segments of the retail market. For example, our private and preferred banking programs provide customized financial planning to high net worth individuals. Private banking customers receive a personal investment advisor who serves as their single-point contact and compiles personalized portfolio tracking products, including mutual fund and equity tracking statements. Our private banking program also offers equity investment advisory products. While not as service-intensive as our private banking program, preferred banking offers similar services to a slightly broader target segment. Top revenue-generating customers of our preferred banking program are channeled into our private banking program.

We also have a strong commitment to financial inclusion programs to extend banking services to underserved populations. Our SLI targets lower income individuals to finance their economic activity, and also provide skill training, credit counseling, and market linkages for better price discovery. Through this initiative we reach out to the un-banked and under-banked segments of the Indian population.

## Wholesale Banking

### *Overview*

We provide our corporate and institutional clients a wide array of commercial banking products and transactional services.

Our principal commercial banking products include a range of financing products, documentary credits (primarily letters of credit) and bank guarantees, foreign exchange and derivative products, investment banking services and corporate deposit products. Our financing products include loans, overdrafts, bill discounting and credit substitutes, such as commercial papers, debentures, preference shares and other funded products. Our foreign exchange and derivatives products assist corporations in managing their currency and interest rate exposures.

For our commercial banking products, our customers include companies that are part of private sector business houses, public sector enterprises and multinational corporations, as well as small and mid-sized businesses. Our customers also include suppliers and distributors of corporations to whom we provide credit facilities and with whom we thereby establish relationships as part of a supply chain initiative for both our commercial banking products and transactional services. We aim to provide our corporate customers with high quality customized service. We have relationship managers who focus on particular clients and who work with teams that specialize in providing specific products and services, such as cash management and treasury advisory services.

Loans to small and medium enterprises, which are generally in the nature of loans for commercial vehicles, construction equipment and business purposes, are included as part of our retail banking business. We group these loans as part of our retail banking business considering, among other things, the customer profile, the nature of the product, the differing risks and returns, our organization structure and our internal business reporting mechanism. Such grouping ensures optimum utilization and deployment of specialized resources in our retail banking business.

Our principal transactional services include cash management services, capital markets transactional services and correspondent banking services. We provide physical and electronic payment and collection mechanisms to a range of corporations, financial institutions and government entities. Our capital markets transactional services include custodial services for mutual funds and clearing bank services for the major Indian stock exchanges and commodity exchanges. In addition, we provide correspondent banking services, including cash management services and funds transfers, to foreign banks and co-operative banks.

***Commercial Banking Products***

*Commercial Loan Products and Credit Substitutes*

Our principal financing products are working capital facilities and term loans. Working capital facilities primarily consist of cash credit facilities and bill discounting. Cash credit facilities are revolving credits provided to our customers that are secured by working capital such as inventory and accounts receivable. Bill discounting consists of short-term loans which are secured by bills of exchange that have been accepted by our customers or drawn on another bank. In many cases, we provide a package of working capital financing that may consist of loans and a cash credit facility as well as documentary credits or bank guarantees. Term loans consist of short-term loans and medium-term loans which are typically loans of up to five years in duration. Approximately 90% of our loans are denominated in rupees with the balance being denominated in various foreign currencies, principally the U.S. dollar.

We also purchase credit substitutes, which are typically comprised of commercial paper and debentures issued by the same customers with whom we have a lending relationship in our wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and we bear the same customer risk as we do for loans extended to these customers. Additionally, the yield and maturity terms are generally directly negotiated by us with the issuer.

The following table sets forth the asset allocation of our commercial loans and financing products by asset type. For accounting purposes, we classify commercial paper and debentures as credit substitutes (which in turn are classified as investments).

| | As of March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 |
| | (in millions) | | | |
| Gross commercial loans | Rs. 808,742.1 | Rs. 1,039,923.6 | Rs. 1,222,460.6 | US$ 19,619.0 |
| Credit substitutes: | | | | |
| Commercial paper | Rs. 39,802.6 | Rs. 42,031.6 | Rs. 180,198.6 | US$ 2,892.0 |
| Non-convertible debentures | 6,820.0 | 23,115.5 | 14,860.3 | 238.5 |
| Total credit substitutes | Rs. 46,622.6 | Rs. 65,147.1 | Rs. 195,058.9 | US$ 3,130.5 |
| Gross commercial loans plus credit substitutes | Rs. 855,364.7 | Rs. 1,105,070.7 | Rs. 1,417,519.5 | US$ 22,749.5 |

While we generally lend on a cash-flow basis, we also require collateral from a large number of our borrowers. As of March 31, 2015, approximately 67.6% of the aggregate principal amount of our gross wholesale loans was secured by collateral (approximately Rs. 396.3 billion in aggregate principal amount of loans were unsecured). However, collateral securing each individual loan may not be adequate in relation to the value of the loan. All borrowers must meet our internal credit assessment procedures, regardless of whether the loan is secured. See *Risk Management Credit Risk Wholesale Credit Risk* .

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We price our loans based on a combination of our own cost of funds, market rates, tenor of the loan, our rating of the customer and the overall revenues from the customer. An individual loan is priced on a fixed or floating rate, the pricing is based on a margin that depends on the credit assessment of the borrower. We are required to follow the Base Rate System while pricing our loans. For a detailed discussion of these requirements, see *Supervision and Regulation Regulations Relating to Making Loans* .

The RBI requires banks to lend to specific sectors of the economy. For a detailed discussion of these requirements, see *Supervision and Regulation Directed Lending* .

*Bill Collection, Documentary Credits and Bank Guarantees*

We provide bill collection, documentary credit facilities and bank guarantees for our corporate customers. Documentary credits and bank guarantees are typically provided on a revolving basis. The following table sets forth, for the periods indicated, the value of transactions processed with respect to our bill collection, documentary credits and bank guarantees:

| | As of March 31, | | | |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** |
| | (in millions) | | | |
| Bill collection | Rs. 3,857,516.1 | Rs. 3,609,043.4 | Rs. 3,288,490.0 | US$ 52,776.3 |
| Documentary credits | 598,307.0 | 785,059.7 | 1,020,077.1 | 16,371.0 |
| Bank guarantees | 245,625.5 | 275,705.6 | 221,658.3 | 3,557.3 |
| Total | Rs. 4,701,448.6 | Rs. 4,669,808.7 | Rs. 4,530,225.4 | US$ 72,704.6 |

*Bill collection:* We provide bill collection services for our corporate clients in which we collect bills on behalf of a corporate client from the bank of our client s customer. We do not advance funds to our client until receipt of payment.

*Documentary credits:* We issue documentary credit facilities on behalf of our customers for trade financing, sourcing of raw materials and capital equipment purchases.

*Bank guarantees:* We provide bank guarantees on behalf of our customers to guarantee their payment or performance obligations. A small part of our guarantee portfolio consists of margin guarantees to brokers issued in favor of stock exchanges.

*Foreign Exchange and Derivatives*

Our foreign exchange and derivative product offering to our customers covers a range of products, including foreign exchange and interest rate transactions and hedging solutions, such as spot and forward foreign exchange contracts, forward rate agreements, currency swaps, currency options and interest rate derivatives. These transactions enable our customers to transfer, modify or reduce their foreign exchange and interest rate risks. A specified group of relationship managers from our treasury front office works on such product offerings jointly with the relationship managers from Wholesale Banking.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amounts at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees. A forward rate agreement gives the buyer the

ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date) when the settlement amount is determined being the difference between the contracted rate and the market rate on the settlement date. Currency options give the buyer, the right but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

We enter into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with our customers, similar to our transactions with inter-bank participants. To support our clients activities, we are an active participant in the Indian inter-bank foreign exchange market. We also trade, to a more limited extent, for our own account. We also engage in proprietary trades of interest rate swaps and use them as part of our asset liability management.

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The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative contracts with our customers as of March 31, 2013, 2014 and 2015, together with the fair values on each reporting date.

| | As of March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | |
| | Notional | Fair Value | Notional | Fair Value | Notional | Fair Value | Notional | Fair Value |
| | (In millions) | | | | | | | |
| nterest rate waps and orward ate greements | Rs. 372,123.4 | Rs. 381.9 | Rs. 214,014.0 | Rs. 653.5 | Rs. 569,533.5 | Rs. (509.5) | US$ 9,140.4 | US$ (8.2) |
| orward xchange ontracts, urrency waps, urrency ptions and nterest rate aps and loors | Rs. 499,620.6 | Rs. 4,216.5 | Rs. 543,568.8 | Rs. 5,536.3 | Rs. 646,173.8 | Rs. (1,968.4) | US$ 10,370.3 | US$ (31.6) |

*Investment Banking*

Our Investment Banking Group offers services in the debt and equity capital markets. The group has arranged financing for clients across sectors including telecom, toll roads, steel, energy, chemicals and cement. The group advised on aggregate issuances of over Rs. 100 billion worth of corporate bonds across public sector undertakings, financial institutions and the Bank s corporate clients during fiscal 2015. In the advisory business, the Bank advised and closed transactions in capital goods, agrochemicals and the banking, financial services and insurance (BFSI) sector. In the equity capital markets business, the group has advised clients on public offerings and buy-back of shares.

*Wholesale Deposit Products*

As of March 31, 2015, we had wholesale deposits aggregating over Rs. 939.7 billion, which represented 20.9% of our total deposits. We offer both non-interest bearing current accounts and time deposits. We are allowed to vary the interest rates on our wholesale deposits based on the size of the deposit (for deposits greater than Rs. 10.0 million) so long as the rates booked on a day are the same for all customers of that deposit size for that maturity. See *Selected Statistical Information* for further information about our total deposits.

**Transactional Services**

***Cash Management Services***

We provide cash management services in India. Our services make it easier for our corporate customers to expedite inter-city check collections, make payments to their suppliers more efficiently, optimize liquidity and reduce interest costs. In addition to benefiting from the cash float, which reduces our overall cost of funds, we may also earn commissions for these services.

Our primary cash management service is check collection and payment. Through our electronically linked branch network, correspondent bank arrangements and centralized processing, we can effectively provide nationwide collection and disbursement systems for our corporate clients. This is especially important because there is no nationwide payment system in India, and checks must generally be returned to the city from which written, in order to be cleared. Because of mail delivery delays and the variations in city-based inter-bank clearing practices, check collections can be slow and unpredictable, and can lead to uncertainty and inefficiencies in cash management. We believe we have a strong position in this area relative to most other participants in this market.

Our wholesale banking clients also use our cash management services. These clients include Indian private sector companies, public sector undertakings and multinational companies. We also provide these services to Indian insurance companies, mutual funds, brokers, financial institutions and various government entities.

We have also implemented a straight-through processing solution to link our wholesale banking and retail banking systems. This has led to reduced manual intervention in transferring funds between the corporate accounts which are in the wholesale banking system and beneficiary accounts residing in retail banking systems. This initiative helps reduce transaction costs. We have a large number of commercial clients using our corporate Internet banking for financial transactions with their vendors, dealers and employees who bank with us.

*Clearing Bank Services for Stock and Commodity Exchanges*

We serve as a cash-clearing bank for major stock and commodity exchanges in India, including the National Stock Exchange of India Limited and the BSE Limited. As a clearing bank, we provide the exchanges or their clearing corporations with a means for collecting cash payments due to them from their members or custodians and a means of making payments to these institutions. We make payments once the broker or custodian deposits the funds with us. In addition to benefiting from the cash float, which reduces our overall cost of funds, in certain cases we also earn commissions on such services.

*Custodial Services*

We provide custodial services principally to Indian mutual funds, as well as to domestic and international financial institutions. These services include safekeeping of securities and collection of dividend and interest payments on securities. Most of the securities under our custody are in book-entry (dematerialized) form, although we provide custody for securities in physical form as well for our wholesale banking clients. We earn revenue from these services based on the value of assets under safekeeping and the value of transactions handled.

*Correspondent Banking Services*

We act as a correspondent bank for co-operative banks, co-operative societies and foreign banks. We provide cash management services, funds transfers and services, such as letters of credit, foreign exchange transactions and foreign check collection. We earn revenue on a fee-for-service basis and benefit from the cash float, which reduces our overall cost of funds.

We are well positioned to offer this service to co-operative banks and foreign banks in light of the structure of the Indian banking industry and our position within it. Co-operative banks are generally restricted to a particular state and foreign banks have limited branch networks. The customers of these banks frequently need services in other areas of the country where their own banks cannot provide. Because of our technology platforms, our geographical reach and the electronic connectivity of our branch network, we can provide these banks with the ability to provide such services to their customers.

*Tax Collections*

We have been appointed by the Government of India to collect direct taxes. In fiscal year ended March 31, 2014 and March 31, 2015, we collected Rs. 1,394 billion and Rs. 1,690 billion, respectively, of direct taxes for the Government of India. We are also appointed to collect sales, excise and service tax within certain jurisdictions in India. In fiscal year ended March 31, 2014 and March 31, 2015, we collected Rs. 722 billion and Rs. 870 billion, respectively, of such indirect taxes for the Government of India and relevant state governments. We earn a fee from the Government of India for each tax collection and benefit from the cash float. We hope to expand our range of transactional services by providing more services to government entities.

**Treasury**

*Overview*

Our treasury group manages our balance sheet, including our maintenance of reserve requirements and the management of market and liquidity risk. Our treasury group also provides advice and execution services to our corporate and institutional customers with respect to their foreign exchange and derivatives transactions. In addition, our treasury group seeks to optimize profits from our proprietary trading, which is principally concentrated on Indian government securities.

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Our client-based activities consist primarily of advising corporate and institutional customers and transacting spot and forward foreign exchange contracts and derivatives. Our primary customers are multinational corporations, large and medium sized domestic corporations, financial institutions, banks and public sector undertakings. We also advise and enter into foreign exchange contracts with some small companies and non-resident Indians.

The following describes our activities in the foreign exchange and derivatives markets, domestic money markets and debt securities desk and equities market. See also *Risk Management* for a discussion of our management of market risk.

***Foreign Exchange and Derivatives***

We enter into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants. To support our clients activities, we are an active participant in the Indian inter-bank foreign exchange market. We also trade, to a more limited extent, for our own account. We also engage in proprietary trades of rupee-based interest rate swaps and use them as part of our asset liability management. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amounts at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees. A forward rate agreement gives the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date) when the settlement amount is determined being the difference between the contracted rate and the market rate on the settlement date. Currency options give the buyer, the right but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative inter-bank contracts as of March 31, 2013, 2014 and 2015, together with the fair values on each reporting date:

| | As of March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | |
| | Notional | Fair Value | Notional | Fair Value | Notional | Fair Value | Notional | Fair Valu |
| | (In millions) | | | | | | | |
| terest rate vaps and rward te reements | Rs.1,708,376.9 | Rs. (2,274.6) | Rs. 1,558,644.7 | Rs. (2,127.8) | Rs.1,648,897.2 | Rs. 179.6 | US$ 26,462.8 | US$ 2.9 |
| orward change ntracts, rrency vaps, rrency tions and terest rate ps and | Rs.4,179,952.9 | Rs. 1,099.5 | Rs. 4,447,254.1 | Rs. 14,241.0 | Rs.6,309,696.1 | Rs. 2,946.5 | US$ 101,263.0 | US$ 47.3 |

***Domestic Money Market and Debt Securities Desk***

Our principal activity in the domestic money market and debt securities market is to ensure that we comply with our reserve requirements. These consist of a cash reserve ratio, which we meet by maintaining balances with the RBI, and a statutory liquidity ratio, which we meet by purchasing Indian government securities. See also *Supervision and Regulation Legal Reserve Requirements* . Our local currency desk primarily trades Indian government securities for our own account. We also participate in the inter-bank call deposit market and engage in limited trading of other debt instruments.

***Equities Market***

We trade a limited amount of equities of Indian companies for our own account. As of March 31, 2015, we had an internal aggregate approved limit of Rs 300 million for market purchases and Rs. 100 million (defined as a sub-limit of the aggregate approved limit) for primary purchases of equity investments for proprietary trading. Our exposure as of March 31, 2015 was within these limits. We set limits on the amount invested in any individual company as well as stop-loss limits

## Distribution Channels

We deliver our products and services through a variety of distribution channels, including branches, ATMs, telephone and mobile telephone banking and internet banking.

### *Branches*

As of March 31, 2015, we had an aggregate of 4,014 branches covering 2,464 cities and towns. All of our branches are electronically linked so that our customers can access their accounts from any branch regardless of where they have their accounts.

Almost all of our branches focus exclusively on providing retail services and products, though a few also provide wholesale banking services. The range of products and services available at each branch depends in part on the size and location of the branch. We offer various banking services to our customers through our arrangements with correspondent banks and exchange houses in overseas locations.

As part of its branch licensing conditions, the RBI requires that at least 25% of all incremental branches added during the year must be located in unbanked rural areas. A rural area is defined as a center with a population of less than 10,000 (based on the 2001 census conducted by the Government of India). As of March 31, 2015, 468 of our branches were in unbanked areas. With the objective of liberalizing and rationalizing the branch licensing process, the RBI, effective October 2013, granted general permission to banks like us to open branches in Tier 1 to Tier 6 centers, subject to reporting to the RBI and prescribed conditions. See *Supervision and Regulation* . We offer various banking services to our customers through our arrangements with correspondent banks and exchange houses in overseas locations.

We have representative offices in the United Arab Emirates and Kenya and have a wholesale banking branch in Bahrain. We have a full service banking branch in Hong Kong. In August 2014, we opened a branch in the Dubai International Financial Center (DIFC) in Dubai, where certain activities such as arranging credit or deals in investments, advising on financial products or credit and arranging custodian services will be carried out. Through these branches, we provide services to Indian corporates and their affiliates to cater to their international banking requirements, as well as to retail customers.

### *Automated Teller Machines*

As of March 31, 2015, we had a total of 11,766 ATMs, of which 5,015 were located at our branches or extension counters and 6,751 were located off site, including at large residential developments, or on major roads in metropolitan areas.

Customers can use our ATMs for a variety of functions, including withdrawing cash, monitoring bank balances, depositing cash / checks and paying utility bills. Customers can access their accounts from any of the HDFC Bank ATMs or non-HDFC Bank ATMs. ATM cards issued by other banks in the Plus, Cirrus and Amex networks can be used in our ATMs and we receive a fee for each transaction. Our debit cards can be used on ATMs of other banks while our ATM cards can be used on most of the ATM networks.

### *Telephone Banking*

We provide telephone banking services to our customers in over 2,400 cities and towns. Customers can access their accounts over the phone through our 24-hour automated voice response system and can order check books, conduct

balance inquiries and order stop payments on checks. In select cities, customers can also engage in financial transactions (such as cash transfers, opening deposits and ordering demand drafts). In certain cities, we also have staff available during select hours to assist customers who want to speak directly to one of our telephone bankers.

***Mobile Banking***

Our mobile banking platform offers anytime, anywhere banking services to our customers through handheld devices, such as smartphones and basic feature phones. Using our mobile banking platform, customers can perform enquiry based non-financial transactions such as balance enquiries, requests for account statements and requests for mini-statements of their transactions etc. We offer our customers the ability to carry out financial transactions from their mobile phone using ngpay . Customers can carry out financial transactions, such as transferring funds within and outside the Bank and mobile commerce using their HDFC Bank account by downloading this application on their mobile phones. Mobile banking is available across several mobile operating systems, including Android, iOS, Windows and Blackberry.

***Internet Banking***

Our net banking seeks to be a virtual manifestation of a physical branch. Through our net banking channel, customers can perform various transactions, such as access account information, track transactions, order check books, request stop check payments, transfer funds between accounts and to third parties who maintain accounts with us, open fixed deposits, give instructions for the purchase and sale of units in mutual funds, pay bills and make demand draft requests. We encourage customer use of our internet banking service by offering some key services for free or at a lower cost.

**Risk Management**

Risk is inherent in our business and sound risk management is critical to our success. The major types of risk we face are credit risk, market risk, liquidity risk, interest rate risk and operational risk. We have developed and implemented comprehensive policies and procedures to identify, assess, monitor and manage our risk.

***Credit Risk***

Credit risk is the possibility of loss due to the failure of any counterparty to abide by the terms and conditions of any financial contract with us. We identify and manage this risk through (a) our target defined markets, (b) our credit approval process, (c) our post-disbursement monitoring and (d) our remedial management procedures.

***Retail Credit Risk***

We offer a range of retail products, such as auto loans, personal loans, credit cards, business banking, two-wheeler loans, loans against securities, commercial vehicle loans. Our retail credit policy and approval process are designed for the fact that we have high volumes of relatively homogeneous, small value transactions in retail loans. There are product programs for each of these products, which define the target markets, credit philosophy and process, detailed underwriting criteria for evaluating individual credits, exception reporting systems and individual loan exposure caps.

For individual customers to be eligible for a loan, minimum credit parameters, so defined, are to be met for each product. Any deviations need to be approved at the designated levels. The product parameters have been selected based on the perceived risk characteristics specific to the product. The quantitative parameters considered include income, residence stability, the nature of the employment/business, while the qualitative parameters include accessibility and profile. Our credit policies/product programs are based on a statistical analysis of our own experience and industry data, in combination with the judgment of our senior officers.

The retail credit risk team manages credit risk in retail assets and has the following constituents:

*(a) Central Risk Unit*: The central risk unit drives credit risk management centrally for retail assets. It is responsible for formulating policies and evaluates proposals for launch of new products and new geographies. The central risk unit also conducts periodic reviews that cover portfolio management information system (MIS), credit MIS and post-approval reviews. The product risk teams conduct detailed studies on portfolio performance in each customer segment.

*(b) Retail Underwriting:* This unit is primarily responsible for approving individual credit exposures and ensuring portfolio composition and quality. The unit ensures implementation of all policies/procedures, as applicable.

*(c) Risk Intelligence and Control:* This unit is responsible for sampling of documents to ensure prospective borrowers with fraudulent intent are prevented from availing themselves of loans. The unit initiates market reference checks to avoid recurrence of frauds and financial losses.

*(d) Retail Collections Unit:* This unit is responsible for remedial management of problem exposures in retail assets. The collections unit uses specific strategies for various segments and products for remedial management.

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We mine data on our borrower account behavior as well as static data regularly to monitor the portfolio performance of each product segment regularly, and use these as inputs in revising our product programs, target market definitions and credit assessment criteria to meet our twin objectives of combining volume growth and maintenance of asset quality.

Our retail loans are generally secured by a charge on the asset financed (vehicle loans, property loans and loans against gold and securities). Retail business banking loans are secured with current assets as well as immovable property and fixed assets in some cases. However, collateral securing each individual loan may not be adequate in relation to the value of the loan. If the customer fails to pay, we would, as applicable, liquidate collateral and/or set off accounts. In most cases we obtain direct debit instructions or post-dated checks from the customer. It is a criminal offense in India to issue a bad check.

***Wholesale Credit Risk***

The wholesale credit risk team, within the Credit & Market Risk Group, is primarily responsible for implementing the credit risk strategy approved by the Board, developing procedures and systems for managing credit risk, carrying out an independent assessment of credit risk, approving individual credit exposures and ensuring portfolio composition and quality. In addition to the credit approval process, there is also an independent framework for the review and approval of credit ratings.

For our wholesale banking products, we target leading private businesses and public sector enterprises in the country, subsidiaries of multinational corporations and leaders in the Small and Medium Enterprises (SME) segment. We also have product specific offerings for entities engaged in the capital markets and commodities businesses.

We consider credit risk of counter-party comprehensively, and thus, our credit policies and procedures apply to not only credit exposures but also credit substitutes and contingent exposures. Our Credit Policies & Procedure Manual and Credit Program (Credit Policies) are central in controlling credit risk in various activities and products. These articulate our credit risk strategy and thereby the approach for credit origination, approval and maintenance. The Credit Policies generally address such areas as target markets, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms. Each credit is evaluated by the business units against the credit standards prescribed in our Credit Policies. They are then subjected to a greater degree of risk analysis based on product type and customer profile by credit risk specialists in the Credit & Market Risk Group.

We have in place a process of risk grading each borrower according to its financial health and the performance of its business and each borrower is graded on an alphanumeric rating scale of HDB 1 to HDB 10 (HDB 1 indicating the highest and HDB 10 the lowest rating; we further classify HDB 1 to HDB 7 as investment grade ratings, while HDB 8 or lower are classified as non-investment grade ratings). We have specific models applicable to each significant segment of wholesale credit (e.g. large corporate, SME manufacturing, SME Services and NBFCs). Each model assesses the overall risk over four major categories industry risk, business risk, management risk and financial risk. The aggregate weighted score based on the assessment under each of these four risk categories, correspond to a specific alphanumeric rating.

Based on what we believe is an adequately comprehensive risk assessment, credit exposure limits are set on individual counterparties. These limits take into account the overall potential exposure on the counterparty, be it on balance sheet or off balance sheet, across the banking book and the trading book, including foreign exchange and derivatives exposures. These are reviewed in detail at annual or more frequent intervals.

We do not extend credit on the judgment of one officer alone. Our credit approval process is based on a three approval system that combines credit approval authorities and discretionary powers. The required three approvals are provided by credit approvers who derive their authority from their credit skills and experience. The level for approval of a credit varies depending upon the grading of the borrower, the quantum of facilities required and whether we have been dealing with the customer by providing credit facilities in the past. Thus, initial approvals would typically require a higher level of approval for a borrower with the same grading and for sanctioning the same facility.

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To ensure adequate diversification of risk, concentration limits have been set up in terms of:

a) *Borrower /business group*: Exposure to a borrower/business group is subject to the general ceilings established by the RBI from time to time, or specific approval by RBI. The exposure-ceiling limit for a single borrower is 15% of a bank s capital funds. This limit may be exceeded by an additional 5% (i.e. up to 20%) provided the additional credit exposure is on account of lending to infrastructure projects. The exposure-ceiling limit in the case of a borrower group is 40% of the bank s capital funds. This limit may be exceeded by an additional 10% (i.e. up to 50%) provided the additional credit exposure is on account of extensions of credit for infrastructure projects. In addition to the above exposure limit, a bank may, in exceptional circumstances, with the approval of its board, consider increasing its exposure to a borrower up to an additional 5% of its capital funds. For certain blue chip clients and reputed groups or in particular for entities whose borrowings / bonds qualify as Priority Sector Lending, a bank may approach the RBI for single/group borrower ceilings higher than the prescribed limits. Exposures (both lending and investment, including off balance sheet exposures) of a bank to a single Non-Banking Finance Company (NBFC)/NBFC Asset Financing Company (AFC)/NBFC Infrastructure Finance Company (IFC) should not exceed 10%, 15% and 15% respectively of the bank s capital funds. The bank may, however, assume exposures on a single NBFC /NBFC-AFC /NBFC-IFC, up to 15%, 20% and 20% respectively, of its capital funds, provided the exposure in excess of 10%, 15% and 15% specified earlier is on account of funds on-lent by the NBFC/NBFC-AFC/NBFC-IFC to the infrastructure sector.

b) *Industry*: Exposure to any one industry cannot exceed 12% of aggregate exposures for this purpose advances and investments as well as non-fund based exposures are aggregated. Retail advances are exempt from such ceiling. Further, exposure to banks and state sponsored financial institutions is capped at a level of 25%.

c) *Risk grading*: In addition to the exposure ceilings described above, we have set quantitative ceilings on aggregate funded plus non-funded exposure (excluding retail assets) specific to each risk rating category at the portfolio level.

While we primarily make our credit decisions on a cash flow basis, we also obtain security for a significant portion of credit facilities extended by us as a second potential remedy. This can take the form of a floating charge on the movable assets of the borrower or a (first or residual) charge on the fixed assets and properties owned by the borrower. We may also require guarantees and letters of support from the flagship companies of the group in cases where facilities are granted based on our comfort level or relationship with the parent company.

We have a process for regular monitoring of all accounts at several levels. These include periodic calls on the customer, plant visits, credit reviews and monitoring of secondary data. These are designed to detect any early warning signals of deterioration in credit quality so that we can take timely corrective action.

The RBI restricts us from lending to companies with which we have any directors in common. Also, the RBI directs a portion of our lending to certain specified sectors (Priority Sector Lending). See the section *Supervision and Regulation* .

***Market Risk***

Market risk refers to the potential loss on account of adverse changes in market variables or other risk factors which affect the value of financial instruments which we hold. The financial instruments may include investment in money market instruments, debt securities (such as gilts, bonds, PTCs, etc.), equities, foreign exchange products and derivative instruments (linear as well as non-linear products).

The market variables which affect the valuation of these instruments typically include interest rates, equity prices, commodity prices, exchange rates and volatilities. Any change in the relevant market risk variable has an adverse or favorable impact on the valuation depending on the direction of the change and the type of position held (long or short). While the positions are taken with a view to earning from the upside potential, there is always a possibility of downside risk. Thus, we have to constantly review the positions to ensure that the risk on account of such positions is within our overall risk appetite. Our risk appetite is set through a pre-approved Treasury limits package that includes equity trading limits as well as specific trading limits, Counterparty Exposure limit and Asset Liability Management (ALM) limit. The process for monitoring and review of risk exposure is outlined in the various risk policies.

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Our Board of Directors has delegated the responsibility for market risk management of the balance sheet on an ongoing basis to the asset liability committee. This committee, which is chaired by the Managing Director and includes the heads of the business groups, meets every other week and more often when conditions require. The committee reviews the product pricing for deposits and assets as well as the maturity profile and mix of our assets and liabilities. It articulates the interest rate view and decides on future business strategy with respect to interest rates. It reviews and sets funding policy and also reviews developments in the markets and the economy and their impact on the balance sheet and business. Finally, it ensures adherence to ALM market risk limits and decides on the inter-segment transfer pricing policy.

The market risk department formulates procedures for portfolio risk valuation, assesses market risk factors along with the trading portfolio and recommends various market risk controls and limits for the treasury and investment banking portfolios. The treasury mid-office is responsible for monitoring and reporting market risks arising from the trading desks. The Market Data Cell in the mid-office maintains market data and also verifies the rates submitted by the Treasury Front Office for polling of various benchmarks. The financial control department is responsible for collecting data, preparing regulatory and analytical reports and monitoring whether the interest rate and other policies and limits established by the asset liability committee are being observed. Our treasury group also assists in implementing our asset liability strategy and in providing information to the asset liability committee.

*Policies and Procedures  Trading and Asset Liability Management Risks*

The following sections briefly describe our policies and procedures with respect to trading risk (price risk) and asset liability management risk (interest rate risk in the banking book and liquidity risk).

*I. Trading Risk*

Trading risk is the risk arising from price fluctuations due to market factors, such as changes in interest rates, equity prices, commodity prices, exchange rates and the variations in their implied volatilities in respect of the trading portfolio held by the Bank. The trading portfolio includes holdings in the held-for-trading and available-for-sale-portfolios, as per the RBI guidelines and consists of positions in bonds, securities, currencies, interest rate swaps, cross currency interest rate swaps and currency options.

The trading risk is managed by putting in place a sound process for price validation and by setting various limits, such as Value at Risk (VaR), Stop Loss Trigger Level (SLTL), Price Value per basis point (PV01), Option Greek limits and Position Limits, namely, Intraday and Net Overnight Open Position (NOOP) as well as Gap limits (Aggregate and Individual Gap limits), which are set in the Treasury Limits Package which also includes the equity trading limits. In addition, deal size limit is prescribed for foreign exchange deals traded on trading platforms, with the exception of specific position and exposure limits in exchange traded currency and interest rate derivatives.

The Treasury Limits and equity limits are recommended by management for approval to the Board of Directors. The limits are reviewed annually or more frequently (depending on market conditions) or upon introduction of new products.

The Market Risk policy sets the framework for market risk monitoring. The risk on account of semi-liquid or illiquid positions in trading is recognized in the Non-Standard Product policy. The Non-Standard Product Policy stipulates requirements for case specific evaluation of risk exposure in respect of non-standard products (that is, products which are not part of the standard product list decided by Treasury and the Market Risk Department). In addition, the stress testing policy prescribes the stress scenarios that are applied on the outstanding trading positions to recognize and analyze the impact of the stress conditions on the trading portfolio. Stress tests are based on historical scenarios as

well as on sensitivity factors which also comprise judgmental potential scenarios.

Price validation is conducted by the Treasury Analytics team, is reviewed by the market risk department and governed by the model validation policy approved by the Board of Directors.

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*II. Asset Liability Management (ALM)*

The ALM risk management process consists of management of Liquidity Risk and Interest Rate Risk in the Banking Book (IRRBB). Liquidity risk is the risk that the Bank may not be able to fund increases in assets or meet obligations as they come due without incurring unacceptable losses. IRRBB refers to the potential adverse financial impact on the Bank s banking book from changes in interest rates. The banking book is comprised of assets and liabilities that are incurred to create a steady income flow or to fulfill statutory obligations. Such assets and liabilities are generally held till maturity. The Bank carries various assets, liabilities and off-balance sheet items across markets, maturities and benchmarks, exposing it to risks from changing interest rates. The Bank s objective is to maintain liquidity risk and IRRBB within tolerable limits.

*Structure and Organization*

The ALM risk management process of the Bank operates in the following hierarchical manner:

*Board of Directors*

The Board has the overall responsibility for management of liquidity and interest rate risk. The Board decides the strategy, policies and procedures of the Bank to manage liquidity and interest rate risk, including setting the risk tolerance/limits and reviewing the results of stress tests.

*Risk Policy & Monitoring Committee of the Board (RPMC)*

The RPMC is responsible for evaluating the overall risks faced by the Bank, including liquidity risk and interest rate risk. The RPMC also addresses the potential interaction of liquidity risk and interest rate risk with other risks faced by the Bank.

*Asset Liability Committee (ALCO)*

The ALCO is the decision-making unit responsible for ensuring adherence to the risk tolerance/limits set by the Board, as well as implementing the Bank s liquidity and interest rate risk management strategy in line with the Bank s risk management objectives and risk tolerance. The ALCO is also responsible for balance sheet planning from a risk-return perspective, including strategic management of interest rate and liquidity risks. The role of the ALCO includes the following:

- product pricing for deposits and customer assets;
- deciding the desired maturity profile and mix of incremental assets and liabilities;
- articulating the Bank s interest rate view and deciding on its future business strategy;
- reviewing and articulating funding strategy;

- ensuring adherence to the limits set by the Board of Directors;
- determining the structure, responsibilities and controls for managing liquidity and interest rate risk;
- ensuring operational independence of risk management function;
- reviewing stress test results; and
- deciding on the transfer pricing policy of the Bank.

There are also certain internal ALM operational groups which support the ALM organization.

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*Risk Measurement Systems and Reporting*

Liquidity risk is measured using the flow approach and the stock approach. The flow approach involves comprehensive tracking of cash flow mismatches whereas the stock approach involves the measurement of critical ratios in respect of liquidity risk. Analysis of liquidity risk also involves examining how funding requirements are likely to be affected under crisis scenarios. The Bank has a Board-approved liquidity stress framework, which is guided by regulatory instructions. In addition, the Bank has an extensive intraday liquidity risk management framework for monitoring intraday positions during the day.

IRRBB is measured and controlled using both Earnings Perspective (Traditional Gap Analysis) and Economic Value Perspective (Duration Gap Analysis). Earnings Perspective measures the sensitivity of net interest income to changes in the interest rate over the next 12 months. It involves the bucketing of rate-sensitive assets, liabilities and off-balance sheet items as per the residual maturity/re-pricing date in various time bands, and computing the change in income under a 200 basis point upward and downward rate shock over a one-year period. Economic Value Perspective calculates the change in the present value of the Bank s expected cash flows for a 200 basis point upward and downward rate shock. The Bank also undertakes periodic stress testing for its banking book. This provides a measure with which to assess the Bank s financial standing from extreme but plausible interest rate fluctuations. The stress testing framework has been approved by the Board.

***Operational Risk Management***

Operational risk is risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The way operational risk is managed has the potential to positively or negatively impact the Bank s customers, financial performance and reputation. The Bank has put in place a Board-approved governance and organizational structure with clearly defined roles and responsibilities to mitigate operational risk arising out of the Bank s business and operations.

*Organizational Structure for Managing Operational Risk*

The RPMC reviews and recommends to the Board of Directors the overall operational risk management framework for the Bank. The Operational Risk Management Committee, which is headed by the Deputy Managing Director and consists of senior management functionaries including the Chief Risk Officer, Group Head Audit, Group Head Operations and senior representatives from all the relevant business verticals, oversees the implementation of the operational risk management framework approved by the Board. An independent operational risk management department is responsible for implementation of the framework across the Bank. The operational risk management policy stipulates the roles and responsibilities of employees, business units, operations and support function in managing operational risk.

*Risk Measurement and Monitoring*

While the day-to-day operational risk management lies with business lines, operations and support functions, the operational risk management department is responsible for designing tools and techniques for identification and monitoring of operational risk across the Bank consistent with the framework approved by the Board. The unit also ensures operational risk exposures are captured and reported to the relevant levels of the management for initiating suitable risk mitigations in order to contain operational risk exposures within acceptable levels. The internal audit department provides independent assurance of the effectiveness of governance, risk management and internal controls to achieve the Bank s risk management and control objectives.

The Bank applies a number of risk management techniques to effectively manage operational risks. These techniques include:

A bottom-up risk assessment process, Risk Control Self-Assessment, to identify high risk areas so that the Bank can initiate timely remedial measures. This assessment is conducted half-yearly to update senior management of the risk level across the Bank.

The employment of key risk indicators to alert the Bank of impending problems in a timely manner. The key risk indicators allow monitoring of the control environment as well as operational risk exposures and also trigger risk mitigation actions.

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Subjecting material operational risk losses to a detailed risk analysis in order to identify areas of risk exposure and gaps in controls, based on which appropriate risk mitigating actions are initiated.

Conducting a scenario analysis annually to derive information on hypothetical severe loss situations. The Bank uses that information for risk management purposes, as well as for analyzing the possible financial impact.

Periodic reporting of risk assessment and monitoring to senior management to ensure timely actions are initiated at all levels.

*Capital Requirement*

The Bank has devised an operational risk measurement system compliant with an advanced measurement approach for estimating operational risk capital for the standalone bank. The Bank has submitted a detailed application to the RBI for migration to the advanced measurement approach. At present, the Bank follows the basic indicator approach to estimating operational risk capital.

**Competition**

We face intense competition in all of our principal lines of business. Our primary competitors are large public sector banks, other private sector banks, foreign banks and, in some product areas, non-banking financial institutions. In February 2013, the RBI issued guidelines for the entry of new banks in the private sector, including eligibility criteria, capital requirements, shareholding structure, business plan and corporate governance practices. The RBI received approximately 26 applications for new bank licenses including from some of the largest business groups in India. After review of the applications received, the RBI provided in-principle approvals to two of the applicants, IDFC Limited and Bandhan Financial Services Private Limited, in April 2014, which were valid for a period of 18 months, during which the new banks will have to be set up. Each of these applicants is expected to commence banking operations in fiscal 2016.

***Retail Banking***

In retail banking, our principal competitors are the large public sector banks, which have much larger deposit bases and branch networks than ours, other new generation private sector banks, old generation private sector banks, foreign banks and non-banking finance companies in the case of retail loan products. The retail deposit share of foreign banks is quite small by comparison to the public sector banks. However, some of the foreign banks have a significant presence among non-resident Indians and also compete for non-branch-based products.

In mutual fund sales and other investment related products, our principal competitors are brokers, foreign banks and other new private sector banks.

***Wholesale Banking***

Our principal competitors in wholesale banking are public and new private sector banks as well as foreign banks. The large public sector banks have traditionally been the market leaders in commercial lending. Foreign banks have focused primarily on serving the needs of multinational companies and Indian corporations with cross-border financing requirements including trade and transactional services and foreign exchange products and derivatives, while the large public sector banks have extensive branch networks and large local currency funding capabilities.

***Treasury***

In our treasury advisory services for corporate clients, we compete principally with foreign banks in foreign exchange and derivatives, as well as public sector banks and new private sector banks in the foreign exchange and money markets business.

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## Employees

The number of our employees was 68,165 as of March 31, 2014 and 76,286 as of March 31, 2015. Most of our employees are located in India. We consider our relations with our employees to be good. Further to our acquisition of CBoP in 2008, a few employees of CBoP continue to be part of a labor union. These employees represent less than 1% of our total employee strength.

Our compensation structure has fixed as well as variable pay components. Our variable pay is paid out by way of sales incentives as well as performance linked bonuses.

In addition to basic compensation, employees are eligible to participate in our provident fund and other employee benefit plans. The provident fund, to which both we and our employees contribute, is a savings scheme, required by government regulation, under which the fund is required to pay to employees a minimum annual return, which at present is 8.75%. If such return is not generated internally by the fund, we are liable for the difference. Our provident fund has generated sufficient funds internally to meet the annual return requirement since inception of the fund. We have also set up a superannuation fund to which we contribute defined amounts. We also contribute specified amounts to a pension fund in respect of certain of our erstwhile CBoP employees. In addition, we contribute specified amounts to a gratuity fund set up pursuant to Indian statutory requirements.

We focus on training our employees on a continuous basis. We have a training center in Mumbai, where we conduct regular training programs for our employees. Management and executive trainees generally undergo up to eight-week training modules covering most aspects of banking. We offer courses conducted by both internal and external faculty. In addition to ongoing on-the-job training, we provide employees courses in specific areas or specialized operations on an as-needed basis.

## Properties

Our registered office and corporate headquarters is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. In addition to the corporate office, we have administrative offices in most of the metros and some other major cities in India.

As of March 31, 2015, we had a network consisting of 4,014 branches and 11,766 ATMs, including 6,751 at non-branch locations. These facilities are located throughout India with the exception of three branches which are located in Bahrain, Hong Kong and Dubai. We also have representative offices in the United Arab Emirates and Kenya.

## Intellectual Property

We utilize a number of different forms of intellectual property in our business including our HDFC Bank brand and the names of the various products we provide to our customers. We believe that we currently own, have licensed or otherwise possess the rights to use, all intellectual property and other proprietary rights, including all trademarks, domain names, copyrights, patents and trade secrets used in our business.

## Legal Proceedings

We are involved in a number of legal proceedings in the ordinary course of our business, including certain spurious or vexatious proceedings with significant financial claims present on the face of the complaint but that we believe lack any merit based on the historical dismissals of similar claims. Accordingly, we believe there are currently no legal

proceedings, which if adversely determined, might materially affect our financial condition or the results of our operations.

## RISK FACTORS

You should carefully consider the following risk factors in evaluating us and our business.

### Risks Relating to our Business

***A slowdown in economic growth in India would cause us to experience slower growth in our asset portfolio and deterioration in the quality of our assets.***

Our performance and the quality and growth of our assets are necessarily dependent on the health of the overall Indian economy, which in turn is linked to global economic conditions. The global slowdown of the financial market and economies had contributed to weakness in the Indian financial and economic environment. Despite a higher probability of US growth prospects, global growth is likely to remain below trend level due to subdued growth in the Eurozone and the effect of weakened Chinese growth prospects on emerging markets. We remain concerned that below-trend global growth may adversely affect domestic growth prospects. In addition, tighter monetary policy in the US could further undermine financial stability in an emerging market economy like India. These conditions, including global financial crisis and problems in the Eurozone countries, especially in Greece, could result in a prolonged slowdown in the Indian economy, which would adversely affect our business, including our ability to grow our asset portfolio, the quality of our assets and our ability to implement our strategy. In particular, the Indian economy may be adversely affected by volatile oil prices, given India s dependence on imported oil for its energy needs, inflationary pressures and weather conditions adversely affecting the Indian agricultural market or other factors. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising, while that of the industrial, manufacturing and agricultural sectors is declining. India also faces major challenges in sustaining its growth, which include the need for substantial infrastructure development and improving access to healthcare and education. In this regard, addressing the structural bottlenecks that have limited the economy from fiscal 2012 to fiscal 2014 will remain a vital aspect of ongoing policy reforms.

In fiscal 2015, the Indian government introduced a new methodology for estimating the gross domestic product and also began publishing sector data on a gross value added basis. According to the new methodology, India s gross domestic product grew by 6.9% in fiscal 2014 and 7.3% in fiscal 2015. In addition, the RBI has entered into a monetary policy framework agreement with the Government of India affirming that the RBI would pursue a target of bringing inflation below 6.0% by January 2016 and to achieve an inflation rate of 4.0% with a band of +/- 2% for fiscal 2017 and beyond. A return to a higher interest rate environment on account of inflation, other market factors, changes in the conduct of monetary policy or otherwise may have an adverse effect on economic growth in India.

The prolonged slowdown and gradual recovery adversely impacted credit growth and the level of non-performing and restructured loans during fiscal 2015. If the Indian economy deteriorates, our asset base may erode, which would result in a material decrease in our net income and total assets.

***If we are unable to manage our rapid growth, our operations may suffer and our performance may decline.***

We have grown rapidly over the last three fiscal years. Our loan growth rate has been significantly higher than that of the Indian banking industry over the last three fiscal years. Our loans in the three-year period ended March 31, 2014 grew at a compounded annual growth rate of approximately 25.1%, as against approximately 16.1% for the Indian banking industry for the same period.

Our rapid growth has placed, and if it continues, will place, significant demands on our operational, credit, financial and other internal risk controls including:

- recruiting, training and retaining sufficient skilled personnel;
- upgrading, expanding and securing our technology platform;
- developing and improving our products and delivery channels;
- preserving our asset quality as our geographical presence increases and customer profile changes;
- complying with regulatory requirements such as the Know Your Customer (KYC) norms; and
- maintaining high levels of customer satisfaction.

The growth in our business is partly attributable to the expansion of our branch network. As at March 31, 2010, we had a branch network comprised of 1,725 branches, which increased to 4,014 branches as at March 31, 2015. Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of the RBI to open new branches. The RBI may cancel a license for violations of the conditions under which it was granted. The RBI issues instructions and guidelines to banks on branch authorization from time to time. With the objective of liberalizing and rationalizing the branch licensing process, the RBI, effective October 2013, granted general permission to banks such as us to open branches in Tier 1 to Tier 6 centers, subject to reporting to the RBI and certain specified conditions. See *Supervision and Regulation Regulations Relating to the Opening of Branches* . If we are unable to perform in a manner satisfactory to the RBI in any of the above areas, it may have an impact on the number of branches we will be able to open and would in turn have an impact on our future growth.

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If we fail to properly manage our rapid growth, our operations would suffer and our performance as a whole would be materially adversely affected.

***Our business is particularly vulnerable to interest rate risk and volatility in interest rates could adversely affect our net interest margin, the value of our fixed income portfolio, our treasury income and our financial performance.***

Our results of operations depend to a great extent on our net interest revenue. During fiscal 2015, net interest revenue after allowances for credit losses represented 73.3% of our net revenue. Changes in market interest rates affect the interest rates charged on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities and also affect the value of our investments. An increase in interest rates could result in an increase in interest expense relative to interest revenue if we are not able to increase the rates charged on our loans, which would lead to a reduction in our net interest revenue and net interest margin. Further, an increase in interest rates could negatively affect demand for our loans and credit substitutes and we may not be able to achieve our volume growth, which could adversely affect our net income. A decrease in interest rates could result in a decrease in interest revenue relative to interest expense due to the repricing of our loans at a pace faster than the rates we pay on our interest-bearing liabilities. The quantum of the changes in interest rates for our assets and liabilities may also be different.

While the RBI increased the policy repo rate by 25 basis points in January 2014, domestic interest rates have softened from the levels in the latter part of 2013 (when the RBI initiated emergency liquidity tightening measures). The recent fall in inflation rates has emerged as the main catalyst behind the softness in bond yields which has prompted the RBI to further cut the policy rates (by 75 basis points) since the start of 2015 from 8.0% to 7.25%. The yield on the government s 10 year benchmark bond has been volatile over the past year and ranged from 7.7% to 9.1% during the course of fiscal 2015 while it has ranged from a high of 8.0% to a low of 7.7% over the first quarter of fiscal 2016. The yield on the benchmark was at 8.0%, 8.8% and 7.7% as of March 31, 2013, 2014 and 2015, respectively. The market focus has shifted to the outcome of the general elections that resulted in the formation of a stable government, which has also contributed to the softness in domestic interest rates. The combination of global disinflationary pressures (a result of falling commodity prices and subdued growth), better supply management of food items, weak domestic demand and subdued corporate pricing power has helped to keep domestic inflation in check thereby causing average CPI inflation to decrease from levels of 8.0% in July 2014 to 5.0% in May 2015. However, despite the RBI s easing of monetary policy, domestic fixed income markets remain uncertain about whether the RBI will be able to implement further monetary easing. In addition, a recent proposal contained in the draft Indian Financial Code, published on July 23, 2015, to transfer the power to control interest rates from the RBI to a special monetary policy committee (comprised of representatives from both the central government and the RBI) may change the way monetary policy is determined in the future. The special monetary policy committee s future decisions may be unfavorable to us and may adversely affect our results of operations.

While concerns remain about the potential economic impact of recent monsoons, the weakness in private demand is likely to determine any future policy-easing action by the RBI in fiscal 2016. However, the prospect of substantial monetary easing seems unlikely given the possibility of normalization of monetary policy in the U.S. economy. If global interest rates increase in response to tighter U.S. monetary policy, it could have a flow-on effect on domestic rates. Further, domestic rates may increase, and, as a result, we may change our interest rates, which may adversely affect our results of operations. Any volatility in interest rates could also adversely affect our net interest margin, the value of our fixed income portfolio, our treasury income and our financial performance. See *Selected Statistical Information Analysis of Changes in Interest Revenue and Interest Expense: Balance and Rate* and *Selected Statistical Information Yields, Spreads and Margins* .

***If the level of non-performing loans in our portfolio increases, we will be required to increase our provisions, which would negatively impact our income.***

Our gross non-performing loans and impaired credit substitutes represented 1.0% of our gross customer assets as of March 31, 2015. Our non-performing loans and impaired credit substitutes net of specific loan loss provisions represented 0.4% of our net customer assets portfolio as of March 31, 2015. We have restructured the payment terms of certain loans, which, as of March 31, 2015, represented 0.1% of our gross customer assets. Our management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, remedial management and overall architecture for managing credit risk. In the case of our secured loan portfolio, the frequency of the valuation of collateral may vary based on the nature of the loan and the type of collateral. A decline in the value of collateral or an inappropriate collateral valuation increases the risk in the secured loan portfolio because of inadequate coverage of collateral. As of March 31, 2015, 77.6% of our loan book was partially or fully secured by collateral. Our risk mitigation and risk monitoring techniques may not be accurate or appropriately implemented and we may not be able to anticipate future economic and financial events, leading to an increase in our non-performing loans. See *Note 10 Loans* in our consolidated financial statements.

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Provisions are created by a charge to expense, and represent our estimate for loan losses and risks inherent in the credit portfolio. See *Selected Statistical Information Non-Performing Loans* . The determination of an appropriate level of loan losses and provisions required inherently involves a degree of subjectivity and requires that we make estimates of current credit risks and future trends, all of which may undergo material changes. Our provisions may not be adequate to cover any further increase in the amount of non-performing loans or any further deterioration in our non-performing loan portfolio. In addition, we are a relatively young bank operating in a growing economy and we have yet not experienced a significant and prolonged downturn in the economy.

A number of factors outside of our control affect our ability to control and reduce non-performing loans. These factors include developments in the Indian economy, domestic or global turmoil, global competition, changes in interest rates and exchange rates and changes in regulations, including with respect to regulations requiring us to lend to certain sectors identified by the RBI, or the Government of India. These factors coupled with other factors such as volatility in commodity markets and declining business and consumer confidence and decreases in business and consumer spending could impact the operations of our customers and in turn impact their ability to fulfill their obligations under the loans granted to them by us. In addition, the expansion of our business may cause our non-performing loans to increase and the overall quality of our loan portfolio to deteriorate. If our non-performing loans increase, we will be required to increase our provisions, which would result in our net income being less than it otherwise would be and would adversely affect our financial condition.

***We have high concentrations of exposures to certain customers and sectors and if any of these exposures were to become non-performing, the quality of our portfolio could be adversely affected and our ability to meet capital requirements could be jeopardized.***

We calculate customer and industry exposure (i.e. the loss we could incur due to the downfall of a customer or an industry) in accordance with the policies established by RBI, computed based on our Indian GAAP financial statements. In the case of customer exposures, we aggregate the higher of the outstanding balances of, or limits on, funded and non-funded exposures. As of March 31, 2015, our largest single customer exposure was Rs. 122.8 billion, representing 22.1% of our capital funds, and our ten largest customer exposures totaled Rs. 558.5 billion, representing 100.6% of our capital funds, in each case computed in accordance with RBI guidelines. None of our ten largest customer exposures were classified as non-performing as of March 31, 2015. However, if any of our ten largest customer exposures were to become non-performing, our net income would decline and, due to the magnitude of the exposures, our ability to meet capital requirements could be jeopardized. See *Management s Discussion and Analysis of Financial Condition and Results of Operations* for a detailed discussion on customer exposures. As of March 31, 2015, our largest industry concentrations, based on RBI guidelines, were as follows: consumer loans (9.6%), agriculture and allied activities (8.4%), banks and financial institutions (7.1%) and wholesale trade (6.9%). In addition, as of March 31, 2015, 13.3% of the concentration of our exposures was retail (except where otherwise included in the above classification). Industry-specific difficulties in these or other sectors may increase our level of non-performing customer assets. If we experience a downturn in an industry in which we have concentrated exposure, our net income will likely decline significantly and our financial condition may be materially adversely affected. As of March 31, 2015, our total non-performing loans and credit substitutes in accordance with U.S. GAAP were concentrated in the following industries: agriculture and allied activities (13.7%), iron and steel (12.2%), wholesale trade (9.2%), consumer loans (6.1%) and land transport (4.7%).

***We are required to undertake directed lending under RBI guidelines. Consequently, we may experience a higher level of non-performing assets in our directed lending portfolio, which could adversely impact the quality of our loan portfolio, our business and the price of our equity shares and ADSs. Further, in the case of any shortfall in complying with these requirements, we may be required to invest in deposits of Indian development banks as directed by the RBI. These deposits yield low returns, thereby impacting our profitability.***

The RBI prescribes guidelines on priority sector lending (PSL) in India. Under these guidelines, banks in India are required to lend 40.0% of their adjusted net bank credit (ANBC) or the credit equivalent amount of off-balance sheet exposures (CEOBE), whichever is higher, as defined by the RBI and computed in accordance with Indian GAAP figures, to certain eligible sectors categorized as priority sectors. The priority sector requirements must be met as of March 31 of the fiscal year with reference to the higher of the ANBC and the CEOBE of the previous fiscal year. Of the total priority sector advances, agricultural advances are required to be 18.0% of ANBC or CEOBE, whichever is higher, and of this, indirect lending in excess of 4.5% of ANBC or CEOBE, whichever is higher, is not taken into consideration for computing achievement of the 18.0% target. However, all agricultural loans under the categories direct and indirect are taken into consideration for computing achievement of the overall priority sector target of 40.0%. Advances to sections termed weaker by the RBI are required to be 10.0% of ANBC or CEOBE, whichever is higher. The balance of the priority sector lending requirement can be met by lending directly or indirectly to a range of sectors, including small businesses and residential mortgages satisfying certain criteria.

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We met our overall priority sector lending target of 40% and our total priority sector lending achievement for fiscal 2015 stood at 44.13%. However, we have not been able to meet the lending targets of certain sub-targets of the priority sector lending scheme and may not be able to meet the overall priority sector lending target or certain sub-targets in the future. For example, in fiscal 2015, agricultural loans made under the direct category were 13.3% of ANBC, against the requirement of 13.5%, with a shortfall of Rs. 5.04 billion, and advances to sections termed weaker by the RBI were 6.57% against the requirement of 10.0%, with a shortfall of Rs. 94.58 billion. Furthermore, the RBI can make changes to the types of loans that qualify under the PSL scheme. Changes that reduce the types of loans that can qualify toward meeting our PSL targets could increase shortfalls under the overall target or under certain sub-targets.

In the case of non-achievement of PSL targets, including sub-targets, we are required to invest in deposits of Indian development banks, such as the National Bank of Agriculture and Rural Development and the Small Industries Development Bank of India, as may be directed by the RBI. The amount to be deposited, interest rates on such deposits and periods of deposits, and other terms, are determined by the RBI from time to time. The interest rates on such deposits may be lower than the interest rates which the Bank would have obtained by investing these funds at its discretion. As of March 31, 2015, our total investments as directed by the RBI in such deposits were Rs. 148.18 billion, yielding returns ranging from 3% to 8.25%. Additionally, as per RBI guidelines, non-achievement of PSL target and sub-targets will be taken into account by the RBI when granting regulatory clearances/approvals for various purposes.

The RBI has issued revised priority sector lending norms applicable from fiscal 2016 onwards. The sub-targets for direct and indirect lending to the agricultural industry have been combined. Two new sub-targets, a target of 8.0% lending to small and marginal farmers and a 7.5% lending target to micro enterprises, have been introduced and will apply in a phased manner across fiscal 2016 and fiscal 2017. The balance of the PSL requirement can be met by lending to a range of sectors, including small businesses, medium enterprises, renewable energy, social infrastructure and residential mortgages satisfying certain criteria. The target for lending to weaker sectors continues to be at 10% of ANBC. From fiscal 2017, PSL achievements would be evaluated on a quarterly average basis and not just at the fiscal year-end. Further, in July 2015, the RBI has directed banks to maintain direct lending to non-corporate farmers at the banking system s average level for the last three years, which would be notified by the RBI at the beginning of each year. Failure to maintain these lending levels to non-corporate farmers will attract penalties. The RBI has also directed banks to continue to pursue the target of 13.5% of ANBC towards lending to borrowers who constituted the direct agriculture lending category under the earlier guidelines. If we fail to adhere to the RBI s policies and directions, we may be subject to penalties, which may adversely affect our results of operations.

We may experience a higher level of non-performing assets in our directed lending portfolio, particularly in loans to the agricultural sector, small enterprises and weaker sections, where we are less able to control the portfolio quality and where economic difficulties are likely to affect our borrowers more severely. Our gross non-performing assets in the directed lending sector as a percentage to gross loans were 0.3% as of March 31, 2015 (as compared to 0.4% as of March 31, 2014). Further expansion of the PSL scheme could result in an increase of non-performing assets due to our limited ability to control the portfolio quality under the directed lending requirements.

In addition to the directed lending requirements, the RBI has encouraged banks in India to have a financial inclusion plan for expanding banking services to rural and unbanked centers and to customers who currently do not have access to banking services. The expansion into these markets involves significant investments and recurring costs. The profitability of these operations depends on our ability to generate business volumes in these centers and from these customers. Future changes by the RBI in the directed lending norms may result in our inability to meet the priority sector lending requirements as well as require us to increase our lending to relatively more risky segments and may result in an increase in non-performing loans.

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***We may be unable to foreclose on collateral in a timely fashion or at all when borrowers default on their obligations to us, or the value of collateral may decrease, any of which may result in failure to recover the expected value of collateral security, increased losses and a decline in net income.***

Although we typically lend on a cash-flow basis, many of our loans are secured by collateral, which consists of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets, such as property, movable assets (such as vehicles) and financial assets (such as marketable securities). As of March 31, 2015, 77.6% of our loans were partially or fully secured by collateral. We may not be able to realize the full value of the collateral, due to, among other things, stock market volatility, changes in economic policies of the Indian government, obstacles and delays in legal proceedings, borrowers and guarantors not being traceable, the Bank s records of borrowers and guarantors addresses being ambiguous or outdated and defects in the perfection of collateral and fraudulent transfers by borrowers. In the event that a specialized regulatory agency gains jurisdiction over the borrower, creditor actions can be further delayed. In addition, the value of collateral may be less than we expect or may decline. For example, the global economic slowdown and other domestic factors had led to a downturn in real estate prices in India. If we are unable to foreclose on our collateral or realize adequate value, our losses will increase and our net income will decline. In addition, if a company becomes a sick unit (as defined under Indian law, which provides for a unit to be so categorized based on the extent of its accumulated losses relative to its stockholders equity), foreclosure and enforceability of collateral is stayed. The RBI has set forth guidelines on Corporate Debt Restructuring (CDR) via the corporate debt restructuring cell. The guidelines envisage that for debt amounts of Rs. 0.1 billion and above, 60% of the creditors by number, in addition to 75% of creditors by value, can decide to restructure the debt and such a decision would be binding on the remaining creditors. In situations where we own 25% or less of the debt of a borrower, we could be forced to agree to an extended restructuring of debt, instead of foreclosure of security or a one-time settlement, which has generally been our practice. See *Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Commercial Commitments Commercial Commitments* . During fiscal 2014, the RBI issued guidelines on revitalizing distressed assets in the economy. The guidelines envisage formation of a joint lenders forum (JLF) and the taking of a corrective action plan (CAP) in relation to delinquent accounts where the overdues are between 61 and 90 days and aggregate exposure of all lenders in an account is Rs. 1 billion or above. Such accounts may be restructured under the JLF or CDR mechanisms.

***Our unsecured loan portfolio is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, we may be unable to collect the unpaid balance.***

We offer unsecured personal loans and credit cards to the retail customer segment, including salaried individuals and self-employed professionals. In addition, we offer unsecured loans to small businesses and individual businessmen. Unsecured loans are a greater credit risk for us than our secured loan portfolio because they may not be supported by realizable collateral that could help ensure an adequate source of repayment for the loan. Although we normally obtain direct debit instructions or postdated checks from our customers for our unsecured loan products, we may be unable to collect in part or at all in the event of non-payment by a borrower. Further, any expansion in our unsecured loan portfolio could require us to increase our provision for credit losses, which would decrease our earnings. Also see *Business Retail Banking Retail Loans and Other Asset Products* .

***In order to support and grow our business, we must maintain a minimum capital adequacy ratio, and a lack of access to the capital markets may prevent us from maintaining an adequate ratio.***

The RBI requires a minimum capital adequacy ratio of 9% of our total risk-weighted assets. We adopted the Basel III capital regulations effective April 1, 2013. Our capital adequacy ratio, calculated in accordance with Indian GAAP, was 16.8% as of March 31, 2015 as per Basel III (as compared to 16.1% as of March 31, 2014 and 16.8% as per the Basel II framework as of March 31, 2013). Our ability to support and grow our business would be limited by a

declining capital adequacy ratio. While we anticipate accessing the capital markets to offset declines in our capital adequacy ratio, we may be unable to access the markets at the appropriate time or the terms of any such financing may be unattractive due to various reasons attributable to changes in the general environment, including political, legal and economic conditions.

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The Basel Committee on Banking Supervision issued a comprehensive reform package entitled Basel III: A global regulatory framework for more resilient banks and banking systems in December 2010. In May 2012, the RBI released guidelines on implementation of Basel III capital regulations in India and in July 2013, the RBI issued a master circular consolidating all relevant guidelines on Basel III. The key items covered under these guidelines include: i) improving the quality, consistency and transparency of the capital base; ii) enhancing risk coverage; iii) graded enhancement of the total capital requirement; iv) introduction of capital conservation buffer and countercyclical buffer; and v) supplementing the risk-based capital requirement with a leverage ratio. One of the major changes in the Basel III capital regulations is that the Tier 1 capital will predominantly consist of common equity of the banks which includes common shares, reserves and stock surplus. Innovative instruments and perpetual non-cumulative preference shares will not be considered a part of Common Equity Tier 1 capital. Basel III also defines criteria for instruments to be included in Tier 2 capital to improve their loss absorbency. The guidelines also set-out criteria for loss absorption through conversion/write-off of all non-common equity regulatory capital instruments at the point of non-viability. The point of non-viability is defined as a trigger event upon the occurrence of which non-common equity Tier 1 and Tier 2 instruments issued by banks in India may be required to be, at the option of the RBI, written off or converted into common equity. The capital requirement including the capital conservation buffer will be 11.5% (against the current requirement of 9.0%) once these guidelines are fully phased-in. Domestically systemically important banks would be required to maintain CET1 capital requirement ranging from 0.2% to 0.8% of risk weighted assets. Banks will also be required to have an additional capital requirement increasing linearly up to 2.5% of the risk weighted assets once the RBI finalizes the implementation of countercyclical capital buffer requirements. The transitional arrangements began from April 1, 2013 and the guidelines will be fully phased-in and implemented as of March 31, 2019. Additionally, the Basel III Liquidity Coverage Ratio (LCR), which is a measure of the Bank s high quality liquid assets compared to its anticipated cash outflows over a 30 day stressed period, will apply in a phased manner starting with a minimum requirement of 60% from January 1, 2015 and reaching a minimum of 100% on January 1, 2019. These various requirements require us to begin preparing in advance and requirements to increase capital to meet increasing capital adequacy ratios could require us to forego certain business opportunities.

We also believe that the demand for Basel III compliant debt instruments such as Tier 2 capital eligible securities may be limited in India. There have been very few issuances of such bonds, pending regulatory clarifications. In September 2014, the RBI reviewed its guidelines on Basel III capital regulations with a view to facilitating the issuance of non-equity regulatory capital instruments by banks under the Basel III framework. Accordingly, certain specific eligibility criteria of such instruments were amended. It is unclear what effect, if any, these amendments may have on the issuance of Basel III compliant securities or if there will be sufficient demand for such securities. It is also possible that the RBI could further amend the eligibility criteria of such instruments in the future if the objectives identified by the RBI are not met, which would create additional uncertainty regarding the market for Basel III compliant securities in India.

If we are unable to meet the new and revised requirements, our business, future financial performance and the price of our equity shares could be adversely affected.

***HDFC Limited holds a significant percentage of our share capital and can exercise influence over board decisions that could directly or indirectly favor the interests of HDFC Limited over our interests.***

HDFC Limited and its subsidiaries owned 21.7% of our equity as of March 31, 2015. So long as HDFC Limited and its subsidiaries hold at least a 20% equity stake in us, HDFC Limited is entitled to nominate two directors, our Chairperson and Managing Director, to our Board of Directors. These two directors are not required to retire by rotation and their appointments are subject to RBI approval. We have since received shareholder and regulatory approvals for the appointment of Mrs. Shyamala Gopinath as part-time Non-Executive Chairperson. Mrs. Gopinath

has been appointed for three years with effect from January 2, 2015. Two of our other directors, Mr. Keki Mistry and Mrs. Renu Karnad, are the Vice Chairman and Chief Executive Officer and the Managing Director of HDFC Limited, respectively. Mr. Mistry and Mrs. Karnad both also serve on the boards of various other companies and were appointed to our Board of Directors independent of HDFC Limited s entitlement to nominate two directors. While we are professionally managed and overseen by an independent board of directors, HDFC Limited can exercise influence over our board and over matters subject to a shareholder vote, which could result in decisions that favor HDFC Limited or result in us foregoing opportunities to the benefit of HDFC Limited. Such decisions may restrict our growth or harm our financial condition.

Additionally, Mr. D.M. Sukthankar is the father of our Deputy Managing Director, Mr. Paresh Sukthankar, and serves as an independent director on the board of HDFC Limited. Mr. D.M. Sukthankar has been a member of the board of HDFC Limited since 1989. Mr. Paresh Sukthankar was one of our early employees and also a part of the initial senior management team. He was elevated to the position of Deputy Managing Director with effect from December 2013. Both are associated with the respective companies in their independent professional capacities and we believe that none is in a position to exercise influence over the other.

There have been reports in the Indian media suggesting that we may merge with HDFC Limited. We consider business combination opportunities as they arise. At present, we are not actively considering a business combination with HDFC Limited. Any significant business combination would involve compliance with regulatory requirements and shareholder and regulatory approvals. Additionally, on July 15, 2014, the RBI issued guidelines in relation to the issuance of long term bonds with a view to encourage financing of infrastructure and affordable housing. Regulatory incentives in the form of an exemption from the reserve requirements and relaxation in priority sector lending norms are stipulated as being restricted to bonds that are used to incrementally finance long-term infrastructure projects and loans for affordable housing. On January 12, 2015, the RBI approved the issuance of long term bonds with a minimum maturity of seven years to fund the purchase of approximately Rs. 40 billion of affordable housing loans from HDFC Limited. Any incremental infrastructure or affordable housing loans acquired from other banks and financial institutions, such as those that could be involved in a business combination with HDFC Limited, to be reckoned for regulatory incentives will require the prior approval of the RBI. We cannot predict the impact any potential business combination or what implications the recent guidelines would have on our business, financial condition, growth prospects or the prices of our equity shares.

***We may face conflicts of interest relating to our promoter and principal shareholder, HDFC Limited, which could cause us to forego business opportunities and consequently have an adverse effect on our financial performance.***

HDFC Limited is primarily engaged in financial services, including home loans, property-related lending and deposit products. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life and other insurance and mutual funds. Although we have no agreements with HDFC Limited or any other HDFC group companies that restrict us from offering products and services that are offered by them, our relationship with these companies may cause us not to offer products and services that are already offered by other HDFC group companies and may effectively prevent us from taking advantage of business opportunities. See Note 28 *Related Party Transactions* in our consolidated financial statements for a summary of transactions we have engaged in with HDFC Limited during fiscal 2015. We currently distribute products of HDFC Limited and its group companies. If we stop distributing these products or forego other opportunities because of our relationship with HDFC Limited, it could have a material adverse effect on our financial performance.

***HDFC Limited may prevent us from using the HDFC Bank brand if they reduce their shareholding in us to below 5%.***

As part of a shareholder agreement executed when HDFC Bank was formed, HDFC Limited has the right to prevent us from using HDFC as part of our name or brand if HDFC Limited reduces its shareholding in HDFC Bank to an amount below 5% of our outstanding share capital. If HDFC Limited were to exercise this right, we would be required to change our name and brand, which could require us to expend significant resources to establish new branding and name recognition in the market as well as undertake efforts to rebrand our branches and our digital presence. This could have a material adverse effect on our financial performance.

***RBI guidelines relating to ownership in private banks could discourage or prevent a change of control or other business combination involving us, such as with HDFC Limited, which could restrict the growth of our business and operations.***

RBI guidelines prescribe a policy framework for the ownership and governance of private sector banks. The guidelines state that no single entity or group of entities will be permitted to own or control, directly or indirectly, more than 10% of the paid-up capital of a private sector bank without RBI approval. The implementation of such a restriction could discourage or prevent a change in control, merger, consolidation, takeover or other business combination involving us, which might be beneficial to our shareholders. The RBI s acknowledgement is required for

the acquisition or transfer of a bank s shares, which will increase the aggregate holding (direct and indirect, beneficial or otherwise) of an individual or a group to the equivalent of 5% or more of its total paid-up capital. The RBI, when considering whether to grant an approval, may take into account all matters that it considers relevant to the application, including ensuring that shareholders whose aggregate holdings are above specified thresholds meet fitness and propriety tests. The RBI has accorded its approval for HDFC Limited to hold more than 10% of our stock. HDFC Limited s substantial stake in us could discourage or prevent another entity from exploring the possibility of a combination with us. These obstacles to potentially synergistic business combinations could negatively impact our share price and have a material adverse effect on our ability to compete effectively with other large banks and consequently our ability to maintain and improve our financial condition.

Additionally, under the recently revised SEBI clause 49 which came into effect on October 1, 2014, related party transactions over a certain threshold will require approval of the shareholders. Once the threshold is crossed, the approval of the shareholders is required for all transactions with that party. The related party is unable to vote with regard to the approval of these transactions. If we were to expand our business transactions with HDFC Limited, we could cross the threshold and would then be required to seek shareholder approval for transactions with HDFC Limited in our Annual General Meeting or at other times. If we are unable to obtain the necessary shareholder approvals for transactions with HDFC Limited in either a timely manner or fail to obtain necessary approvals once the threshold is exceeded, we would be required to forego certain opportunities, which could have a material adverse effect on our financial performance.

***Foreign investment in our shares may be restricted due to regulations governing aggregate foreign investment in the Bank s paid-up equity share capital.***

Aggregate foreign investment from all sources in a private sector bank is permitted up to 49% of the paid up capital under the automatic route. This limit can be increased up to 74% of the paid up capital with prior approval from the FIPB. Pursuant to a letter dated February 4, 2015, FIPB has approved foreign investment in the Bank up to 74% of its paid up capital. The approval is subject to examination by RBI for compounding on the change of foreign shareholding since April 2010. If we are subject to any penalties or an unfavorable ruling by the RBI, this could have an adverse effect on our results of operation and financial condition. As of March 31, 2015, foreign investment in the Bank, including the shareholdings of HDFC Limited and its subsidiaries, constituted 73.41% of the paid up capital of the Bank. These limitations could negatively affect the price of our shares and could limit the ability of investors to trade our shares in the market. These limitations could also negatively affect the Bank s ability to raise additional capital to meet our capital adequacy requirements or to fund future growth through future issuances of additional equity shares, which could have a material adverse effect on our business and financial results.

***Our success depends in large part upon our management team and skilled personnel and our ability to attract and retain such persons.***

We are highly dependent on our management team, including the efforts of our Chairperson, our Managing Director, our Deputy Managing Director, our Executive Directors and members of our senior management. Our future performance is dependent on the continued service of these persons. We received shareholder and regulatory approvals for the appointment of Mrs. Shyamala Gopinath as part-time Non-Executive Chairperson on January 2, 2015. Mrs. Gopinath has been appointed for three years with effect from January 2, 2015. See *HDFC Limited holds a significant percentage of our share capital and can exercise significant influence over board decisions that could directly or indirectly favor the interests of HDFC Limited over our interests*. We also face a continuing challenge to recruit and retain a sufficient number of skilled personnel, particularly if we continue to grow. Competition for management and other skilled personnel in our industry is intense, and we may not be able to attract and retain the personnel we need in the future. The loss of key personnel may restrict our ability to grow and consequently have a material adverse impact on our results of operations and financial position.

***We have previously been subject to penalties imposed by the RBI. Any regulatory investigations, fines, sanctions, and requirements relating to conduct of business and financial crime could negatively affect our business and financial results, or cause serious reputational harm.***

The RBI is empowered under the Banking Regulation Act, to impose penalties on banks and their employees to enforce applicable regulatory requirements. In fiscal 2014, the RBI imposed penalties on us and many other banks for certain irregularities and violations discovered by the RBI during its scrutiny conducted in the first half of 2013, namely, non-observance of certain safeguards in respect of arrangement of at par payment of checks drawn by

cooperative banks, exceptions in periodic review of risk profiling of account holders, non-adherence to KYC rules for walk-in customers (non-customers) including for sale of third party products, sale of gold coins for cash in excess of Rs. 50,000 in certain cases and non-submission of proper information required by the RBI. We paid a penalty of Rs. 45 million in June 2013. Further, in this regard, in January 2015, the Financial Intelligence Unit (India) (FIU) has imposed a fine on us of Rs. 2.6 million relating to our failure in detecting and reporting attempted suspicious transactions. The Bank has filed an appeal against the order, in relation to which the appellate tribunal has granted a stay to the Bank on the operation of the order. See *Supervision and Regulation Special Provisions of the Banking Regulation Act Penalties*. Additionally, during fiscal 2014, the RBI investigated a corporate borrower s loan and current accounts maintained with 12 Indian banks, including us. Based on its assessment, the RBI in its press release dated July 25, 2014, levied penalties totaling Rs. 15 million on the 12 Indian banks. The penalty levied on us was Rs. 0.5 million on the grounds that we failed to exchange information about the conduct of the corporate borrower s account with other banks at intervals as prescribed in the RBI guidelines on Lending under Consortium Arrangement/Multiple Banking Arrangements . We cannot predict the initiation or outcome of any further investigations by other authorities or different investigations by the RBI. The penalty imposed by the RBI has generated adverse publicity for our business. Such adverse publicity, or any future scrutiny, investigation, inspection or audit which could result in fines, public reprimands, damage to our reputation, significant time and attention from our management, costs for investigations and remediation of affected customers, may materially adversely affect our business and financial results.

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***Material changes in Indian banking regulations may adversely affect our business and our future financial performance.***

We operate in a highly regulated environment in which the RBI extensively supervises and regulates all banks. Our business could be directly affected by any changes in policies for banks in respect of directed lending, reserve requirements and other areas. For example, the RBI could change its methods of enforcing directed lending standards so as to require more lending to certain sectors, which could require us to change certain aspects of our business. In addition, we could be subject to other changes in laws and regulations, such as those affecting the extent to which we can engage in specific businesses or those that reduce our income through a cap on either fees or interest rates chargeable to our customers or those affecting foreign investment in the banking industry, as well as changes in other governmental policies and enforcement decisions, income tax laws, foreign investment laws and accounting principles. Laws and regulations governing the banking sector may change in the future and any changes may adversely affect our business, our future financial performance and the price of our equity shares and ADSs.

***Our business is highly competitive, which makes it challenging for us to offer competitive prices to retain existing customers and solicit new business, and our strategy depends on our ability to compete effectively.***

We face strong competition in all areas of our business, and some of our competitors are much larger than we are. We compete directly with the large public sector banks, which generally have much larger customer asset and deposit bases, larger branch networks and more capital than we do. These banks are becoming more competitive as they improve their customer services and technology. One of the other private sector banks in India is also larger than we are, based on some of the measurements. In addition, we compete directly with foreign banks, which include some of the largest multinational financial companies in the world. The economies of scale that our larger competitors benefit from make it difficult for us to offer competitive pricing on products and services to retain existing customers and attract new customers so that we can execute our growth strategy successfully. In February 2013, the RBI issued guidelines for the entry of new banks in the private sector, including eligibility criteria, capital requirements, shareholding structure, business plan and corporate governance practices. The RBI received approximately 26 applications for new bank licenses including from some of the largest business groups in India. After review of the applications received, the RBI provided in-principle approvals in April 2014 to two of the applicants which are valid for a period of 18 months, during which the new banks will have to be set up. Each of the applicants is expected to commence banking operations in fiscal 2016.

The RBI has liberalized the licensing regime and intends to issue licenses on an ongoing basis subject to its qualification criteria. In November 2014, the RBI released guidelines for licensing of payment banks and for licensing of small finance banks in the private sector. Further liberalization of the Indian financial sector could lead to a greater presence or new entries of Indian and foreign banks offering a wider range of products and services, which could adversely impact our competitive environment. Due to competitive pressures, we may be unable to successfully execute our growth strategy and offer products and services at reasonable returns and this may adversely impact our business. If we are unable to retain and attract new customers, our revenue and net income will decline, which could materially adversely affect our financial condition. See *Business Competition* .

***Our funding is primarily short-and medium-term and if depositors do not roll over deposited funds upon maturity our net income may decrease.***

Most of our funding requirements are met through short-term and medium-term funding sources, primarily in the form of retail deposits. Short-term deposits are those with a maturity not exceeding one year. Medium-term deposits are those with a maturity of greater than one year but not exceeding three years. See *Selected Statistical Information Funding* . However, a portion of our assets have long-term maturities, which sometimes causes funding mismatches. As of March 31, 2015, 38% of our loans are expected to mature within the next one year and 46% of our loans are expected to mature between the next one to three years. As of March 31, 2015, 27% of our deposits are expected to mature within the next one year and 45% of our deposits are expected to mature between the next one to three years. In our experience, a substantial portion of our customer deposits has been rolled over upon maturity and has been, over time, a stable source of funding. However, if a substantial number of our depositors do not roll over deposited funds upon maturity, our liquidity position will be adversely affected and we may be required to seek more expensive sources of funding to finance our operations, which would result in a decline in our net income and have a material adverse effect on our financial condition.

***Any increase in interest rates would have an adverse effect on the value of our fixed income securities portfolio and could have a material adverse effect on our net income.***

Any increase in interest rates would have an adverse effect on the value of our fixed income securities portfolio and could have a material adverse effect on our net revenue. Policy rates were successively increased from February 2010 to March 2012 during which the bout of interest rate tightening in India was faster than many other economies. The RBI raised key policy rates from 5.25% (repo rate) in April 2010 to 8.5% in October 2011. However, key policy rates were eased from 8.0% (repo rate) in April 2012 to 7.25% in May 2013. In July 2013, the RBI increased the rate for borrowings under its marginal standing facility (introduced by theRBI in fiscal 2012) from 100 basis points to 300 basis points above the repo rate. This rate was eased from 200 basis points above the repo rate in September 2013 to 100 basis points above repo rate in October 2013. In contrast the policy rates were tightened from 7.5% (repo rate) in September 2013 to 8.0% in January 2014. The RBI reduced the policy repo rate from 8.0% to 7.75% in January 2015 and further reduced it to 7.5% in March 2015 and 7.25% in June 2015. We are, however, more structurally exposed to interest rate risk than banks in many other countries because of certain mandated reserve requirements of the RBI. See *Supervision and Regulation Legal Reserve Requirements* . These requirements result in Indian banks such as ourselves maintaining (as per extant RBI guidelines currently in force) at least 21.5% of our liabilities (computed as per guidelines issued by the RBI) in bonds issued by the Government of India. We are also required to maintain 4% of our liabilities (computed as per guidelines issued by RBI) by way of a balance with the RBI. This in turn means that we could be adversely impacted by a rise in interest rates, especially if the rise were sudden or sharp. A rise in yields on fixed income securities, including government securities, will likely adversely impact our profitability. The aforementioned requirements would also have a negative impact on our net interest income and net interest margins since interest earned on our investments in government issued securities is generally lower than that earned on our other interest earning assets.

***The development of a well entrenched nationwide inter-bank settlement system would adversely impact our cash float and decrease fees we receive in connection with check collection.***

Currently, there is no well entrenched nationwide payment system in India, and checks must generally be returned to the city from which they were written in order to be cleared. Because of mail delivery delays and the variation in city-based inter-bank clearing practices, check collections can be slow and unpredictable. Through our electronically linked branch network, correspondent bank arrangements and centralized processing, we effectively provide a nationwide collection and disbursement system for our corporate clients. We enjoy cash float and earn fees from these

services. If any of the current nationwide payment systems are further developed, this could have an adverse effect on the cash float and fees that we have traditionally received from the services we provided.

***We could experience a decline in our revenue generated from activities on the equity markets if there is a prolonged or significant downturn on the Indian stock exchanges, or we may face difficulties in getting regulatory approvals necessary to conduct our business if we fail to meet regulatory limits on capital market exposures.***

We provide a variety of services and products to participants involved with the Indian stock exchanges. These include working capital funding and margin guarantees to share brokers, personal loans secured by shares, initial public offering finance for retail customers, stock exchange clearing services, collecting bankers to various public offerings and depositary accounts. If there is a prolonged or significant downturn on the Indian stock exchanges, our revenue generated by offering these products and services may decrease, which would have a material adverse effect on our financial condition.

We are required to maintain our capital market exposures within the limits as prescribed by the RBI. Our capital market exposures are comprised primarily of investments in equity shares, loans to share brokers and financial guarantees issued to stock exchanges on behalf of share brokers.

As per RBI norms, a bank s capital market exposure is limited to 40% of its net worth under Indian GAAP, both on a consolidated and non-consolidated basis. Our capital market exposure as of March 31, 2015 was 24.7% of our net worth on a non-consolidated basis and 25.0% on a consolidated basis. See *Supervision and Regulation Regulations Relating to Capital Market Exposure Limits* . In the future if we fail to meet these regulatory limits, we may face difficulties in obtaining other regulatory approvals necessary to conduct business in the normal course, which would have a material adverse effect on our business and operations.

***Significant fraud, system failure or calamities would disrupt our revenue generating activities in the short-term and could harm our reputation and adversely impact our revenue-generating capabilities.***

Our business is highly dependent on our ability to efficiently and reliably process a high volume of transactions across numerous locations and delivery channels. We place heavy reliance on our technology infrastructure for processing this data and therefore ensuring system security and availability is of paramount importance. Our systemic and operational controls may not be adequate to prevent adverse impact from frauds, errors, hacking and system failures. A significant system breakdown or system failure caused due to intentional or unintentional acts would have an adverse impact on our revenue-generating activities and lead to financial loss. Our reputation could be adversely affected by fraud committed by employees, customers or outsiders, or by our perceived inability to properly manage fraud-related risks. Our inability or perceived inability to manage these risks could lead to enhanced regulatory oversight and scrutiny. We have established a geographically remote disaster recovery site to support critical applications, and we believe that we will be able to restore data and resume processing. However, it is possible the disaster recovery site may also fail or it may take considerable time to make the system fully operational and achieve complete business resumption using the alternate site. Therefore, in such a scenario, where the primary site is completely unavailable, there may be significant disruption to our operations, which would materially adversely affect our reputation and financial condition.

***Our business and financial results could be impacted materially by adverse results in legal proceedings.***

We establish reserves for legal claims when payments associated with claims become probable and the costs can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of any pending or future legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition. See *Business Legal Proceedings.*

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***We may breach third party intellectual property rights.***

We may be subject to claims by third parties, both inside and outside India, if we breach their intellectual property rights by using slogans, names, designs, software or other such rights, which are of a similar nature to the intellectual property these third parties may have registered. Any legal proceedings which result in a finding that we have breached third parties intellectual property rights, or any settlements concerning such claims, may require us to provide financial compensation to such third parties or make changes to our marketing strategies or to the brand names of our products, which may have a materially adverse effect on our business prospects, reputation, results of operations and financial condition.

***Negative publicity could damage our reputation and adversely impact our business and financial results.***

Reputational risk, or the risk to our business, earnings and capital from negative publicity, is inherent in our business. The reputation of the financial services industry in general has been closely monitored as a result of the financial crisis and other matters affecting the financial services industry. Negative public opinion about the financial services industry generally or us specifically could adversely affect our ability to attract and retain customers, and may expose us to litigation and regulatory action. Negative publicity can result from our actual or alleged conduct in any number of activities, including lending practices, mortgage servicing and foreclosure practices, corporate governance, regulatory compliance, mergers and acquisitions, and related disclosure, sharing or inadequate protection of customer information, and actions taken by government regulators and community organizations in response to that conduct. Although we take steps to minimize reputational risk in dealing with customers and other constituencies, we, as a large financial services organization with a high industry profile, are inherently exposed to this risk.

***We face cyber threats, such as hacking, phishing and trojans, attempting to exploit our network to disrupt services to customers and/or theft of sensitive internal Bank data or customer information. This may cause damage to our reputation and adversely impact our business and financial results.***

We offer internet banking services to our customers. Our internet banking channel includes multiple services such as electronic funds transfer, bill payment services, usage of credit cards on-line, requesting account statements, and requesting check books. We are therefore exposed to various cyber threats such as: a) phishing and trojans targeting our customers, wherein fraudsters send unsolicited mails to our customers seeking account sensitive information or to infect customer machines to search and attempt exfiltration of account sensitive information; b) hacking wherein attackers seek to hack into our website with the primary intention of causing reputational damage to us by disrupting services; and c) data theft wherein cyber criminals may attempt to intrude into our network with the intention of stealing our data or information. Attempted cyber threats fluctuate in frequency but are generally not decreasing in frequency. There is also the risk of our customers incorrectly blaming us and terminating their accounts with us for a cyber-incident which might have occurred on their own system or with that of an unrelated third party. Any cyber security breach could also subject us to additional regulatory scrutiny and expose us to civil litigation and related financial liability.

***We may face increased competition as a result of revised guidelines that relax restrictions on the presence of foreign banks in India and a proposal by the RBI to grant fresh banking licenses for the establishment of new banks in the private sector which could cause us to lose existing business or be unable to compete effectively for new business.***

The Government of India regulates foreign ownership in private sector banks. Foreign ownership up to 74% of the paid-up capital is permitted in Indian private sector banks, however, under the Banking Regulation Act, a shareholder cannot exercise voting rights in excess of 10% of the total voting rights. The RBI, on February 28, 2005, released a

*Roadmap for Presence of Foreign Banks in India and Guidelines on Ownership and Governance in Private Sector Banks* (the Roadmap).

The Roadmap envisages two phases. During the first phase, between March 2005 and March 2009, foreign banks were permitted to establish their presence in India by way of setting up a wholly-owned banking subsidiary (WOS) or converting their existing branches into a WOS. The WOS must have minimum capital of Rs. 3 billion and ensure sound corporate governance.

Initially, equity participation by banks would be permitted only in the private sector banks that are identified by the RBI for restructuring. On an application made by a foreign bank for acquisition of 5% or more in any private bank, the RBI would consider the standing and reputation of the foreign bank and shall permit such acquisition only if it is satisfied that the investment by such foreign bank is in the long-term interest of all the stakeholders of the investee bank. It was proposed that in the second phase, beginning April 2009, the RBI would allow foreign banks to acquire up to 74% of equity capital in private sector banks in India, and would also enact appropriate amendments to the Banking Regulation Act to provide for voting rights commensurate with economic ownership. However, in light of the global financial turmoil and concerns regarding financial strength of banks around the world, the RBI decided to put on hold the second phase of the Roadmap and leave unchanged its policy on the presence of foreign banks in the country. While announcing its annual policy for fiscal 2010, the RBI said that it would continue with the current policy and procedures governing the presence of foreign banks in India. A review will happen once there is greater clarity regarding stability, recovery of the global financial system, and a shared understanding on the regulatory and supervisory architecture around the world. In January 2011, the RBI released a discussion paper on the presence of foreign banks in India, seeking comments and suggestions. In November 2013, the RBI released its framework for establishing wholly owned subsidiaries of foreign banks in India, which aims to tighten regulatory control and encourage foreign banks to convert their existing branches into wholly owned subsidiaries. Any growth in the presence of foreign banks or in foreign investments in Indian banks may increase the competition that we face and as a result have a material adverse effect on our business. See *Restrictions on Foreign Ownership of Indian Securities* .

In February 2013, the RBI released guidelines for licensing of new banks in the private sector. The key items covered under these guidelines include: i) promoters eligible to apply for banking licenses; ii) corporate structure; iii) minimum capital requirements for new banks; iv) foreign shareholding cap; v) corporate governance; and vi) business plan. The RBI has permitted private sector entities owned and controlled by Indian residents and entities in the public sector in India to apply to the RBI for a license to operate a bank through a wholly owned non-operative financial holding company route, subject to compliance with certain specified criteria. Such a non-operative financial holding company is permitted to be the holding company of the bank as well as any other financial services entity, with the objective that the holding company ring fences the regulated financial services entities in the group, including the bank from other activities of the group. The RBI specified July 1, 2013 as the deadline for submission of applications for setting up new banks in the private sector and it received about 26 applications for new bank licenses, including from some of the largest business groups in India. After review of the applications received, the RBI provided in-principle approvals to two applicants, IDFC Limited and Bandhan Financial Services Private Limited, in April 2014 which are valid for a period of 18 months, during which the new banks will have to be set up. Each of these applicants is expected to commence banking operations in fiscal 2016. The RBI has liberalized the licensing regime and intends to issue licenses on an ongoing basis subject to its qualification criteria. In November 2014, the RBI released guidelines for licensing of payment banks and for licensing of small finance banks in the private sector. If the number of banks in the country increases, we will face increased competition in the businesses we operate in. This could have a material adverse effect on our business and financial results.

***Delays in obtaining prior RBI approval and/or our inability to meet the criteria specified by RBI for opening new branches to increase our infrastructure and expand our reach into different geographical segments will restrict our expansion plans and have a negative impact on our future financial performance by preventing us from realizing anticipated revenue from the new branches.***

The RBI issues instructions and guidelines to banks on branch authorization from time to time. Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of the RBI to open new branches. The RBI may cancel a license for violations of the conditions under which it was granted. With the objective of liberalizing and rationalizing the branch licensing process, the RBI, effective October 2013, granted general permission to banks like us to open branches in Tier 1 to Tier 6 centers, subject to reporting to the RBI and certain specified conditions. If we

are unable to perform in a manner satisfactory to the RBI or comply with the specified conditions, it may have an impact on the number of branches we will be able to open, which would in turn have an impact on our future growth. This would adversely affect our financial performance by preventing us from realizing anticipated revenue from the new branches. See *Supervision and Regulation Regulations Relating to the Opening of Branches*.

***If the goodwill recorded in connection with our recent acquisitions becomes impaired, we may be required to record impairment charges, which would decrease our net income and total assets.***

In accordance with U.S. GAAP, we have accounted for our acquisitions using the purchase method of accounting. We recorded the excess of the purchase price over the fair value of the assets and liabilities of the acquired companies as goodwill. U.S. GAAP requires us to test goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Goodwill is tested by initially estimating fair value of the reporting unit and then comparing it against the carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its estimated fair value, we are required to record an impairment loss. The amount of impairment and the remaining amount of goodwill, if any, is determined by comparing the fair value of the reporting unit as of the test date against the fair value of the assets and liabilities of that reporting unit as of the same date. See Note 2u, *Business Combination*, in our consolidated financial statements.

***The Companies Act, 2013 has effected significant changes to the existing Indian company law framework, which may subject us to higher compliance requirements and increase our compliance costs.***

A majority of the provisions and rules under the Companies Act, 2013 have recently been notified and have come into effect from the date of their respective notifications, resulting in the corresponding provisions of the Companies Act, 1956 ceasing to have effect. The Companies Act, 2013 has brought into effect significant changes to the Indian company law framework, such as in the provisions related to issue of capital, disclosures, corporate governance norms, audit matters, and related party transactions. Further, the Companies Act, 2013 has also introduced additional requirements which do not have corresponding equivalents under the Companies Act, 1956, including the introduction of a provision allowing the initiation of class action suits in India against companies by shareholders or depositors, a restriction on investment by an Indian company through more than two layers of subsidiary investment companies (subject to certain permitted exceptions), and prohibitions on advances to directors. We are also required to spend 2.0% of our average profits computed in accordance with the Companies Act, 2013, during three immediately preceding financial years on corporate social responsibility activities. While we already spend a portion of our profits on corporate social responsibility activities, we may be required to increase our spending to comply with the requirements stipulated under the Companies Act, 2013. Further, the Companies Act, 2013 imposes greater monetary and other liability on the Bank, directors and officers in default, for any non-compliance with the requirements. To ensure compliance with the requirements of the Companies Act, 2013, we may need to allocate additional resources, which may increase our regulatory compliance costs and divert management attention.

***Many of our branches have been recently added to our branch network and are not operating with the same efficiency as compared to the rest of our existing branches, which adversely affects our profitability.***

As at March 31, 2010, we had 1,725 branches and as at March 31, 2015, we had 4,014 branches, a significant increase in the number of branches. Some of the newly added branches are currently operating at a lower efficiency level as compared with our established branches. While we believe that the newly added branches will achieve the productivity benchmark set for our entire network over time, the success in achieving our benchmark level of efficiency and productivity will depend on various internal and external factors, some of which are not under our control. The sub-optimal performance of the newly added branches, if continued over an extended period of time, would have a material adverse effect on our profitability.

***Deficiencies in accuracy and completeness of information about customers and counterparties may adversely impact us.***

We rely on accuracy and completeness of information about customers and counterparties while carrying out transactions with them or on their behalf. We may also rely on representations as to the accuracy and completeness of such information. For example, we may rely on reports of independent auditors with respect to financial statements, and decide to extend credit based on the assumption that the customer s audited financial statements conform to generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively impacted by such reliance on information that is inaccurate or materially misleading. This may affect the quality of information available to us about the credit history of our borrowers, especially individuals and small businesses. As a consequence, our ability to effectively manage our credit risk may be adversely affected.

***We present our financial information differently in other markets or in certain reporting contexts.***

In India, our equity shares are traded on the BSE Limited (BSE) and National Stock Exchange of India Limited (NSE). Under Indian laws and rules, we are required to report our financial results in India in Indian GAAP. Because

of the difference in accounting principles and presentation, certain financial information available in our required filings in the United States may be presented differently than in the financial information we provide under Indian GAAP.

Additionally, we make available information on our website and in our presentations in order to provide investors a view of our business through metrics similar to what our management uses to measure our performance. Some of the information we make available from time to time may be in relation to our unconsolidated or our consolidated results under Indian GAAP or under U.S. GAAP. Potential investors should read any notes or disclaimers to such financial information when evaluating our performance to confirm how the information is being presented, since the information that may have been prepared with a different presentation may not be directly comparable.

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***Public companies in India, including us, may be required to prepare financial statements under IFRS or a variation thereof, IND-AS. The transition to IND-AS in India is still unclear and we may be adversely affected by this transition.***

We may be required to begin preparing financial statements in accordance with IND-AS in the near future once regulatory authorities notify us that the implementation of IND-AS will be mandatory for banking institutions. The Ministry of Corporate Affairs, in its press release dated January 2, 2015, issued a roadmap for implementation of Indian Accounting Standards (IND-AS) converged with IFRS in a phased manner starting from April 1, 2016. This roadmap is not applicable to banking companies, insurance companies and non-banking finance companies. The roadmap for transition for these companies would be separately issued by their respective regulators in India. The Bank has not determined with any degree of certainty the impact such adoption will have on its financial reporting. Further, the new accounting standards will change, among other things, the Bank s methodology for estimating allowances for probable loan losses and for classifying and valuing its investment portfolio and its revenue recognition policy. There can be no assurance that the Bank s financial condition, results of operations, cash flows or changes in shareholders equity will not appear materially worse under IND-AS than under Indian GAAP. In the Bank s transition to IND-AS reporting, the Bank may encounter difficulties in the ongoing process of implementing and enhancing its management information systems. Moreover, there is increasing competition for the small number of IFRS-experienced accounting personnel available as more Indian companies begin to prepare IND-AS financial statements. Further, there is no significant body of established practice on which to draw in forming judgments regarding the new system s implementation and application. There can be no assurance that the Bank s adoption of IND-AS will not adversely affect its reported results of operations or financial condition and any failure to successfully adopt IND-AS could adversely affect the Bank s business, financial condition and results of operations.

**Risks Relating to Investments in Indian Companies**

***Financial instability in other countries may cause increased volatility in Indian financial markets.***

The Indian market and the Indian economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has affected the Indian economy. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. A loss of investor confidence in the financial systems of other emerging markets may cause increased volatility in Indian financial markets and, indirectly, in the Indian economy in general. Any worldwide financial instability could also have a negative impact on the Indian economy. Financial disruptions may occur again and could harm the Bank s business, its future financial performance and the prices of the equity shares.

The global credit and equity markets have experienced substantial dislocations, liquidity disruptions and market corrections in recent years. In particular, sub-prime mortgage loans in the United States have experienced increased rates of delinquency, foreclosure and loss. Since September 2008, liquidity and credit concerns and volatility in the global credit and financial markets increased significantly with the bankruptcy or acquisition of, and government assistance extended to, several major U.S. financial institutions. The United States continues to face adverse economic conditions and should a further downgrade of the sovereign credit ratings of the U.S. government occur, it is foreseeable that the ratings and perceived creditworthiness of instruments issued, insured or guaranteed by institutions, agencies or instrumentalities directly linked to the U.S. government could also be correspondingly affected by any such downgrade, which may have an adverse effect on the economic outlook across the world.

Recent developments in the Eurozone have exacerbated the ongoing global economic crisis. Large budget deficits and rising public debts in Europe have triggered sovereign debt finance crises that resulted in the bailouts of European

economies and elevated the risk of government debt defaults, forcing governments to undertake aggressive budget cuts and austerity measures and potentially giving rise to an exit from the European Economic and Monetary Union, in turn underscoring the risk of global economic and financial market volatility. Moreover, in 2012, the sovereign rating of various European Union countries was downgraded. Financial markets and the supply of credit could continue to be negatively impacted by ongoing concerns surrounding the sovereign debts and/or fiscal deficits of several countries in Europe, the possibility of further downgrades of, or defaults on, sovereign debt, concerns about a slowdown in growth in certain economies and uncertainties regarding the stability and overall standing of the European Monetary Union. These and other related events have had a significant impact on the global credit and financial markets as a whole, including reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States, Europe and global credit and financial markets.

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In response to such developments, legislators and financial regulators in the United States, Europe and other jurisdictions, including India, have implemented several policy measures designed to add stability to the financial markets. However, the overall impact of these and other legislative and regulatory efforts on the global financial markets is uncertain, and they may not have the intended stabilizing effects. In the event that the current adverse conditions in the global credit markets continue or if there are any significant financial disruption, this could have an adverse effect on the Bank s business, future financial performance and the trading price of the equity shares.

***Any adverse change in India s credit rating by an international rating agency could adversely affect our business and profitability.***

The Bank is rated BBB- by Standard & Poor s (S&P), an international rating agency, while the Bank s medium term notes program is rated Baa3 by Moody s, another international rating agency. In the case of the international rating agencies, the ratings of all Indian banks are capped at the sovereign rating (that is, BBB- by S&P and Baa3 by Moody s). In India, the Bank is rated AAA by CRISIL, CARE and India Ratings (the Indian arm of Fitch Ratings), which are the highest credit ratings assigned on the domestic scale.

There is a risk that the Bank s ratings may be downgraded when the rating agencies revise their outlook on India s sovereign rating or when there is a significant deterioration in the Bank s existing financial strength and business position. The Bank s rating may also be revised when the rating agencies undertake changes to their rating methodologies. For instance, in April 2015, Moody s revised its bank rating methodology and the assessment of government support to banks, following which the ratings of several banks globally, including Indian banks, were revised. Following this methodology change, the Bank s rating was revised to Baa3 from Baa2 so as to cap it at the Indian sovereign rating. Going forward, the sovereign ratings outlook will remain dependent on whether the government is able to transition the economy out of a low-growth and high inflation environment, as well as exercise adequate fiscal restraint. Any adverse change in India s credit ratings by international rating agencies may adversely impact our business and limit our access to capital markets, our cost of borrowing and liquidity.

***Any volatility in the exchange rate may lead to a decline in India s foreign exchange reserves and may affect liquidity and interest rates in the Indian economy, which could adversely impact us.***

Capital flows have picked up substantially during fiscal 2015 reflecting a reassessment of investor expectations about future domestic growth prospects given India s pro-reform government. While the current account deficit (CAD) remained a main area of concern over fiscal 2012 and fiscal 2013, it shrunk sharply in fiscal 2014 to 1.7% of GDP and further in fiscal 2015 to 1.3% of GDP. A sharp contraction in the oil imports bill on the back of a near fifty percent decline in global crude prices was the main reason behind the improvement in the current account position. However, the pick-up in the quantum of capital flows reduced volatility in the Indian rupee. Going forward, we expect further depreciation in the Indian rupee primarily reflecting the possibility of a gradual reversal in US monetary policy that may result in a rotation of global fund flows from emerging markets to the US markets over the medium term. Additionally, some anxiety about the prospect of sub-normal monsoons adversely affecting the domestic economy could make investors circumspect of investing in domestic assets. Although the rupee is less vulnerable given the improvements in the CAD and visible moderation in inflation rates, there remains a possibility of needing to intervene in the foreign exchange market to control volatility of the exchange rate. This heightened volatility may only occur when there may be a more substantial reversal in US monetary policy. The need to intervene at that point in time may result in the decline in India s foreign exchange reserves and subsequently reduce the amount of liquidity in the domestic financial system. This in turn could cause domestic interest rates to rise.

Further, increased volatility in capital flows may also affect monetary policy decision making. For instance, a period of net capital outflows might force the RBI to keep monetary policy tighter than optimal to guard against currency

depreciation.

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***Political instability or changes in the government in India could delay the liberalization of the Indian economy and adversely affect economic conditions in India generally, which would impact our financial results and prospects.***

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the roles of the Indian central and state governments in the Indian economy as producers, consumers and regulators remain significant as independent factors in the Indian economy. Most recently, the election of a pro-business majority government in May 2014 has marked a distinct increase in expectations for policy and economic reforms among certain aspects of the Indian economy. There is no guarantee that the new government will be able to enact an optimal set of reforms or that any such reforms would continue or succeed if there were a change in the current majority leadership in the government in the future. There is also no guarantee that the government will announce an optimal set of reforms or policies in the future. The rate of economic liberalization is subject to change and specific laws and policies affecting banking and finance companies, foreign investment, currency exchange and other matters affecting investment in our securities are continuously evolving as well. Other major reforms that have been proposed are the goods and services tax, the direct tax code and the general anti-avoidance rules (GAAR). Any significant change in India s economic liberalization, deregulation policies or other major economic reforms could adversely affect business and economic conditions in India generally and our business in particular.

***Terrorist attacks, civil unrest and other acts of violence or war involving India and other countries would negatively affect the Indian market where our shares trade and lead to a loss of confidence and impair travel, which could reduce our customers appetite for our products and services.***

Terrorist attacks, such as those in Mumbai in November 2008, and other acts of violence or war may negatively affect the Indian markets on which our equity shares trade and also adversely affect the worldwide financial markets. These acts may also result in a loss of business confidence, make travel and other services more difficult and as a result ultimately adversely affect our business. In addition, any deterioration in relations between India and Pakistan or between India and China might result in investor concern about stability in the region, which could adversely affect the price of our equity shares and ADSs.

India has also witnessed civil disturbances in recent years and future civil unrest as well as other adverse social, economic and political events in India could have an adverse impact on us. Such incidents also create a greater perception that investment in Indian companies involves a higher degree of risk, which could have an adverse impact on our business and the price of our equity shares and ADSs.

***Investors may have difficulty enforcing foreign judgments in India against the Bank or its management.***

The Bank was constituted under the Companies Act, 1956. Substantially all of the Bank s directors and executive officers and some of the experts named herein are residents of India and a substantial portion of the assets of the Bank and such persons are located in India. As a result, it may not be possible for investors to effect service of process on the Bank or such persons in jurisdictions outside of India, or to enforce against them judgments obtained in courts outside of India predicated upon civil liabilities of the Bank or such directors and executive officers under laws other than Indian Law.

In addition, India is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. Recognition and enforcement of foreign judgments is provided for under section 13 and section 44A of the Indian Civil Procedure Code (Code). Section 44A of the Code provides that where a foreign judgment has been rendered by a superior court in any country or territory outside India which the Government has by notification declared to be a reciprocating territory, it may be enforced in India by proceedings in execution as if the judgment had

been rendered by the relevant court in India. However, section 44A of the Code is applicable only to monetary decrees not being in the nature of any amounts payable in respect of taxes or other charges of a like nature or in respect of a fine or other penalty and is not applicable to arbitration awards.

The United States has not been declared by the Government to be a reciprocating territory for the purposes of section 44A of the Code. However, the United Kingdom has been declared by the Government to be a reciprocating territory and the High Courts in England as the relevant superior courts. Accordingly, a judgment of a court in the United States may be enforced only by a fresh suit upon the judgment and not by proceedings in execution. A judgment of a court in a jurisdiction which is not a reciprocating territory may be enforced only by a new suit upon the judgment and not by proceedings in execution. Section 13 of the Code provides that a foreign judgment shall be conclusive as to any matter thereby directly adjudicated upon except: (i) where it has not been pronounced by a court of competent jurisdiction; (ii) where it has not been given on the merits of the case; (iii) where it appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognize the law of India in cases where such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where it has been obtained by fraud; or (vi) where it sustains a claim founded on a breach of any law in force in India. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce a foreign judgment if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. A party seeking to enforce a foreign judgment in India is required to obtain approval from the RBI to repatriate outside India any amount recovered pursuant to execution. Any judgment in a foreign currency would be converted into Indian rupees on the date of the judgment and not on the date of the payment. The Bank cannot predict whether a suit brought in an Indian court will be disposed of in a timely manner or be subject to considerable delays.

**Risks Relating to the ADSs and Equity Shares**

***Historically, our ADSs have traded at a premium to the trading prices of our underlying equity shares, a situation which may not continue.***

Historically, our ADSs have traded on the New York Stock Exchange (NYSE) at a premium to the trading prices of our underlying equity shares on the Indian stock exchanges. See *Price Range of Our American Depositary Shares and Equity Shares* for the underlying data. We believe that this price premium has resulted from the relatively small portion of our market capitalization previously represented by ADSs, restrictions imposed by Indian law on the conversion of equity shares into ADSs, and an apparent preference for investors to trade dollar-denominated securities. Over time, some of the restrictions on issuance of ADSs imposed by Indian law have been relaxed and we expect that other restrictions may be relaxed in the future. It is possible that in the future our ADSs will not trade at any premium to our equity shares and could even trade at a discount to our equity shares.

***Investors in ADSs will not be able to vote.***

Investors in ADSs will have no voting rights, unlike holders of the equity shares. Under the deposit agreement, the depositary will abstain from voting the equity shares represented by the ADSs. If you wish, you may withdraw the equity shares underlying the ADSs and seek to vote (subject to Indian restrictions on foreign ownership) the equity shares you obtain upon withdrawal. However, this withdrawal process may be subject to delays, additional costs and you may not be able to redeposit the equity shares. For a discussion of the legal restrictions triggered by a withdrawal of the equity shares from the depositary facility upon surrender of ADSs, see *Restrictions on Foreign Ownership of Indian Securities* and *Description of American Depositary Shares Voting Rights* .

***Your ability to withdraw equity shares from the depositary facility is uncertain and may be subject to delays.***

India s restrictions on foreign ownership of Indian companies limit the number of equity shares that may be owned by foreign investors and generally require government approval for foreign investments. Investors who withdraw equity

shares from the ADS depositary facility for the purpose of selling such equity shares will be subject to Indian regulatory restrictions on foreign ownership upon withdrawal. The withdrawal process may be subject to delays. For a discussion of the legal restrictions triggered by a withdrawal of equity shares from the depositary facility upon surrender of ADSs, see *Restrictions on Foreign Ownership of Indian Securities*.

***Restrictions on deposit of equity shares in the depositary facility could adversely affect the price of our ADSs.***

Under current Indian regulations, an ADS holder who surrenders ADSs and withdraws equity shares may deposit those equity shares again in the depositary facility in exchange for ADSs. An investor who has purchased equity shares in the Indian market may also deposit those equity shares in the ADS program. However, the deposit of equity shares may be subject to securities law restrictions and the restriction that the cumulative aggregate number of equity shares that can be deposited as of any time cannot exceed the cumulative aggregate number represented by ADSs converted into underlying equity shares as of such time. These restrictions increase the risk that the market price of our ADSs will be below that of the equity shares.

***There is a limited market for the ADSs.***

Although our ADSs are listed and traded on the NYSE, any trading market for our ADSs may not be sustained, and there is no assurance that the present price of our ADSs will correspond to the future price at which our ADSs will trade in the public market. Indian legal restrictions may also limit the supply of ADSs. The only way to add to the supply of ADSs would be through an additional issuance. We cannot guarantee that a market for the ADSs will continue.

***Conditions in the Indian securities market may affect the price or liquidity of our equity shares and ADSs.***

The Indian securities markets are smaller and more volatile than securities markets in more developed economies. The Indian stock exchanges have in the past experienced substantial fluctuations in the prices of listed securities. Currently prices of securities listed on Indian exchanges are displaying signs of volatility linked among other factors to the uncertainty in the global markets and the rising inflationary and interest rate pressures domestically. The governing bodies of the Indian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Future fluctuations or trading restrictions could have a material adverse effect on the price of our equity shares and ADSs.

***Settlement of trades of equity shares on Indian stock exchanges may be subject to delays.***

The equity shares represented by our ADSs are listed on the NSE and BSE. Settlement on these stock exchanges may be subject to delays and an investor in equity shares withdrawn from the depositary facility upon surrender of ADSs may not be able to settle trades on these stock exchanges in a timely manner.

***You may be subject to Indian taxes arising out of capital gains***

Generally, capital gains, whether short-term or long-term, arising on the sale of the underlying equity shares in India is subject to Indian capital gains tax. Investors are advised to consult their own tax advisers and to carefully consider the potential tax consequences of an investment in ADSs. See also *Taxation* .

***You may be unable to exercise preemptive rights available to other shareholders.***

A company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless these rights have been waived by at least 75.0% of the company s shareholders present and voting at a shareholders general meeting. U.S. investors in our ADSs may be unable to exercise preemptive rights for our equity shares underlying our ADSs unless a registration statement under the Securities Act of 1933 (the Securities Act) is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any registration statement as well as the perceived benefits of enabling U.S. investors in our ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We do not commit to filing a registration statement under those circumstances. If we issue any securities in the future, these securities may be issued to the depositary, which may sell these securities in the securities markets in India for the benefit of the investors in our ADSs. There can be no assurance as to the value, if any, the depositary would receive upon the sale of these securities. To the extent that investors in our ADSs are unable to exercise preemptive rights, their proportional interests in us would be reduced.

***Financial difficulty and other problems in certain financial institutions in India could adversely affect our business and the price of our ADSs and equity shares.***

We are exposed to the risks of the Indian financial system by being a part of the system which may be affected by the financial difficulties faced by certain Indian financial institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. Such systemic risk , may adversely affect financial intermediaries, such as clearing agencies, banks, securities firms and exchanges with which we interact on a daily basis. Any such difficulties or instability of the Indian financial system in general could create an adverse market perception about Indian financial institutions and banks and adversely affect our business. Our transactions with these financial institutions expose us to various risks in the event of default by a counterparty, which can be exacerbated during periods of market illiquidity.

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***Because the equity shares underlying our ADSs are quoted in rupees in India, you may be subject to potential losses arising out of exchange rate risk on the Indian rupee and risks associated with the conversion of rupee proceeds into foreign currency.***

Fluctuations in the exchange rate between the U.S. dollar and the Indian rupee may affect the value of your investment in our ADSs. Specifically, if the relative value of the Indian rupee to the U.S. dollar declines, each of the following values will also decline:

- the U.S. dollar equivalent of the Indian rupee trading price of our equity shares in India and, indirectly, the U.S. dollar trading price of our ADSs in the United States;

- the U.S. dollar equivalent of the proceeds that you would receive upon the sale in India of any equity shares that you withdraw from the depositary; and

- the U.S. dollar equivalent of cash dividends, if any, paid in Indian rupees on the equity shares represented by our ADSs.

***You may not be able to enforce a judgment of a foreign court against us.***

We are a limited liability company incorporated under the laws of India. All our directors and members of our senior management and some of the experts named in this report are residents of India and almost all of our assets and the assets of these persons are located in India. It may not be possible for investors in our ADSs to effect service of process outside India upon us or our directors and members of our senior management and experts named in the report that are residents of India or to enforce judgments obtained against us or these persons in foreign courts predicated upon the liability provisions of foreign countries, including the civil liability provisions of the federal securities laws of the United States. Moreover, it is unlikely that a court in India would award damages on the same basis as a foreign court if an action were brought in India or that an Indian court would enforce foreign judgments if it viewed the amount of damages as excessive or inconsistent with Indian practice.

***There may be less information available on Indian securities markets than securities markets in developed countries.***

There is a difference between the level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants and that of markets in the United States and other developed economies. The Securities and Exchange Board of India (SEBI) and the stock exchanges are responsible for improving disclosure and other regulatory standards for the Indian securities markets. SEBI has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed economies.

***Foreign Account Tax Compliance withholding may affect payments on the equity shares and the ADSs.***

Sections 1471 through 1474 of the Code (provisions commonly known as FATCA or the Foreign Account Tax Compliance Act) impose (a) certain reporting and due diligence requirements on foreign financial institutions and, (b) potentially require such foreign financial institutions to deduct a 30% withholding tax from (i) certain payments from sources within the United States, and (ii) foreign passthru payments (which is not yet defined in current

guidance) made to certain non-U.S. financial institutions that do not comply with such reporting and due diligence requirements or certain other payees that do not provide required information. The United States has entered a number of intergovernmental agreements with other jurisdictions (IGAs) which may modify the operation of this withholding. The Bank as well as relevant intermediaries such as custodians and depositary participants are classified as financial institutions for these purposes. Given that India has entered into a Model 1 IGA with the United States for giving effect to FATCA, Indian financial institutions such as the Bank are also being instructed to become fully FATCA compliant, based on the terms of the IGA and relevant rules.

Under current guidance it is not clear whether or to what extent payments on ADSs or equity shares will be considered foreign passthru payments subject to FATCA withholding or the extent to which withholding on foreign passthru payments will be required under the applicable IGA. Investors should consult their own tax advisers on how the FATCA rules may apply to payments they receive in respect of the ADSs or equity shares.

Should any withholding tax in respect of FATCA be deducted or withheld from any payments arising to any investor, neither the Bank nor any other person will pay additional amounts as a result of the deduction or withholding.

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## PRICE RANGE OF OUR AMERICAN DEPOSITARY SHARES AND EQUITY SHARES

Our ADSs, each representing three equity shares, par value Rs. 2.0 per equity share, are listed on the NYSE under the symbol HDB . Our equity shares, including those underlying the ADSs, are listed on the NSE under the symbol HDFCBANK and the BSE under the code 500180. Our fiscal quarters end on June 30 of each year for the first quarter, September 30 for the second quarter, December 31 for the third quarter and March 31 for the fourth quarter.

### Trading Prices of Our ADSs on the NYSE

The following table shows:

- the reported high and low prices for our ADSs in U.S. dollars on the NYSE; and
- the average daily trading volume for our ADSs on the NYSE.

| Fiscal | Price per ADS High | Price per ADS Low | Average daily ADS trading volume (Number of ADSs) |
|---|---|---|---|
| **2011** | US$ 38.3 | US$ 25.3 | 1,387,241 |
| **2012** | 36.8 | 24.5 | 1,031,409 |
| **2013** | 43.0 | 27.3 | 698,845 |
| **2014** | | | |
| First Quarter | 43.8 | 33.9 | 697,025 |
| Second Quarter | 38.1 | 26.6 | 988,822 |
| Third Quarter | 36.8 | 31.4 | 955,484 |
| Fourth Quarter | 41.1 | 30.6 | 1,165,008 |
| **2015** | | | |
| First Quarter | 48.8 | 39.3 | 1,105,441 |
| Second Quarter | 51.7 | 45.6 | 817,861 |
| Third Quarter | 54.7 | 45.6 | 810,609 |
| Fourth Quarter | 64.0 | 49.3 | 1,316,123 |
| **Most Recent Six Months** | | | |
| January 2015 | 62.1 | 49.3 | 1,184,855 |
| February 2015 | 62.2 | 55.7 | 1,798,868 |
| March 2015 | 64.0 | 56.9 | 1,018,541 |
| April 2015 | 60.9 | 56.1 | 916,224 |
| May 2015 | 59.9 | 54.2 | 709,845 |
| June 2015 | 61.8 | 56.0 | 819,227 |
| July 1, 2015 to July 17, 2015 | 63.9 | 59.6 | 733,167 |

Our shareholders at the Annual General Meeting held on July 6, 2011 approved the subdivision of our one equity share having a nominal value of Rs. 10.0 each into 5 (five) equity shares having a nominal value of Rs. 2.0 each. Necessary instructions were issued to J.P. Morgan Chase Bank, N.A., the depository, for the ADSs to effect the split

in the ADSs so as to ensure that the ratio between the ADSs and the underlying equity shares remains 1:3 as on the date prior to the subdivision.

The closing price for our ADSs on the NYSE was US$ 63.9 per ADS on July 17, 2015.

**Trading Prices of Our Equity Shares on the National Stock Exchange**

The following table shows:

- the reported high and low market prices for our equity shares in rupees on the NSE;
- the imputed high and low prices for our equity shares translated into U.S. dollars, based on the noon buying rate in the city of New York for cable transfers in Indian rupees at U.S.$1.00 = Rs. 62.31 on March 31, 2015; and
- the average daily trading volume for our equity shares on the NSE.

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| | Price per equity share | | Price per equity share | | Average daily equity share trading volume |
|---|---|---|---|---|---|
| | High | Low | High | Low | |
| **Fiscal Year** | | | | | |
| **2011** | Rs. 500.2 | Rs. 360.8 | US$ 8.0 | US$ 5.8 | 3,911,427 |
| **2012** | 539.9 | 400.3 | 8.7 | 6.4 | 3,420,299 |
| **2013** | 705.5 | 482.2 | 11.3 | 7.7 | 2,660,099 |
| **2014** | | | | | |
| First Quarter | 727.3 | 613.4 | 11.7 | 9.8 | 2,903,845 |
| Second Quarter | 698.1 | 528.0 | 11.2 | 8.5 | 4,573,191 |
| Third Quarter | 717.4 | 589.4 | 11.5 | 9.5 | 3,029,408 |
| Fourth Quarter | 760.8 | 616.8 | 12.2 | 9.9 | 2,064,502 |
| **2015** | | | | | |
| First Quarter | 856.0 | 707.3 | 13.7 | 11.4 | 2,354,148 |
| Second Quarter | 879.8 | 791.4 | 14.1 | 12.7 | 1,814,656 |
| Third Quarter | 974.0 | 854.1 | 15.6 | 13.7 | 1,779,679 |
| Fourth Quarter | 1109.3 | 936.3 | 17.8 | 15.0 | 1,995,233 |
| **Most Recent Six Months** | | | | | |
| January 2015 | 1100.6 | 936.3 | 17.7 | 15.0 | 1,999,854 |
| February 2015 | 1093.0 | 1030.0 | 17.5 | 16.5 | 1,785,128 |
| March 2015 | 1109.3 | 1002.1 | 17.8 | 16.1 | 2,190,712 |
| April 2015 | 1059.0 | 979.1 | 17.0 | 15.7 | 1,673,102 |
| May 2015 | 1054.0 | 944.2 | 16.9 | 15.2 | 1,638,520 |
| June 2015 | 1072.0 | 990.2 | 17.2 | 15.9 | 1,675,075 |
| July 1, 2015 to July 17, 2015 | 1121.8 | 1054.1 | 18.0 | 16.9 | 1,181,210 |

Our shareholders, by a special resolution on July 6, 2011, approved a stock split resulting in a reduction in the par value of each equity share from Rs.10.0 to Rs. 2.0 effective as of July 16, 2011.

The closing price for our equity shares on the National Stock Exchange was Rs. 1,110.6 per share on July 17, 2015.

As of March 31, 2015, there were 441,457 holders of record of our equity shares, including the shares underlying ADSs and GDRs, of which 337 had registered addresses in the United States and held an aggregate of 279,432 equity shares representing 0.01% of our shareholders. In our books only, the depositaries, J.P. Morgan Chase Bank, N.A., is the shareholder with respect to equity shares underlying the ADSs and GDRs.

Upon our acquisition of CBoP in 2008, CBoP had global depository receipts (GDRs) outstanding, representing the right to receive shares in CBoP, which, upon the consummation of the acquisition, converted into our GDRs, representing the right to receive our shares. As of March 31, 2015, there were 22,891,290 GDRs outstanding, representing 11,445,645 shares of the Bank (in the aggregate 0.46% of our paid-up capital).

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# DESCRIPTION OF EQUITY SHARES

## The Company

We are registered under Corporate Identity Number (CIN) L65920MH1994PLC080618 with the Registrar of Companies, Maharashtra State, India. Our Memorandum of Association permits us to engage in a wide variety of activities, including all the activities in which we currently engage or intend to engage, as well as other activities in which we currently have no intention of engaging.

## Dividends

Under Indian law, a company pays dividends upon a recommendation by its board of directors and approval by a majority of its shareholders at the annual general meeting of shareholders held within six months of the end of each fiscal year. The shareholders have the right to decrease but not increase the dividend amount recommended by the Board of Directors. Dividends are generally declared as a percentage of par value (on per share basis) and distributed and paid to shareholders. The Companies Act provides that shares of a company of the same class must receive equal dividend treatment.

These distributions and payments are required to be deposited into a separate bank account within 5 days of the declaration of such dividend and paid to shareholders within 30 days of the annual general meeting where the resolution for declaration of dividends is approved.

The Companies Act states that any dividends that remain unpaid or unclaimed after that period are to be transferred to a special bank account. Any money that remains unclaimed for seven years from the date of the transfer is to be transferred by us to a fund, called the Investor Education and Protection Fund, created by the Government of India.

Our Articles authorize our Board of Directors to declare interim dividends, the amount of which must be deposited in a separate bank account within five days and paid to the shareholders within 30 days of the declaration.

Under the Companies Act, final dividends payable can be paid only in cash to the registered shareholder at a record date fixed prior to the relevant annual general meeting, to his order or to the order of his banker.

Before paying any dividend on our shares, we are required under the Indian Banking Regulation Act to write off all capitalized expenses (including preliminary expenses, organization expenses, share-selling commission, brokerage, amounts of losses incurred or any other item of expenditure not represented by tangible assets). We are permitted to declare dividends of up to 35.0% of net profit calculated under Indian GAAP without prior RBI approval subject to compliance with certain prescribed requirements. Further, upon compliance with the prescribed requirements, we are also permitted to declare interim dividends subject to the above-mentioned cap computed for the relevant accounting period.

Dividends may only be paid out of our profits for the relevant year and in certain contingencies out of the reserves of the company. Before declaring dividends, we are required by the RBI to transfer 25% of our net profits (calculated under Indian GAAP) of each year to a reserve fund.

## Bonus Shares

In addition to permitting dividends to be paid out of current or retained earnings calculated under Indian GAAP, the Companies Act permits our Board of Directors, subject to the approval of our shareholders, to distribute to the

shareholders, in the form of fully paid-up bonus equity shares, an amount transferred from the company s free reserves, securities premium account or the capital redemption reserve account. Bonus equity shares can be distributed only with the prior approval of the Reserve Bank of India. These bonus equity shares must be distributed to shareholders in proportion to the number of equity shares owned by them.

Bonus shares can only be issued if the company has not defaulted in payments of statutory dues or principal/interest payments on fixed deposits or debt securities issued by it. Bonus shares must not be issued in lieu of dividend.

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**Preemptive Rights and Issue of Additional Shares**

The Companies Act gives shareholders the right to subscribe for new shares in proportion to their existing shareholdings unless otherwise determined by a resolution passed by three-fourths of the shareholders present and voting at a general meeting. Under the Companies Act and our Articles, in the event of an issuance of securities, subject to the limitations set forth above, we must first offer the new shares to the holders of equity shares on a fixed record date. The offer, required to be made by notice, must include:

- the right, exercisable by the shareholders of record, to renounce the shares offered in favor of any other person;
- the number of shares offered; and
- the period of the offer, which may not be less than 15 days from the date of the offer and shall not exceed 30 days. If the offer is not accepted, it is deemed to have been declined.

Our Board of Directors is permitted to distribute equity shares not accepted by existing shareholders in the manner it deems beneficial for us in accordance with our Articles. Holders of ADSs may not be able to participate in any such offer. See *Description of American Depositary Shares Share Dividends and Other Distributions* .

**General Meetings of Shareholders**

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within six months after the end of each fiscal year. We may convene an extraordinary general meeting when necessary or at the request of a shareholder or shareholders holding on the date of the request at least 10% of our paid up capital. A general meeting is generally convened by our company secretary in accordance with a resolution of the Board of Directors. Written notice or notice via email or other permitted electronic means stating the agenda of the meeting must be given at least 21 days prior to the date set for the general meeting to the shareholders whose names are in the register at the record date. Shorter notice is permitted if consent is received from 95% of the members entitled to vote. Those shareholders who are not registered at the record date do not receive notice of this meeting and are not entitled to attend or vote at this meeting.

The annual general meeting is held in Mumbai, the city in which our registered office is located. General meetings other than the annual general meeting may be held at any location if so determined by a resolution of our Board of Directors.

**Voting Rights**

A shareholder has one vote for each equity share and voting may be on a poll or through electronic means or postal ballot. However, under the Indian Banking Regulation Act, on poll, a shareholder cannot exercise voting rights in excess of 10% of the total voting rights of all shareholders. The Banking Regulation Act, 1949 has been amended with effect from January 18, 2013 to provide that the RBI would have the power to increase the limit on voting rights from 10% to 26% in a phased manner.

Unless the Articles provide for a larger number, the quorum for a general meeting is: (a) five members present (in person or by proxy) if the number of members as on the date of the meeting is not more than one thousand; (b) fifteen members present (in person or by proxy) if the number of members as on the date of the meeting is more than one thousand but not more than five thousand; and (c) thirty members present (in person or by proxy) if the number of members as on the date of the meeting exceeds five thousand. Generally, resolutions may be passed by simple majority of the shareholders present and voting at any general meeting. However, resolutions such as an amendment to the organizational documents, commencement of a new line of business, an issue of additional equity shares (which is not a preemptive issue) and reductions of share capital, require that the votes cast in favor of the resolution (whether by show of hands or on a poll) are not less than three times the number of votes, if any, cast against the resolution. As provided in our Articles, a shareholder may exercise his voting rights by proxy to be given in the form prescribed by us. This proxy, however, is required to be lodged with us at least 48 hours before the time of the relevant meeting. A shareholder may, by a single power of attorney, grant general power of representation covering several general meetings. A corporate shareholder is also entitled to nominate a representative to attend and vote on its behalf at all general meetings. The Companies Act provides for the passing of resolutions in relation to certain matters specified by the Government of India, by means of a postal ballot. A listed company intending to pass a resolution relating to certain specified matters (such as alteration of its organizational documents, change in registered office issuing of shares with different voting or dividend rights and a buy-back of shares) is required to obtain the consent of shareholders by means of a postal ballot instead of by way of a resolution passed in a general meeting. A notice to all the shareholders must be sent along with a draft resolution explaining the reasons therefore and requesting the shareholders to send their assent or dissent in writing on a postal ballot within a period of 30 days from the date of dispatch of the notice. Shareholders may exercise their right to vote at general meetings, through postal ballot by sending their votes through the postal arrangements or through electronic means (e-voting), for which separate facilities are provided to the shareholders.

ADS holders have no voting rights with respect to the deposited shares.

**Annual Report**

At least 21 days before an annual general meeting, we must circulate either a detailed or abridged version of our Indian GAAP audited financial accounts, together with the Directors Report and the Auditor s Report, to the shareholders along with a notice convening the annual general meeting. We are also required under the Companies Act to make available upon the request of any shareholder our complete balance sheet and profit and loss account. The above-mentioned documents must also be made available for inspection at its registered office during working hours for a period of 21 days before the date of the annual general meeting. A statement containing the salient features of these documents in a prescribed manner (or copies of these documents) is required to be sent to every member of the company and to every debenture trustee at least 21 days before the date of the annual general meeting. Under the Companies Act, we must file with the Registrar of Companies our Indian GAAP balance sheet and profit and loss account within 30 days of the conclusion of the annual general meeting and our annual return within 60 days of the conclusion of that meeting.

**Register of Shareholders, Record Dates and Transfer of Shares**

The equity shares are in registered form. We maintain a register of our shareholders in Mumbai. We register transfers of equity shares on the register of shareholders upon presentation of certificates in respect of the transfer of equity shares held in physical form together with a transfer deed duly executed by the transferor and transferee. These transfer deeds are subject to stamp duty, which has been fixed at 0.25% of the transfer price.

For the purpose of determining equity shares entitled to annual dividends, the register of shareholders is closed for a period prior to the annual general meeting. The Companies Act and our listing agreements with the stock exchanges permit us, pursuant to a resolution of our Board of Directors and upon at least 7 days advance notice to the stock exchanges, to set the record date and close the register of shareholders after seven days public notice for not more than 30 days at a time, and for not more than 45 days in a year, in order for us to determine which shareholders are entitled to certain rights pertaining to the equity shares. Trading of equity shares and delivery of certificates in respect of the equity shares may, however, continue after the register of shareholders is closed.

**Transfer of Shares**

Shares held through depositories are transferred in the form of book entries or in electronic form in accordance with the regulations laid down by the Securities and Exchange Board of India ( SEBI ). These regulations provide the regime for the functioning of the depositories and the participants and set out the manner in which the records are to be kept and maintained and the safeguards to be followed in this system. Transfers of beneficial ownership of shares held through a depositary are exempt from stamp duty.

SEBI requires that our equity shares for trading and settlement purposes be in book-entry form for all investors, except for transactions that are not made on a stock exchange and transactions that are not required to be reported to the stock exchange. Transfers of equity shares in book-entry form require both the seller and the purchaser of the equity shares to establish accounts with depositary participants appointed by depositories established under the Depositaries Act, 1996. Charges for opening an account with a depositary participant, transaction charges for each trade and custodian charges for securities held in each account vary depending upon the practice of each depositary participant. Upon delivery, the equity shares shall be registered in the name of the relevant depositary on our books and this depositary shall enter the name of the investor in its records as the beneficial owner. The transfer of beneficial ownership shall be done through the records of the depositary. The beneficial owner shall be entitled to all rights and benefits and subject

to all liabilities in respect of his securities held by a depositary.

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The requirement to hold the equity shares in book-entry form will apply to the ADS holders when the equity shares are withdrawn from the depositary facility upon surrender of the ADSs. In order to trade the equity shares in the Indian market, the withdrawing ADS holder will be required to comply with the procedures described above.

Our equity shares are freely transferable, subject only to the provisions of the Companies Act under which, if a transfer of equity shares contravenes the Securities and Exchange Board of India Act, 1992 or the regulations issued under it or the Sick Industrial Companies (Special Provisions) Act, 1985, or any other similar law, the Indian Company Law Board may, on application made by us, a depositary incorporated in India, an investor, SEBI or certain other parties, direct a rectification of the register of records. It is a condition of our listing that we transfer equity shares and deliver share certificates duly endorsed for the transfer within 15 days of the date of lodgment of transfer. If a company without sufficient cause refuses to register a transfer of equity shares within two months from the date on which the instrument of transfer is delivered to the company, the transferee may appeal to the Indian Company Law Board seeking to register the transfer of equity shares. The Indian Company Law Board may, in its discretion, issue an interim order suspending the voting rights attached to the relevant equity shares before completing its investigation of the alleged contravention. Our Articles provide for certain restrictions on the transfer of equity shares, including granting power to the Board of Directors in certain circumstances, to refuse to register or acknowledge transfer of equity shares or other securities issued by us. Furthermore, the RBI requires us to obtain its approval before registering a transfer of equity shares in favor of a person which together with equity shares already held by him represent more than 5.0% of our share capital.

Our transfer agent, Datamatics Financial Services Limited, is located in Mumbai. Certain foreign exchange control and security regulations apply to the transfer of equity shares by a non-resident or a foreigner.

**Disclosure of Ownership Interest**

The provisions of the Companies Act generally require beneficial owners of equity shares of Indian companies that are not holders of record to declare to the company details of the holder of record and holders of record to declare details of the beneficial owner. While it is unclear whether these provisions apply to holders of an Indian company s ADSs, investors who exchange ADSs for equity shares are subject to this provision. Failure to comply with these provisions would not affect the obligation of a company to register a transfer of equity shares or to pay any dividends to the registered holder of any equity shares in respect of which this declaration has not been made, but any person who fails to make the required declaration may be liable for an initial fine of up to Rs. 50,000 coupled with a further fine of up to Rs. 1,000 for each day this failure continues. However, under the Banking Regulation Act, a registered holder of any equity shares, except in certain conditions, shall not be liable to any suit or proceeding on the ground that the title to those equity shares vests in another person.

**Acquisition by the Issuer of Its Own Shares**

The Companies Act permits a company to acquire its own equity shares and reduce its capital under certain circumstances. Such reduction of capital requires compliance with buy-back provisions specified in the Companies Act and by SEBI.

ADS holders will be eligible to participate in a buy-back in certain cases. An ADS holder may acquire equity shares by withdrawing them from the depositary facility and then sell those equity shares back to us. ADS holders should note that equity shares withdrawn from the depositary facility may only be redeposited into the depositary facility under certain circumstances.

There can be no assurance that the equity shares offered by an ADS investor in any buy-back of shares by us will be accepted by us. The position regarding participation of ADS holders in a buy-back is not clear. ADS investors are advised to consult their Indian legal advisers prior to participating in any buy-back by us, including in relation to any regulatory approvals and tax issues relating to the buy-back.

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### Liquidation Rights

Subject to the rights of depositors, creditors and employees, in the event of our winding up, the holders of the equity shares are entitled to be repaid the amounts of capital paid up or credited as paid up on these equity shares. All surplus assets remaining belong to the holders of the equity shares in proportion to the amount paid up or credited as paid up on these equity shares, respectively, at the commencement of the winding up.

### Acquisition of the Undertaking by the Government

Under the Banking Regulation Act, the Government may, after consultation with the RBI, in the interest of our depositors or banking policy or better provision of credit generally or to a particular community or area, acquire our banking business. The RBI may acquire our business if it is satisfied that we have failed to comply with the directions given to us by the RBI or that our business is being managed in a manner detrimental to the interest of our depositors. Similarly, the Government of India may also acquire our business based on a report by the RBI.

### Takeover Code

Under the Securities and Exchange Board of India (Substantial Acquisitions of Shares & Takeovers) Regulations, 2011, as amended (the Takeover Code ), upon the acquisition of shares which taken together with the shares/voting rights already held aggregates 5% or more of the outstanding shares or voting rights of a publicly listed Indian company, a purchaser is required to notify the company and all the stock exchanges on which the shares of such company are listed. Such notification is also required when a person holds 5% or more of the outstanding shares or voting rights in a target company and there is a change in his holding either due to purchase or disposal of shares of 2% or more of the outstanding shares/voting rights in the target company or if such change results in shareholding falling below 5%, if there has been a change from the previous disclosure.

No acquisition of shares/voting rights by an acquirer in a target company which entitles the acquirer, together with persons acting in concert with them, to 25% or more of such shares or voting rights is permissible unless the acquirer makes a public announcement of an open offer for acquiring the shares of the target company in the manner provided in the Takeover Code. The public announcement of an open offer is also mandatory where an acquirer who, together with persons acting in concert with them, holds 25% of the shares/voting rights in the target company seeks to acquire an additional 5% or more of the shares/voting rights in the target company during any fiscal year. However, the Takeover Code applies only to shares or securities convertible into shares which carry a voting right. This provision will apply to an ADS holder only once he or she converts the ADSs into the underlying equity shares.

In terms of the Takeover Code, the acquirer or holder of shares/voting rights in a target company shall in accordance with the Continual Disclosure requirements disclose to the target company and the stock exchanges the details of holdings of equity shares/voting rights if such holding of shares/voting rights is 25% or more of the outstanding shares/aggregate voting rights as at March 31 every year.

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# DESCRIPTION OF AMERICAN DEPOSITARY SHARES

## American Depositary Shares

J.P. Morgan Chase Bank, N.A., as depositary, issued the American Depositary Shares, or ADSs. Each ADS represents an ownership interest in three equity shares, which we have deposited with the custodian, as agent of the depositary, under the deposit agreement among ourselves, the depositary and each ADR holder. In the future, each ADS will also represent any securities, cash or other property deposited with the depositary but which it has not distributed directly to an ADR holder. The ADSs are evidenced by what is known as American Depositary Receipts or ADRs. The shareholders of the Bank at the 17 $^{th}$ Annual General Meeting held on July 6, 2011 approved the sub-division of one equity share of the Bank having a nominal value of Rs. 10.0 each into five equity shares with a nominal value of Rs. 2.0 each. As a result of the same, the Bank issued additional ADSs in a proportionate number, with each ADS representing three underlying equity shares of the Bank.

The depositary s office is located at 1 Chase Manhattan Plaza, Floor 58, New York, NY 10005.

Investors may hold ADSs either directly or indirectly through their broker or other financial institution. If an investor holds ADSs directly, by having an ADS registered in his name on the books of the depositary, he is an ADR holder. This description assumes that the investor holds his ADSs directly. If an investor holds the ADSs through his broker or financial institution nominee, he must rely on the procedures of such broker or financial institution to assert the rights of an ADR holder described in this section. Investors should consult with their broker or financial institution to find out what these procedures are.

Because the depositary s nominee will actually be the registered owner of the shares, investors must rely on it to exercise the rights of a shareholder on their behalf. The obligations of the depositary and its agents are set out in the deposit agreement. The deposit agreement and the ADSs are governed by New York law.

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to investors. For more complete information, investors should read the entire deposit agreement and the form of ADR which contains the terms of the ADSs. Investors can read a copy of the deposit agreement which was filed as an exhibit to the registration statement on Form F-1 we filed on July 12, 2001 and a copy of the amendment to the deposit agreement which was filed as an exhibit to the registration statement on Form F-6 on July 13, 2011. Investors may also obtain a copy of the deposit agreement and the amendment to the deposit agreement at the Securities and Exchange Commission Office, Public Reference Room, which is located at 100 F Street, N.E., Washington, D.C. 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

## Share Dividends and Other Distributions

We may make various types of distributions with respect to our securities. The depositary has agreed to pay to the investor the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its expenses. The investor will receive these distributions in proportion to the number of underlying shares that the investor s ADSs represent. To the extent the depositary is legally permitted, the depositary will deliver such distributions to ADR holders in proportion to their interests in the following manner:

### *Cash*

The depositary will distribute any U.S. dollars available to it resulting from a cash dividend or other cash distribution if this is practicable and can be done in a reasonable manner. The depositary will attempt to distribute this cash in a practicable manner, and may deduct any taxes required to be withheld, any expenses of converting foreign currency and transferring funds to the United States and other expenses and adjustments. If exchange rates fluctuate during a time when the depositary cannot convert a foreign currency, investors may lose some or all of the value of the distribution.

***Shares***

In the case of a distribution in shares, the depositary will issue additional ADRs to evidence the number of ADSs representing such shares. Only whole ADSs will be issued. The depositary will sell any shares which would result in fractional ADSs and distribute the net proceeds to the ADR holders entitled to them.

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*Rights to Receive Additional Shares*

In the case of a distribution of rights to subscribe for additional shares or other rights, if we provide satisfactory evidence that the depositary may lawfully distribute the rights, the depositary may arrange for ADR holders to instruct the depositary as to the exercise of the rights. However, if we do not furnish that evidence or if the depositary determines it is not practical to distribute the rights, the depositary may:

- sell the rights, if practicable, and distribute the net proceeds as cash; or
- allow the rights to lapse, in which case ADR holders will receive nothing.

We have no obligation to file a registration statement under the Securities Act in order to make any rights available to ADR holders.

*Other Distributions*

In the case of a distribution of securities or property other than those described above, the depositary may either:

- distribute such securities or property in any manner it deems equitable and practicable;
- to the extent the depositary deems distribution of such securities or property not to be equitable and practicable, sell such securities or property and distribute any net proceeds in the same way it distributes cash; or
- hold the distributed property, in which case the ADSs will also represent the distributed property.

Any U.S. dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents (fractional cents will be withheld without liability for interest and added to future cash distributions).

The depositary may choose any practical method of distribution for any specific ADR holder, including the distribution of foreign currency, securities or property, or it may retain those items, without paying interest on or investing them, on behalf of the ADR holder as deposited securities.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders.

We cannot assure investors that the depositary will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, or that any of such transactions can be completed within a specified time period.

**Deposit, Withdrawal and Cancellation**

The depositary issues ADSs upon the deposit of shares or evidence of rights to receive shares with the custodian.

Except for shares that we deposit, no shares may be deposited by persons located in India, residents of India or for, or on the account of, such persons. Under current Indian laws and regulations, the depositary cannot accept deposits of outstanding shares and issue ADRs evidencing ADSs representing such shares without prior approval of the Government of India. However, an investor who surrenders an ADS and withdraws shares may be permitted to redeposit those shares in the depositary facility in exchange for ADSs and the depositary may accept deposits of outstanding shares purchased by a non-resident of India on the local stock exchange and issue ADSs representing those shares. However, in each case, the number of shares re-deposited or deposited cannot exceed the number represented by ADSs converted into underlying shares.

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Shares deposited in the future with the custodian must be accompanied by certain documents, including instruments showing that such shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made. Only the following may be deposited with the depositary or custodian:

- shares issued as a free distribution in respect of deposited securities;
- shares subscribed for or acquired by holders from us through the exercise of rights distributed by us to such persons in respect of shares; and
- securities issued by us as a result of any change in par value, subdivision, consolidation and other reclassification of deposited securities or otherwise.

We will inform the depositary if any of the shares permitted to be deposited do not rank *pari passu* with the shares issued in any offering and the depositary will arrange for the ADSs issuable with respect to such shares to be differentiated from those issued in such offering until such time as they rank *pari passu* with the shares issued in such offering.

The custodian will hold all deposited shares for the account of the depositary. ADR holders thus have no direct ownership interest in the shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited shares. The deposited shares and any such additional items are referred to as deposited securities .

Upon each deposit of shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depositary and any taxes or other fees or charges owing, the depositary will issue an ADR or ADRs in the name of the person entitled thereto evidencing the number of ADSs to which such person is entitled. Certificated ADRs will be delivered at the depositary s principal New York office or any other location that it may designate as its transfer office.

When an investor turns in his ADRs at the depositary s office, the depositary will, upon payment of certain applicable fees, charges and taxes, and upon receipt of proper instructions, deliver the underlying shares in dematerialized form, for which the ADS holder will be required to open an account with a depositary participant of the National Securities Depositary Limited or Central Depositary Services (India) Limited to hold and sell the shares in dematerialized form upon payment of customary fees and expenses.

The depositary may only restrict the withdrawal of deposited securities in connection with:

- temporary delays caused by closing the Bank s transfer books or those of the depositary or the deposit of shares in connection with voting at a shareholders meeting, or the payment of dividends;
- the payment of fees, taxes and similar charges; or

compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

**Voting Rights**

Investors who hold ADRs have no voting rights with respect to the deposited equity shares. The depositary will abstain from exercising the voting rights of the deposited equity shares. The RBI examined the matter relating to the exercise of voting rights by the depositary and issued a circular dated February 5, 2007 pursuant to which the Bank furnished to the RBI a copy of its agreement with the depositary. We have given an undertaking to the RBI stating that we will not recognize voting by the depositary if the vote given by the depositary is in contravention of its agreement with us and that we or the depositary will not bring about any change in our depositary agreement without the prior approval of the RBI.

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Equity shares which have been withdrawn from the depositary facility and transferred on our register of shareholders to a person other than the depositary or its nominee may be voted by that person. However, such shareholders may not receive sufficient advance notice of shareholder meetings to enable them to withdraw the underlying shares and vote at such meetings.

**Record Dates**

The depositary may fix record dates for the determination of the ADR holders who will be entitled to receive a dividend, distribution or rights, subject to the provisions of the deposit agreement.

**Reports and Other Communications**

The depositary will make available for inspection by ADR holders any written communications from us which are both received by the custodian or its nominee as a holder of deposited securities and made generally available to the holders of deposited securities. We will furnish these communications in English.

Additionally, if we make any written communications generally available to holders of our shares, including the depositary or the custodian, and the depositary or the custodian actually receives those written communications, the depositary will mail copies of them, or, at its option, summaries of them to ADR holders.

**Fees and Charges for Holders of American Depositary Shares**

J.P. Morgan Chase Bank, N.A., as the depositary for our ADSs, collects fees for the issuance and cancellation of ADSs from the holders of our ADSs, or intermediaries acting on their behalf, against the deposit or withdrawal of ordinary shares in the custodian account. The depositary also collects the following fees from holders of ADRs or intermediaries acting on their behalf:

| Category | | Depositary actions | Associated fee |
|---|---|---|---|
| (a) | Depositing or substituting the underlying shares | Issuing ADSs upon deposits of shares, including deposits and issuances in respect of share distributions, stock splits, rights, mergers, exchanges of securities or any other transaction or event or other distribution affecting the ADSs or the deposited shares. | US$5.00 for each 100 ADSs (or portion thereof) evidenced by the new shares deposited. |
| (b) | Receiving or distributing dividends | Distribution of dividends. | US$0.02 or less per ADS (US$2.00 per 100 ADSs). |
| (c) | Selling or exercising rights | Distribution or sale of securities. | US$5.00 for each 100 ADSs (or portion thereof), the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities. |
| (d) | | | |

| | | | |
|---|---|---|---|
| | Withdrawing an underlying security | Acceptance of ADSs surrendered for withdrawal of deposited shares. | US$5.00 for each 100 ADSs (or portion thereof) evidenced by the shares withdrawn. |
| (e) | Transferring, splitting or grouping receipts | Transferring, combining or grouping of depositary receipts. | US$1.50 per ADS. |
| (f) | General depositary services, particularly those charged on an annual basis. | Other services performed by the depositary in administering the ADSs. | US$0.01 per ADS (or portion thereof) not more than once each calendar year. |

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| | | |
|---|---|---|
| (g) Other | Expenses incurred on behalf of holders in connection with:<br>compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;<br>the depositary s or its custodian s compliance with applicable law, rule or regulation;<br>stock transfer or other taxes and other governmental charges;<br>cable, telex, facsimile transmission/delivery;<br>expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency); or<br>any other charge payable by depositary or its agents. | The amount of such expenses incurred by the depositary. |

As provided in the Deposit Agreement, the depositary may charge fees for making cash and other distributions to holders by deducting fees from distributable amounts or by selling a portion of the distributable property. The Depositary may generally refuse to provide services until its fees for those services are paid.

**Fees Paid by the Depositary to us**

***Direct and Indirect Payments***

The depositary has agreed to contribute certain reasonable direct and indirect expenses related to our ADS program incurred by us in connection with the program. Under certain circumstances, including termination of our ADS program prior to June 14, 2016, we may be required to repay to the depositary amounts contributed in prior periods.

The table below sets forth the contribution received by us from the depositary towards our direct and indirect expenses during fiscal 2015.

| Category | Contribution received |
|---|---|
| Legal, accounting fees and other expenses incurred in connection with our ADS program | US$ 3,952,200.6 |

**Payment of Taxes**

ADR holders must pay any tax or other governmental charge payable by the custodian or the depositary on any ADS or ADR, deposited security or distribution. If an ADR holder owes any tax or other governmental charge, the

depositary may:

- deduct the amount thereof from any cash distributions; or
- sell deposited securities and deduct the amount owing from the net proceeds of such sale.

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In either case the ADR holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the depositary may also refuse to effect any registration, registration of transfer, split-up or combination of deposited securities or withdrawal of deposited securities (except under limited circumstances mandated by securities regulations). If any tax or governmental charge is required to be withheld on any non-cash distribution, the depositary may sell the distributed property or securities to pay such taxes and distribute any remaining net proceeds to the ADR holders entitled to them.

**Reclassifications, Recapitalizations and Mergers**

If we take certain actions that affect the deposited securities, including (1) any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities or (2) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of our assets, then the depositary may choose to:

- amend the form of ADR;
- distribute additional or amended ADRs;
- distribute cash, securities or other property it has received in connection with such actions;
- sell any securities or property received and distribute the proceeds as cash; or
- take no action.

If the depositary does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property.

**Amendment and Termination**

We may agree with the depositary to amend the deposit agreement and the ADSs without the consent of ADR holders for any reason. ADR holders must be given at least 30 days notice of any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or affects any substantial existing right of ADR holders. If an ADR holder continues to hold an ADR or ADRs after being notified of these changes, the ADR holder is deemed to agree to such amendment. Notwithstanding the foregoing, an amendment can become effective before notice is given if this is necessary to ensure compliance with a new law, rule or regulation.

No amendment will impair an ADR holder s right to surrender its ADSs and receive the underlying securities. If a governmental body adopts new laws or rules which require the deposit agreement or the ADS to be amended, the Bank and the depositary may make the necessary amendments, which could take effect before an ADR holder receives notice thereof.

The depositary may terminate the deposit agreement by giving the ADR holders at least 30 days prior notice and it must do so at our request. After termination, the depositary s only responsibility will be (i) to deliver deposited securities to ADR holders who surrender their ADRs, and (ii) to hold or sell distributions received on deposited securities. As soon as practicable after the expiration of six months from the termination date, the depositary will sell the deposited securities which remain and hold the net proceeds of such sales, without liability for interest, in trust for the ADR holders who have not yet surrendered their ADRs. After making those sales, the depositary shall have no obligations except to account for such proceeds and other cash. The depositary will not be required to invest such proceeds or pay interest on them.

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### Limitations on Obligations and Liability to ADR Holders

The deposit agreement expressly limits the obligations and liability of the depositary, ourselves and our respective agents. Neither we nor the depositary nor any such agent will be liable if:

- a change in law or regulation governing any deposited securities, act of God, war or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act which the deposit agreement or the ADRs provide shall be done or performed by it;
- it exercises or fails to exercise discretion under the deposit agreement or the ADR;
- it takes any action or inaction in reliance upon the advice of or information from legal counsel, accountants, any person presenting shares for deposit, any registered holder of ADRs, or any other person believed by it to be competent to give such advice or information;
- it performs its obligations without gross negligence or bad faith; or
- it relies upon any written notice, request, direction or other document believed by it to be genuine and to have been signed or presented by the proper party or parties.

Neither the depositary nor its agents have any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs. We and our agents shall only be obligated to appear in, prosecute or defend any action, suit or other proceeding in respect of any deposited securities or the ADRs, which in our opinion may involve us in expense or liability, if indemnity satisfactory to us against all expense (including fees and disbursements of counsel) and liability is furnished as often as we require.

The depositary will not be responsible for failing to carry out instructions to vote the deposited securities or for the manner in which the deposited securities are voted or the effect of the vote.

The depositary may own and deal in deposited securities and ADSs.

### Disclosure of Interest in ADSs

From time to time we may request ADR holders and beneficial owners of ADSs to provide information as to:

- the capacity in which they own or owned ADSs;
- the identity of any other persons then or previously interested in such ADSs; and

the nature of such interest and various other matters.

Investors in ADSs agree to provide any information requested by us or the depositary pursuant to the deposit agreement. The depositary has agreed to use reasonable efforts to comply with written instructions received from us requesting that it forward any such requests to investors in ADSs and other holders and beneficial owners and to forward to us any responses to such requests to the extent permitted by applicable law.

We may restrict transfers of the shares where any such transfer might result in ownership of shares in contravention of, or exceeding the limits under, the governmental approval which we received from the Indian government in connection with any offering, applicable law or our organizational documents. We may also instruct ADR holders that we are restricting the transfers of ADSs where such a transfer may result in the total number of shares represented by the ADSs beneficially owned by ADR holders contravening or exceeding the limits under the applicable law or our organizational documents. We reserve the right to instruct ADR holders to deliver their ADSs for cancellation and withdrawal of the shares underlying such ADSs.

**Requirements for Depositary Actions**

We, the depositary or the custodian may refuse to:

issue, register or transfer an ADR or ADRs;

- effect a split-up or combination of ADRs;
- deliver distributions on any such ADRs; or
- permit the withdrawal of deposited securities (unless the deposit agreement provides otherwise), until the following conditions have been met:
  - the holder has paid all taxes, governmental charges and fees and expenses as required in the deposit agreement;
  - the holder has provided the depositary with any information it may deem necessary or proper, including, without limitation, proof of identity and the genuineness of any signature; and
  - the holder has complied with such regulations as the depositary may establish under the deposit agreement.

The depositary may also suspend the issuance of ADSs, the deposit of shares, the registration, transfer, split-up or combination of ADRs, or the withdrawal of deposited securities (unless the deposit agreement provides otherwise), if the register for ADRs or any deposited securities is closed or if we or the depositary decide it is advisable to do so.

**Books of Depositary**

The depositary or its agent will maintain a register for the registration, registration of transfer, combination and split-up of ADRs. ADR holders may inspect the depositary s designated records at its office during regular business hours.

The depositary will maintain facilities to record and process the registration, registration of transfer, combination and split of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

**Pre-release of ADSs**

The depositary may issue ADSs prior to the deposit with the custodian of shares (or rights to receive shares). This is called a pre-release of the ADSs. A pre-release is closed out as soon as the underlying shares (or other ADSs) are delivered to the depositary. The depositary may pre-release ADSs only if:

- the depositary has received collateral for the full market value of the pre-released ADSs; and
- each recipient of pre-released ADSs agrees in writing that he or she:
  - owns the underlying shares;

assigns all rights in such shares to the depositary;

holds such shares for the account of the depositary; and

will deliver such shares to the custodian as soon as practicable, and promptly if the depositary so demands.

In general, the number of pre-released ADSs will not evidence more than 30% of all ADSs outstanding at any given time (excluding those evidenced by pre-released ADSs). However, the depositary may change or disregard such limit from time to time as it deems appropriate. The depositary may retain for its own account any earnings on collateral for pre-released ADSs and its charges for issuance thereof.

**The Depositary**

J.P. Morgan Chase Bank, N.A., a national banking association organized under the laws of the United States, is a commercial bank offering a wide range of banking and trust services to its customers in the New York metropolitan area, throughout the United States and around the world.

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## DIVIDEND POLICY

We have paid dividends every year since fiscal 1997. The following table sets forth, for the periods indicated, the dividend per equity share and the total amount of dividends declared on the equity shares, both exclusive of dividend tax. All dividends were paid in rupees.

| | Dividend per equity share | | Total amount of dividends declared (in millions) | |
|---|---|---|---|---|
| **Relating to Fiscal Year** | | | | |
| 2011 | Rs. 3.30 | US$ 0.053 | Rs. 7,676.2 | US$ 123.2 |
| 2012 | 4.30 | 0.069 | 10,090.8 | 161.9 |
| 2013 | 5.50 | 0.088 | 13,090.8 | 210.1 |
| 2014 | 6.85 | 0.110 | 16,433.5 | 263.7 |
| 2015 | 8.00 | 0.128 | 20,052.0 | 321.8 |

By a special resolution on July 6, 2011, the shareholders of the Bank approved a stock split resulting in a reduction in the par value of each equity share from Rs.10.0 to Rs. 2.0 per equity share effective as of July 16, 2011. All share/ADS and per share/ADS data have been retroactively restated to reflect the effect of stock split. One ADS will continue to represent three equity shares.

Our dividends are generally declared and paid in the fiscal year following the year to which they relate. Under Indian law, a company pays dividends upon a recommendation by its board of directors and approval by a majority of the shareholders at the annual general meeting of shareholders held within six months of the end of each fiscal year. The shareholders have the right to decrease but not to increase the dividend amount recommended by the Board of Directors.

We pay a 17.64% direct tax in respect of dividends paid by us. In addition, we pay a 12.0% surcharge on 17.64% direct tax and an add-on education cess at the rate of 3.0% of the total dividend distribution tax and surcharge. These are direct taxes paid by us; these taxes are not payable by shareholders and are not withheld or deducted from the dividend payments set forth above. The tax rates imposed on us in respect of dividends paid in prior periods varied.

Future dividends will depend on our revenues, cash flows, financial condition (including capital position) and other factors. ADS holders will be entitled to receive dividends payable in respect of the equity shares represented by ADSs. Cash dividends in respect of the equity shares represented by ADSs will be paid to the depositary in Indian rupees and, except in certain instances, will be converted by the depositary into U.S. dollars. The depositary will distribute these proceeds to ADS holders. The equity shares represented by ADSs will rank equally with all other equity shares in respect of dividends.

For a description of regulation of dividends, see *Supervision and Regulation Special Provisions of the Banking Regulation Act Restrictions on Payment of Dividends* .

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## SELECTED FINANCIAL AND OTHER DATA

The following tables set forth our selected financial and operating data. Our selected income statement data for the fiscal years ended March 31, 2013, 2014 and 2015 and the selected balance sheet data as of March 31, 2014 and 2015 are derived from our audited financial statements included in this report. Our selected balance sheet data as of March 31, 2011, March 31, 2012, March 31, 2013 and selected income data for the fiscal years ended March 31, 2011 and March 31, 2012 are derived from our audited financial statements not included in this report.

For the convenience of the reader, the selected financial data as of and for the year ended March 31, 2015 have been translated into U.S. dollars at the rate on such date of Rs. 62.31 per US$1.00. The U.S. dollar equivalent information should not be construed to imply that the real amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

By a special resolution on July 6, 2011, the shareholders of the Bank approved a stock split resulting in a reduction in the par value of each equity share from Rs. 10.0 to Rs. 2.0 per equity share effective as of July 16, 2011. All share/ADS and per share/ADS data have been retroactively restated to reflect the effect of stock split. One ADS continues to represent three shares.

You should read the following data with the more detailed information contained in Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements. Footnotes to the following data appear below the final table.

| | Year ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2015 |
| | (in millions, except per equity share data and ADS data) | | | | | |
| **Selected income statement data:** | | | | | | |
| Interest and dividend revenue | Rs. 202,252.0 | Rs. 277,540.0 | Rs. 353,878.5 | Rs. 422,211.3 | Rs. 500,787.2 | US$ 8,037.1 |
| Interest expense | 93,849.7 | 151,148.0 | 196,802.0 | 229,639.2 | 264,610.9 | 4,246.7 |
| Net interest revenue | 108,402.3 | 126,392.0 | 157,076.5 | 192,572.1 | 236,176.3 | 3,790.4 |
| Provisions for credit losses | 9,621.9 | 7,837.3 | 12,688.0 | 17,428.1 | 17,000.2 | 272.8 |
| Net interest revenue after provisions for credit losses | 98,780.4 | 118,554.7 | 144,388.5 | 175,144.0 | 219,176.1 | 3,517.6 |
| Non-interest revenue, net | 46,815.4 | 52,595.5 | 65,177.4 | 70,834.5 | 79,821.5 | 1,281.1 |
| Net revenue | 145,595.8 | 171,150.2 | 209,565.9 | 245,978.5 | 298,997.6 | 4,798.7 |
| Non-interest expense | 82,370.2 | 97,313.5 | 117,591.1 | 124,228.1 | 144,973.0 | 2,326.8 |
| Income before income tax expense | 63,225.6 | 73,836.7 | 91,974.8 | 121,750.4 | 154,024.6 | 2,471.9 |
| Income tax expense | 21,698.3 | 23,828.7 | 29,840.1 | 42,304.2 | 54,519.9 | 875.0 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net income before noncontrolling interest | | 41,527.3 | | 50,008.0 | | 62,134.7 | | 79,446.2 | | 99,504.7 | | 1,596.9 |
| Less: Net income attributable to noncontrolling interest | | 330.4 | | 224.6 | | 315.3 | | 126.5 | | 267.0 | | 4.3 |
| Net income attributable to HDFC Bank Limited | Rs. | 41,196.9 | Rs. | 49,783.4 | Rs. | 61,819.4 | Rs. | 79,319.7 | Rs. | 99,237.7 | US$ | 1,592.6 |
| **Per equity share data:** | | | | | | | | | | | | |
| Earnings per equity share, basic | Rs. | 17.84 | Rs. | 21.30 | Rs. | 26.18 | Rs. | 33.18 | Rs. | 40.94 | US$ | 0.66 |
| Earnings per equity share, diluted | | 17.59 | | 21.12 | | 25.91 | | 32.94 | | 40.55 | | 0.65 |
| Dividends per share | | 3.30 | | 4.30 | | 5.50 | | 6.85 | | 8.00 | | 0.13 |
| Book value[(1)] | | 148.96 | | 168.34 | | 196.89 | | 221.71 | | 299.32 | | 4.80 |
| **Equity share data:** | | | | | | | | | | | | |
| Equity shares outstanding at end of period | | 2,326.1 | | 2,346.7 | | 2,379.4 | | 2,399.1 | | 2,506.5 | | 2,506.5 |
| Weighted average equity shares outstanding basic | | 2,309.0 | | 2,336.7 | | 2,361.0 | | 2,390.3 | | 2,423.8 | | 2,423.8 |
| Weighted average equity shares outstanding diluted | | 2,341.9 | | 2,357.3 | | 2,386.1 | | 2,408.1 | | 2,447.3 | | 2,447.3 |
| **ADS data (where one ADS represents three shares):** | | | | | | | | | | | | |
| Earnings per ADS basic | | 53.52 | | 63.90 | | 78.54 | | 99.54 | | 122.82 | | 1.98 |
| Earnings per ADS diluted | | 52.77 | | 63.36 | | 77.73 | | 98.82 | | 121.65 | | 1.95 |

| | As of March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2015 |
| | (in millions) | | | | | |
| **Selected balance sheet data:** | | | | | | |
| Cash and cash equivalents | Rs. 288,902.1 | Rs. 188,043.0 | Rs. 218,740.2 | Rs. 370,835.2 | Rs. 341,124.3 | US$ 5,474.6 |
| Term placements[(2)] | 102,049.4 | 150,096.5 | 199,265.7 | 176,481.7 | 169,989.5 | 2,728.1 |
| Loans, net of allowance | 1,622,856.0 | 2,006,374.3 | 2,504,551.6 | 3,185,648.1 | 3,896,115.0 | 62,527.9 |
| Investments: | | | | | | |
| Investments held for trading | 38,216.9 | 77,043.4 | 87,383.5 | 65,077.9 | 61,292.8 | 983.7 |
| Investments available for sale | 628,704.9 | 807,080.4 | 1,018,071.5 | 908,824.3 | 1,504,412.8 | 24,144.1 |
| Investments held to maturity[(3)] | | | | | | |
| Total | 666,921.8 | 884,123.8 | 1,105,455.0 | 973,902.2 | 1,565,705.6 | 25,127.8 |
| Total assets | Rs. 2,920,236.3 | Rs. 3,571,155.7 | Rs. 4,370,906.1 | Rs. 5,125,407.3 | Rs. 6,259,015.8 | US$ 100,449.7 |
| Long-term debt | 93,287.2 | 178,366.6 | 295,219.7 | 395,208.6 | 457,934.4 | 7,349.3 |
| Short-term borrowings | 76,686.7 | 112,642.8 | 145,617.2 | 150,775.5 | 214,191.9 | 3,437.5 |
| Total deposits | 2,082,129.0 | 2,465,049.6 | 2,960,533.9 | 3,670,000.1 | 4,501,710.8 | 72,247.0 |
| Of which: | | | | | | |
| Interest-bearing deposits | 1,619,283.6 | 2,012,057.9 | 2,438,262.0 | 3,057,154.5 | 3,768,678.8 | 60,482.7 |
| Non-interest bearing deposits | 462,845.4 | 452,991.7 | 522,271.9 | 612,845.6 | 733,032.0 | 11,764.3 |
| Total liabilities | 2,572,406.5 | 3,174,563.0 | 3,900,528.2 | 4,592,406.6 | 5,507,448.2 | 88,387.9 |
| Noncontrolling interest | 1,338.1 | 1,537.5 | 1,903.6 | 1,094.0 | 1,315.5 | 21.1 |
| HDFC Bank Limited shareholders equity | 346,491.7 | 395,055.2 | 468,474.3 | 531,906.7 | 750,252.1 | 12,040.7 |
| Total liabilities and shareholders equity | Rs. 2,920,236.3 | Rs. 3,571,155.7 | Rs. 4,370,906.1 | Rs. 5,125,407.3 | Rs. 6,259,015.8 | US$ 100,449.7 |

| | Year ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2015 |
| | (in millions) | | | | | |
| **Period average[(4)]** | | | | | | |
| Interest-earning assets | Rs. 2,237,281.0 | Rs. 2,746,339.2 | Rs. 3,403,617.4 | Rs. 4,110,169.4 | Rs. 4,878,731.8 | US$ 78,297.7 |
| Loans, net of allowance | 1,507,942.8 | 1,854,364.2 | 2,328,320.6 | 2,839,477.7 | 3,408,315.6 | 54,699.3 |
| Total assets | 2,585,236.0 | 3,097,162.6 | 3,774,632.3 | 4,505,119.5 | 5,289,353.5 | 84,887.7 |
| Interest-bearing deposits | 1,504,552.3 | 1,825,018.8 | 2,245,452.4 | 2,737,895.6 | 3,365,392.5 | 54,010.5 |
| Non-interest bearing deposits | 361,184.3 | 390,682.9 | 414,590.2 | 448,165.2 | 519,675.4 | 8,340.2 |
| Total deposits | 1,865,736.6 | 2,215,701.7 | 2,660,042.6 | 3,186,060.8 | 3,885,067.9 | 62,350.6 |
| Interest-bearing liabilities | 1,707,823.0 | 2,168,714.2 | 2,721,847.0 | 3,362,570.1 | 3,944,982.9 | 63,312.2 |
| Long-term debt | 101,241.4 | 148,201.6 | 234,489.1 | 296,782.8 | 449,057.2 | 7,206.8 |
| Short-term borrowings | 102,029.3 | 195,493.8 | 241,905.5 | 327,891.7 | 130,533.2 | 2,094.9 |
| Total liabilities | 2,265,574.5 | 2,722,648.3 | 3,338,592.5 | 3,997,363.1 | 4,673,939.3 | 75,011.1 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total shareholders equity | 319,661.5 | 374,514.3 | 436,039.8 | 507,756.4 | 615,414.2 | 9,876.7 |

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| | As of or for the year ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| | (in percentage) | | | | |
| **Profitability:** | | | | | |
| Net income attributable to HDFC Bank Limited as a percentage of: | | | | | |
| Average total assets | 1.6 | 1.6 | 1.6 | 1.8 | 1.9 |
| Average total shareholders equity | 12.9 | 13.3 | 14.2 | 15.6 | 16.1 |
| Dividend payout ratio(5) | 18.6 | 20.3 | 21.2 | 20.7 | 20.2 |
| Spread(6) | 4.5 | 4.2 | 4.1 | 4.2 | 4.3 |
| Net interest margin(7) | 4.8 | 4.6 | 4.6 | 4.7 | 4.8 |
| Cost-to-net revenue ratio(8) | 56.6 | 56.9 | 56.1 | 50.5 | 48.5 |
| Cost-to-average assets ratio(9) | 3.2 | 3.1 | 3.1 | 2.8 | 2.7 |
| **Capital:** | | | | | |
| Total capital adequacy ratio(10) | 16.22 | 16.52 | 16.80 | 16.07 | 16.79 |
| Tier 1 capital adequacy ratio(10) | 12.23 | 11.60 | 11.08 | 11.77 | 13.66 |
| Tier 2 capital adequacy ratio(10) | 3.99 | 4.92 | 5.72 | 4.30 | 3.13 |
| Average total shareholders equity as a percentage of average total assets | 12.4 | 12.1 | 11.6 | 11.3 | 11.6 |
| **Asset quality:** | | | | | |
| Gross non-performing customer assets as a percentage of gross customer assets(11) | 1.2 | 0.9 | 0.8 | 1.2 | 1.0 |
| Net non-performing customer assets as a percentage of net customer assets(11) | 0.3 | 0.2 | 0.2 | 0.6 | 0.4 |
| Total allowance for credit losses as a percentage of gross non-performing credit assets | 125.3 | 146.6 | 159.4 | 143.5 | 120.4 |

(1) Represents the difference between total assets and total liabilities, reduced by noncontrolling interests in subsidiaries, divided by the number of shares outstanding at the end of each reporting period.

(2) Includes placements with banks and financial institutions with original maturities of greater than three months.

(3) Under Indian GAAP, a transfer from an HTM portfolio to an AFS portfolio is permitted by RBI regulations once every year and the Bank has made transfers in accordance with these regulations. However, the Bank has not established an HTM portfolio under U.S. GAAP.

(4) Average balances are the average of daily outstanding amounts.

(5) Represents the ratio of total dividends payable on equity shares relating to each fiscal year, excluding the dividend distribution tax, as a percentage of net income of that year. Dividends declared each year are typically paid in the following fiscal year. See *Dividend Policy*.

(6) Represents the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities. Yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. Cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. For purposes of calculating spread, interest-bearing liabilities includes non-interest bearing current accounts.

(7) Represents the ratio of net interest revenue to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, the net interest margin is greater than the spread. If average interest-bearing liabilities exceed average interest-earning assets, the net interest margin is less than the spread.

(8)

Represents the ratio of non-interest expense to the sum of net interest revenue after provision for credit losses and non-interest revenue.

(9) Represents the ratio of non-interest expense to average total assets.

(10) Total, Tier I and Tier II capital adequacy ratios for fiscals 2011, 2012 and 2013 have been calculated in accordance with RBI guidelines (New Capital Adequacy Framework, generally referred to as Basel II) and capital adequacy ratios for fiscals 2014 and 2015 have been calculated in accordance with RBI guidelines (Basel III Capital Regulations, generally referred to as Basel III) and therefore are not directly comparable. Also see *Supervision and Regulation*.

(11) Customer assets consist of loans and credit substitutes.

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## SELECTED STATISTICAL INFORMATION

The following information should be read together with our financial statements included in this report as well as Management s Discussion and Analysis of Financial Condition and Results of Operations . Certain amounts presented in this section are in accordance with U.S. GAAP and certain figures are presented according to RBI guidelines where noted. Footnotes appear at the end of each related section of tables.

### Average Balance Sheet

The table below presents the average balances for our assets and liabilities together with the related interest revenue and expense amounts, resulting in the presentation of the average yields and cost for each period. The average balance is the daily average of balances outstanding. The average yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. The average cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. The average balances of loans include non-performing loans and are net of allowance for credit losses.

| | Year ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2014 | | | 2015 | |
| | Average balance | Interest revenue/ expense | Average yield/ cost | Average balance | Interest revenue/ expense | Average yield/ cost | Average balance | Interest revenue/ expense |
| | (in millions, except percentages) | | | | | | | |
| | | | | | | | | |
| ning assets: | | | | | | | | |
| lents[1] | Rs. 20,848.9 | Rs. 1,222.3 | 5.9% | Rs. 48,915.8 | Rs. 1,699.8 | 3.5% | Rs. 85,560.4 | Rs. 3,217. |
| ments | 160,690.5 | 8,591.5 | 5.3 | 179,718.7 | 10,375.7 | 5.8 | 165,848.3 | 10,053. |
| available for | 832,972.8 | 66,554.2 | 8.0 | 975,076.8 | 77,497.1 | 7.9 | 1,135,060.9 | 94,129. |
| held to | | | | | | | | |
| held for | 60,784.6 | 5,780.0 | 9.5 | 66,980.4 | 5,883.4 | 8.8 | 83,946.6 | 5,123. |
| | | | | | | | | |
| | 1,499,163.5 | 189,571.3 | 12.6 | 1,884,500.8 | 233,307.2 | 12.4 | 2,344,964.3 | 282,799. |
| oans | 829,157.1 | 82,159.2 | 9.9 | 954,976.9 | 93,448.1 | 9.8 | 1,063,351.3 | 105,465. |
| **est-earning** | Rs. 3,403,617.4 | Rs. 353,878.5 | 10.4% | Rs. 4,110,169.4 | Rs. 422,211.3 | 10.3% | Rs. 4,878,731.8 | Rs. 500,787. |
| t-earning | | | | | | | | |
| | 174,638.0 | | | 178,960.0 | | | 199,948.0 | |
| d equipment | 26,365.1 | | | 30,529.7 | | | 31,481.4 | |
| | 170,011.8 | | | 185,460.4 | | | 179,192.3 | |
| **nterest ets** | 371,014.9 | | | 394,950.1 | | | 410,621.7 | |
| s | Rs. 3,774,632.3 | Rs. 353,878.5 | 9.4% | Rs. 4,505,119.5 | Rs. 422,211.3 | 9.4% | Rs. 5,289,353.5 | Rs. 500,787. |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ring | | | | | | | | |
| ount deposits | Rs. 764,180.0 | Rs. 30,432.0 | 4.0% | Rs. 893,648.0 | Rs. 35,653.9 | 4.0% | Rs. 1,054,374.0 | Rs. 42,031. |
| ts | 1,481,272.4 | 132,660.7 | 9.0 | 1,844,247.6 | 151,920.8 | 8.2 | 2,311,018.5 | 185,290. |
| orrowings[2] | 241,905.5 | 14,152.4 | 5.9 | 327,891.7 | 18,087.9 | 5.5 | 130,533.2 | 7,341. |
| lebt | 234,489.1 | 19,556.9 | 8.3 | 296,782.8 | 23,976.6 | 8.1 | 449,057.2 | 29,948. |
| **est-bearing** | Rs. 2,721,847.0 | Rs. 196,802.0 | 7.2% | Rs. 3,362,570.1 | Rs. 229,639.2 | 6.8% | Rs. 3,944,982.9 | Rs. 264,610. |
| t-bearing | | | | | | | | |
| t-bearing | 414,590.2 | | | 448,165.2 | | | 519,675.4 | |
| ties | 202,155.3 | | | 186,627.8 | | | 209,281.0 | |
| **t-bearing** | 616,745.5 | | | 634,793.0 | | | 728,956.4 | |
| ties | Rs. 3,338,592.5 | Rs. 196,802.0 | 5.9% | Rs. 3,997,363.1 | Rs. 229,639.2 | 5.7% | Rs. 4,673,939.3 | Rs. 264,610. |
| holders equity | 436,039.8 | | | 507,756.4 | | | 615,414.2 | |
| **ities and rs equity** | Rs. 3,774,632.3 | Rs. 196,802.0 | 5.2% | Rs. 4,505,119.5 | Rs. 229,639.2 | 5.1% | Rs. 5,289,353.5 | Rs. 264,610. |

(1) Includes securities purchased under agreements to resell.

(2) Includes securities sold under repurchase agreements.

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**Analysis of Changes in Interest Revenue and Interest Expense**

The following table sets forth, for the periods indicated, the allocation of the changes in our interest revenue and interest expense between average balance and average rate.

| | Fiscal 2014 vs. Fiscal 2013 Increase (decrease) [(1)] due to | | | Fiscal 2015 vs. Fiscal 2014 Increase (decrease) [(1)] due to | | |
|---|---|---|---|---|---|---|
| | Net change | Change in Average balance | Change in average rate | Net change | Change in Average balance | Change in average rate |
| | (in millions) | | | | | |
| Interest revenue: | | | | | | |
| Cash equivalents | Rs. 477.5 | Rs. 1,645.5 | Rs. (1,168.0) | Rs. 1,517.2 | Rs. 1,273.4 | Rs. 243.8 |
| Term placements | 1,784.2 | 1,017.4 | 766.8 | (322.7) | (800.8) | 478.1 |
| Investments available for sale | 10,942.9 | 11,390.5 | (447.6) | 16,632.0 | 12,700.0 | 3,932.0 |
| Investments held to maturity | | | | | | |
| Investments held for trading | 103.4 | 589.2 | (485.8) | (760.0) | 1,490.3 | (2,250.3) |
| Loans, net: | | | | | | |
| Retail loans | 43,735.9 | 48,726.4 | (4,990.5) | 49,491.8 | 57,006.8 | (7,515.0) |
| Wholesale loans | 11,288.9 | 12,467.2 | (1,178.3) | 12,017.6 | 10,604.8 | 1,412.8 |
| **Total interest-earning assets** | Rs. 68,332.8 | Rs. 75,836.2 | Rs. (7,503.4) | Rs. 78,575.9 | Rs. 82,274.5 | Rs. (3,698.6) |
| Interest expense: | | | | | | |
| Savings account deposits | Rs. 5,221.9 | Rs. 5,221.9 | Rs. | Rs. 6,377.1 | Rs. 6,377.1 | Rs. |
| Time deposits | 19,260.1 | 32,507.6 | (13,247.5) | 33,370.1 | 38,450.5 | (5,080.4) |
| Short-term borrowings | 3,935.5 | 5,030.5 | (1,095.0) | (10,746.9) | (10,887.1) | 140.2 |
| Long-term debt | 4,419.7 | 5,195.4 | (775.7) | 5,971.4 | 12,302.0 | (6,330.6) |
| **Total interest-bearing liabilities** | Rs. 32,837.2 | Rs. 47,955.4 | Rs. (15,118.2) | Rs. 34,971.7 | Rs. 46,242.5 | Rs. (11,270.8) |
| **Net interest revenue** | Rs. 35,495.6 | Rs. 27,880.8 | Rs. 7,614.8 | Rs. 43,604.2 | Rs. 36,032.0 | Rs. 7,572.2 |

(1) The changes in net interest revenue between periods have been reflected as attributed either to average balance or average rate changes. For purposes of this table, changes which are due to both average balance and average rate have been allocated solely to changes in average rate.

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**Yields, Spreads and Margins**

The following table sets forth, for the periods indicated, the yields, spreads and interest margins on our interest-earning assets.

| | Year ended March 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | (in millions, except percentages) | | |
| Interest revenue | Rs. 353,878.5 | Rs. 422,211.3 | Rs. 500,787.2 |
| Average interest-earning assets | 3,403,617.4 | 4,110,169.4 | 4,878,731.8 |
| Interest expense | 196,802.0 | 229,639.2 | 264,610.9 |
| Average interest-bearing liabilities | 2,721,847.0 | 3,362,570.1 | 3,944,982.9 |
| Average total assets | 3,774,632.3 | 4,505,119.5 | 5,289,353.5 |
| Average interest-earning assets as a percentage of average total assets | 90.2% | 91.2% | 92.2% |
| Average interest-bearing liabilities as a percentage of average total assets | 72.1% | 74.6% | 74.6% |
| Average interest-earning assets as a percentage of average interest-bearing liabilities | 125.0% | 122.2% | 123.7% |
| Yield | 10.4% | 10.3% | 10.3% |
| Cost of funds(1) | 5.9% | 5.7% | 5.7% |
| Spread(2) | 4.1% | 4.2% | 4.3% |
| Net interest margin(3) | 4.6% | 4.7% | 4.8% |

(1) Excludes total shareholders equity.

(2) Represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities. The yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. The cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities. For purposes of calculating spread, interest-bearing liabilities include non-interest bearing current accounts.

(3) The net interest margin is the ratio of net interest revenue to average interest-earning assets. The difference in the net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, the net interest margin is greater than the spread. If average interest-bearing liabilities exceed average interest-earning assets, the net interest margin is less than the spread.

**Return on Equity and Assets**

The following table presents selected financial ratios for the periods indicated.

| | Year ended March 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | (in millions, except percentages) | | |
| Net income | Rs. 61,819.4 | Rs. 79,319.7 | Rs. 99,237.7 |
| Average total assets | 3,774,632.3 | 4,505,119.5 | 5,289,353.5 |
| Average total shareholders equity | 436,039.8 | 507,756.4 | 615,414.2 |
| Net income as a percentage of average total assets | 1.6% | 1.8% | 1.9% |
| Net income as a percentage of average total shareholders equity | 14.2% | 15.6% | 16.1% |
| Average total shareholders equity as a percentage of average total assets | 11.6% | 11.3% | 11.6% |
| Dividend payout-ratio | 21.2% | 20.7% | 20.2% |

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## Investment Portfolio

### *Available for Sale Investments*

The following tables set forth, as of the dates indicated, information related to our investments available for sale.

| 2013 | | | At March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|
| Gross unrealized gain | Gross unrealized loss | Fair value | Amortized cost | Gross unrealized gain | Gross unrealized loss | Fair value | Amortized cost | G unr g |
| | | | (in millions) | | | | | |
| Rs. 2,665.6 | Rs. 3,539.1 | Rs. 924,062.0 | Rs. 839,410.1 | Rs. 919.1 | Rs. 19,763.4 | Rs. 820,565.8 | Rs. 1,205,655.3 | Rs. 1 |
| 181.6 | 27.2 | 69,169.5 | 70,902.1 | 244.8 | 32.8 | 71,114.1 | 257,847.7 | |
| Rs. 2,847.2 | Rs. 3,566.3 | Rs. 993,231.5 | Rs. 910,312.2 | Rs. 1,163.9 | Rs. 19,796.2 | Rs. 891,679.9 | Rs. 1,463,503.0 | Rs. 1 |
| 1,148.8 | 146.2 | 24,840.0 | 16,972.7 | 585.9 | 414.2 | 17,144.4 | 25,582.4 | |
| Rs. 3,996.0 | Rs. 3,712.5 | Rs. 1,018,071.5 | Rs. 927,284.9 | Rs. 1,749.8 | Rs. 20,210.4 | Rs. 908,824.3 | Rs. 1,489,085.4 | Rs. 1 |

(1) Excludes asset and mortgage-backed securities.
(2) Includes asset and mortgage-backed securities.

### *Held to Maturity Investments*

As of March 31, 2013, 2014 and 2015, the Bank had no investments held to maturity.

### *Held for Trading Investments*

The following table sets forth, as of the dates indicated, information related to our investments held for trading:

| 2013 | | | | At March 31, 2014 | | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ortized cost | Gross unrealized gain | Gross unrealized loss | Fair value | Amortized cost | Gross unrealized gain | Gross unrealized loss | Fair value | Amortized cost | Gross unrealized gain | Gross unrealize loss |
| | | | | (in millions) | | | | | | |
| 63,468.6 | Rs. 134.7 | Rs. 58.5 | Rs. 63,544.8 | Rs. 56,409.0 | Rs. 3.5 | Rs. 191.1 | Rs. 56,221.4 | Rs. 60,239.5 | Rs. 53.5 | Rs. 0.2 |
| 13,856.2 | 11.7 | 59.1 | 13,808.8 | 8,874.2 | 11.7 | 55.2 | 8,830.7 | 1,000.0 | | |
| 77,324.8 | Rs. 146.4 | Rs. 117.6 | Rs. 77,353.6 | Rs. 65,283.2 | Rs. 15.2 | Rs. 246.3 | Rs. 65,052.1 | Rs. 61,239.5 | Rs. 53.5 | Rs. 0.2 |
| 10,029.9 | | | 10,029.9 | 25.2 | 0.7 | 0.1 | 25.8 | 0.0 | | |
| 87,354.7 | Rs. 146.4 | Rs. 117.6 | Rs. 87,383.5 | Rs. 65,308.4 | Rs. 15.9 | Rs. 246.4 | Rs. 65,077.9 | Rs. 61,239.5 | Rs. 53.5 | Rs. 0.2 |

***Residual Maturity Profile***

The following table sets forth, for the periods indicated, an analysis of the residual maturity profile of our investments in government and other debt securities classified as available-for-sale securities and their market yields.

| | At March 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Up to one year | | One to five years | | Five to ten years | | More than ten years | |
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| | (in millions, except percentages) | | | | | | | |
| Government securities | Rs. 452,661.9 | 7.9% | Rs. 285,098.4 | 7.9% | Rs. 375,088.6 | 7.9% | Rs. 107,481.4 | 7.8% |
| Other debt securities | 240,159.8 | 8.7 | 17,207.6 | 6.9 | 714.0 | 8.8 | | |
| Total debt securities, fair value | Rs. 692,821.7 | 8.2% | Rs. 302,306.0 | 7.8% | Rs. 375,802.6 | 7.9% | Rs. 107,481.4 | 7.8% |
| Total amortized cost | Rs. 692,782.4 | | Rs. 301,137.0 | | Rs. 367,990.7 | | Rs. 101,592.9 | |

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## Funding

Our funding operations are designed to ensure stability, low cost of funding and effective liquidity management. The primary source of funding is deposits raised from retail customers, which were 78% and 79% of total deposits, as of March 31, 2014 and March 31, 2015, respectively. Wholesale banking deposits represented 22% and 21% of total deposits, as of March 31, 2014 and March 31, 2015, respectively.

### *Total Deposits*

The following table sets forth, for the periods indicated, our average outstanding deposits and the percentage composition by each category of deposits. The average cost (interest expense divided by the average of the daily balance for the relevant period) of savings deposits was 4.0% in fiscals 2013, 2014 and 2015. The average cost of time deposits was 9.0% in fiscal 2013, 8.2% in fiscal 2014 and 8.0% in fiscal 2015. The average deposits for the periods set forth are as follows:

| | Year ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | |
| | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions, except percentages) | | | | | |
| Current deposits | Rs. 414,590.2 | 15.6% | Rs. 448,165.2 | 14.1% | Rs. 519,675.4 | 13.4% |
| Savings deposits | 764,180.0 | 28.7 | 893,648.0 | 28.0 | 1,054,374.0 | 27.1 |
| Time deposits | 1,481,272.4 | 55.7 | 1,844,247.6 | 57.9 | 2,311,018.5 | 59.5 |
| Total | Rs. 2,660,042.6 | 100.0% | Rs. 3,186,060.8 | 100.0% | Rs. 3,885,067.9 | 100.0% |

As of March 31, 2015, individual time deposits in excess of Rs. 0.1 million had a balance to maturity profile as follows:

| | At March 31, 2015 | | | |
|---|---|---|---|---|
| | Up to three months | Three to six months | Six to twelve months | More than one year |
| | (in millions) | | | |
| Balance to maturity for time deposits exceeding Rs. 0.1 million each | Rs. 654,191.4 | Rs. 414,998.5 | Rs. 684,219.4 | Rs. 612,427.0 |

### *Short-term Borrowings*

The following table sets forth, for the periods indicated, information related to our short-term borrowings, which are comprised primarily of money-market borrowings. Short-term borrowings include securities sold under repurchase agreements.

| | Years ended March 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | (in millions, except percentages) | | |

| | | | |
|---|---|---|---|
| Period end | Rs. 350,617.2 | Rs. 150,775.5 | Rs. 264,191.9 |
| Average balance during the period | Rs. 241,905.5 | Rs. 327,891.7 | Rs. 130,533.2 |
| Maximum outstanding | Rs. 508,131.8 | Rs. 549,576.7 | Rs. 341,571.4 |
| Average interest rate during the period[(1)] | 5.9% | 5.5% | 5.6% |
| Average interest rate at period end[(2)] | 6.6% | 3.3% | 4.0% |

(1) Represents the ratio of interest expense on short-term borrowings to the average of daily balances of short-term borrowings.

(2) Represents the weighted average rate of short-term borrowings outstanding as of March 31, 2013, 2014 and 2015.

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***Subordinated Debt***

We also obtain funds from the issuance of unsecured non-convertible subordinated debt securities, which qualify as Tier 1 or Tier 2 risk-based capital under the RBI s guidelines for assessing capital adequacy. Subordinated debt (Lower Tier 2 capital), Upper Tier 2 capital and Innovative Perpetual Debt Instruments outstanding as on March 31, 2015 are Rs. 133.44 billion (previous year: Rs. 132.58 billion), Rs. 40.41 billion (previous year: Rs. 40.15 billion), and Rs. 2.00 billion (previous year: Rs. 2.00 billion), respectively. The breakup of the same is shown hereunder:

| Type | Currency | Year of issue | Year of maturity | Average tenor (years) | Interest rate (%) | Year of call | Step-up rate (%) | Face value (Rupees in billions) |
|---|---|---|---|---|---|---|---|---|
| Lower Tier II | INR | 2003-04 | 2017-18 | 13.3 | 6.00 | | | 0.05 |
| Lower Tier II | INR | 2005-06 | 2015-16 | 9.5 | 7.50 | | | 4.14 |
| Lower Tier II | INR | 2005-06 | 2015-16 | 9.3 | 7.75 | | | 2.31 |
| Lower Tier II | INR | 2005-06 | 2015-16 | 9.7 | 8.25 | | | 2.57 |
| Lower Tier II | INR | 2005-06 | 2015-16 | 9.9 | 8.60 | | | 3.00 |
| Lower Tier II | INR | 2006-07 | 2016-17 | 10.0 | 8.45 | | | 1.69 |
| Lower Tier II | INR | 2006-07 | 2016-17 | 10.0 | 9.10 | | | 2.41 |
| Lower Tier II | INR | 2008-09 | 2018-19 | 10.0 | 10.70 | | | 11.50 |
| Lower Tier II | INR | 2008-09 | 2018-19 | 10.0 | 9.75 | | | 1.50 |
| Lower Tier II | INR | 2011-12 | 2026-27 | 15.0 | 9.48 | 2021-22 | | 36.50 |
| Lower Tier II | INR | 2012-13 | 2027-28 | 15.0 | 9.45 | 2022-23 | | 34.77 |
| Lower Tier II | INR | 2012-13 | 2022-23 | 10.0 | 8.95 | 2017-18 | | 5.65 |
| Lower Tier II | INR | 2012-13 | 2022-23 | 10.0 | 9.10 | 2017-18 | | 14.05 |
| Lower Tier II | INR | 2012-13 | 2022-23 | 10.0 | 10.20 | | | 2.50 |
| Lower Tier II | INR | 2012-13 | 2022-23 | 10.0 | 9.70 | | | 1.50 |
| Lower Tier II | INR | 2012-13 | 2022-23 | 10.0 | 9.60 | | | 2.00 |
| Lower Tier II | INR | 2013-14 | 2023-24 | 10.0 | 10.20 | | | 1.00 |
| Lower Tier II | INR | 2013-14 | 2023-24 | 10.0 | 10.05 | | | 0.50 |
| Lower Tier II | INR | 2013-14 | 2023-24 | 10.0 | 10.19 | | | 0.80 |
| Lower Tier II | INR | 2014-15 | 2024-25 | 10.0 | 9.70 | | | 2.00 |
| Lower Tier II | INR | 2014-15 | 2024-25 | 10.0 | 9.55 | | | 1.00 |
| Lower Tier II | INR | 2014-15 | 2024-25 | 10.0 | 9.55 | | | 2.00 |
| Upper Tier II | INR | 2006-07 | 2021-22 | 15.0 | 8.80 | 2016-17 | 9.55 | 3.00 |
| Upper Tier II | INR | 2006-07 | 2021-22 | 15.0 | 9.20 | 2016-17 | 9.95 | 3.00 |
| Upper Tier II | INR | 2006-07 | 2021-22 | 15.0 | 8.95 | 2016-17 | 9.70 | 0.36 |
| Upper Tier II | USD | 2006-07 | 2021-22 | 15.1 | LIBOR+1.2 | 2016-17 | LIBOR+2.2 | 6.25 |
| Upper Tier II | INR | 2007-08 | 2022-23 | 15.0 | 10.84 | 2017-18 | 5 Year GSec Yield+3.5 | 1.00 |
| Upper Tier II | INR | 2008-09 | 2023-24 | 15.0 | 10.85 | 2018-19 | 11.35 | 5.78 |
| Upper Tier II | INR | 2008-09 | 2023-24 | 15.0 | 9.95 | 2018-19 | 10.45 | 2.00 |
| Upper Tier II | INR | 2008-09 | 2023-24 | 15.0 | 9.85 | 2018-19 | 10.35 | 7.97 |
| Upper Tier II | INR | 2010-11 | 2025-26 | 15.0 | 8.70 | 2020-21 | 9.20 | 11.05 |
| Perpetual Bond | INR | 2006-07 | | | 9.92 | 2016-17 | 10.92 | 2.00 |

The Upper Tier II U.S. dollar debt depicted in the table above is for an amount of US$100 million raised during fiscal 2007 carrying an interest rate of LIBOR + 1.20. In the table above, the rupee equivalent is based on the translation rate of Rs. 62.50 = US$1.00. We have a right to redeem certain of the issuances as noted above under year of call . If not called, the interest rate increases to the step-up rate.

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***Asset Liability Gap***

The following table sets forth, for the periods indicated, our asset-liability gap position:

| | As of March 31, 2015[1] | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 0-28 days | 29-90 days | 91-180 days | 6-12 months | Total within one year | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years | |
| | (in millions, except percentages) | | | | | | | | |
| n (3) | 181,355.3 | 10,002.0 | 10,229.7 | 12,239.4 | 213,826.4 | 72,796.1 | 2,410.2 | 52,091.6 | |
| | 310.7 | 2,208.9 | 17,938.2 | 40,938.2 | 61,396.0 | 30,287.3 | 44,219.8 | 34,086.4 | |
| held | 61,182.0 | 110.8 | | | 61,292.8 | | | | |
| | 473,589.1 | 135,585.1 | 87,168.5 | 135,806.4 | 832,149.1 | 371,452.8 | 21,280.4 | 279,530.5 | 1 |
| der | 1,592.6 | | | | 1,592.6 | | | | |
| 3) | 324,293.1 | 421,958.6 | 323,540.5 | 400,468.3 | 1,470,260.5 | 1,797,078.1 | 318,697.6 | 310,078.8 | 3 |
| rest | 25,864.7 | 13,853.7 | 5,626.0 | 289.4 | 45,633.8 | 59.5 | 11.7 | | |
| 3) | 374.4 | 400.0 | 313.3 | 355.4 | 1,443.1 | 119,244.2 | | | |
| al | 1,068,561.9 | 584,119.1 | 444,816.2 | 590,097.1 | 2,687,594.3 | 2,390,918.0 | 386,619.7 | 675,787.3 | 6 |
| ) | 414,027.6 | 228,792.3 | 243,958.9 | 312,112.7 | 1,198,891.5 | 2,032,174.0 | 103,866.1 | 1,166,779.2 | 4 |
| | 46,432.0 | 113,489.9 | 73,641.2 | 44,244.1 | 277,807.2 | 221,026.4 | 39,148.0 | 134,144.7 | |
| d hase | 50,000.0 | | | | 50,000.0 | | | | |
| (13) | 141,962.4 | 15,129.5 | 1,889.2 | 3,476.8 | 162,457.9 | 121,144.1 | 9.1 | | |
| al | 652,422.0 | 357,411.7 | 319,489.3 | 359,833.6 | 1,689,156.6 | 2,374,344.5 | 143,023.2 | 1,300,923.9 | 5 |
| y | 416,139.9 | 226,707.4 | 125,326.9 | 230,263.5 | 998,437.7 | 16,573.5 | 243,596.5 | (625,136.6) | |
| ap | 416,139.9 | 642,847.3 | 768,174.2 | 998,437.7 | 998,437.7 | 1,015,011.2 | 1,258,607.7 | 633,471.1 | |
| ap ge cial | 38.9% | 38.9% | 36.6% | 37.1% | 37.1% | 20.0% | 23.0% | 10.3% | |

(1) Assets and liabilities are classified into the applicable maturity categories based on residual maturity unless specifically mentioned.
(2) Cash on hand is classified in the 0-28 days category.
(3) Cash and cash equivalents include balances with the RBI to satisfy its cash reserve ratio requirements. These balances are held in the form of overnight cash deposits but we classify these balances as part of the applicable maturity categories on a basis proportionate to the classification of related deposits.
(4) Securities in the trading book are classified based on the expected time of realization for such investments. Units of open ended mutual funds, if any, are classified in 0-28 days category.
(5) Securities held towards satisfying the statutory liquidity requirement prescribed by the RBI are classified based on the applicable maturity categories on a basis proportionate to the classification of related deposits.
(6) Shares in the available-for-sale investment portfolio are classified in the over 5 years category. Units of open ended mutual funds, if any, are classified in 0-28 days category.
(7) Includes net non-performing loans which are classified in the Over 3 years to 5 years and Over 5 years categories.
(8) Ambiguous maturity overdrafts are classified under various maturity categories based on a historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such advances.
(9) Non-maturity deposits are classified under various maturity categories based on a historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits.
(10) Time deposits under Rs. 50 million are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such deposits taking into account rollovers and premature withdrawals. The rest have been classified under various maturity categories based on the residual maturity.
(11) Includes short-term borrowings and long-term debt.
(12) Cash floats are classified under various maturity categories based on the historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such floats.
(13) Other assets and other liabilities are classified under various maturity categories based on historical behavioral analysis that we have performed to determine the appropriate maturity categorization of such other assets and other liabilities.

For further information on how we manage our asset liability risk, see *Business Risk Management Market Risk*.

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***Loan Portfolio and Credit Substitutes***

As of March 31, 2015, our gross loan portfolio amounted to Rs. 3,943.4 billion. As of that date, our gross credit substitutes outstanding were Rs. 195.1 billion. Almost all our gross loans and credit substitutes are to borrowers in India and approximately 90% are denominated in rupees. For a description of our retail and wholesale loan products, see *Business Retail Banking Retail Loans and Other Asset Products* and *Business Wholesale Banking Commercial Banking Products Commercial Loan Products and Credit Substitutes* .

The following table sets forth, for the periods indicated, our gross loan portfolio classified by product group:

| | At March 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| | | | (in millions) | | |
| Retail loans | Rs. 980,144.6 | Rs. 1,344,966.8 | Rs. 1,729,503.7 | Rs. 2,188,337.7 | Rs. 2,720,988.5 |
| Wholesale loans | 668,605.7 | 689,314.4 | 808,742.1 | 1,039,923.6 | 1,222,460.6 |
| Gross loans | Rs. 1,648,750.3 | Rs. 2,034,281.2 | Rs. 2,538,245.8 | Rs. 3,228,261.3 | Rs. 3,943,449.1 |
| Credit substitutes (at fair value) | 14,491.1 | 11,800.5 | 46,622.6 | 65,147.1 | 195,058.9 |
| Gross loans plus credit substitutes | Rs. 1,663,241.4 | Rs. 2,046,081.7 | Rs. 2,584,868.4 | Rs. 3,293,408.4 | Rs. 4,138,508.0 |

**Maturity and Interest Rate Sensitivity of Loans and Credit Substitutes**

The following tables set forth, for the period indicated, the maturity and interest rate sensitivity of our loans and credit substitutes:

| | At March 31, 2015 | | |
|---|---|---|---|
| | Due in one year or less | Due in one to five years | Due after five years |
| | | (in millions) | |
| Retail loans | Rs. 789,973.4 | Rs.1,681,275.6 | Rs.249,739.5 |
| Wholesale loans | 680,287.1 | 442,874.1 | 99,299.4 |
| Gross loans | Rs.1,470,260.5 | Rs.2,124,149.7 | Rs.349,038.9 |
| Credit substitutes (at fair value) | 181,208.8 | 13,244.2 | 605.9 |
| Gross loans plus credit substitutes | Rs.1,651,469.3 | Rs.2,137,393.9 | Rs.349,644.8 |

| | At March 31, 2015 | | |
|---|---|---|---|
| | Due in one year or less | Due in one to five years | Due after five years |
| | | (in millions) | |
| Interest rate classification of loans by maturity: | | | |
| Variable rates | Rs. 303,458.8 | Rs. 956,082.9 | Rs.336,303.9 |
| Fixed rates | 1,166,801.7 | 1,168,066.8 | 12,735.0 |
| Gross loans | Rs.1,470,260.5 | Rs.2,124,149.7 | Rs.349,038.9 |

| | | | |
|---|---|---|---|
| Interest rate classification of credit substitutes by maturity: | | | |
| Variable rates | Rs. | Rs. | Rs. |
| Fixed rates | 181,208.8 | 13,244.2 | 605.9 |
| Gross credit substitutes | Rs. 181,208.8 | Rs. 13,244.2 | Rs. 605.9 |
| Interest rate classification of loans and credit substitutes by maturity: | | | |
| Variable rates | Rs. 303,458.8 | Rs. 956,082.9 | Rs.336,303.9 |
| Fixed rates | 1,348,010.5 | 1,181,311.0 | 13,340.9 |
| Gross loans and credit substitutes | Rs.1,651,469.3 | Rs.2,137,393.9 | Rs.349,644.8 |

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***Concentration of Loans and Credit Substitutes***

Pursuant to the guidelines of the RBI, our exposure to individual borrowers is limited to 15% of our capital funds (as defined by the RBI and calculated under Indian GAAP), and our exposure to a group of companies under the same management is limited to 40% of our capital funds. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5% of capital funds is allowed in respect of individual borrowers and up to 10% in respect of group borrowers. We may, in exceptional circumstances and with the approval of our Board of Directors, consider enhancement of exposure to a borrower by a further 5% of capital funds. See *Supervision and Regulation Credit Exposure Limits* .

The following table sets forth, for the periods indicated, our gross loans and fair value of credit substitutes outstanding by the borrower s industry or economic activity and as a percentage of our gross loans and fair value of credit substitutes (where such percentage exceeds 2.0% of the total). We do not consider retail loans a specific industry for this purpose. However, retail business banking loans are classified in the appropriate categories below and loans to commercial vehicle operators are included in land transport below. For the purposes of industry-wise classification of retail loans, from fiscal 2015 the end use (i.e. business purpose or personal use) is taken into consideration. Accordingly, exposures to individual and non-individual borrowers, where the credit facilities are for business purposes, are being reported under the industry relating to the activity of the borrower. Where the credit facilities are for personal use, the exposure to the individual borrower is classified under Consumer Loans.

| | At March 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | 2014 | | 2015 |
| | (in millions, except percentages) | | | | | | | | |
| | Rs. | % | Rs. | % | Rs. | % | Rs. | % | Rs. 479,467. |
| | 49,024.3 | 2.9 | 45,591.8 | 2.2 | | | 155,559.1 | 4.7 | 422,894. |
| | 68,948.3 | 4.1 | 110,828.9 | 5.4 | 178,552.2 | 6.9 | 235,811.8 | 7.2 | 314,066. |
| | | | | | 73,757.3 | 2.9 | 96,580.6 | 2.9 | 230,486. |
| & ry | 79,226.6 | 4.8 | 70,175.3 | 3.4 | 109,667.7 | 4.2 | 150,954.5 | 4.6 | 215,063. |
| | 38,203.9 | 2.3 | 52,373.5 | 2.6 | 71,102.3 | 2.8 | 90,086.2 | 2.7 | 190,434. |
| g es | 56,852.9 | 3.3 | 52,596.5 | 2.6 | 58,346.2 | 2.3 | 80,993.0 | 2.5 | 154,730. |
| rt | 91,140.0 | 5.5 | 129,736.4 | 6.3 | 157,938.8 | 6.1 | 150,177.4 | 4.6 | 131,762. |
| | 34,458.0 | 2.1 | 46,444.1 | 2.3 | 70,405.2 | 2.7 | 100,588.6 | 3.1 | 128,212. |
| | 36,646.8 | 2.2 | 44,135.9 | 2.2 | | | 72,469.7 | 2.2 | 112,016. |
| & | 39,964.8 | 2.4 | 47,422.1 | 2.3 | | | | | 91,871. |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 39,203.3 | 2.4 | | | 53,229.3 | 2.1 | 85,283.2 | 2.6 | 86,389. |
| | | | | | | 69,725.4 | 2.1 | |
| 45,070.1 | 2.7 | | | | | | | |
| 34,157.5 | 2.1 | | | | | | | |
| 1,050,344.9 | 63.2 | 1,446,777.2 | 70.7 | 1,811,869.4 | 70.0 | 2,005,178.9 | 60.8 | 1,581,111. |
| Rs. 1,663,241.4 | 100.0% | Rs. 2,046,081.7 | 100.0% | Rs. 2,584,868.4 | 100.0% | Rs. 3,293,408.4 | 100.0% | Rs. 4,138,508. |

As of March 31, 2015, our 10 largest exposures totaled approximately Rs.558.5 billion and represented 100.6% of our capital funds as per RBI guidelines. The largest group of companies under the same management control accounted for 39.6% of our capital funds as per RBI guidelines.

***Directed Lending***

The RBI has established guidelines requiring Indian banks to lend 40% of their adjusted net bank credit (ANBC), as computed in accordance with RBI guidelines, or the credit equivalent amount of off balance sheet exposures, whichever is higher, as of March 31 of the previous fiscal, to certain sectors called priority sectors . Priority sectors are broadly comprised of agriculture, micro and small enterprises (MSEs), including retail trade, micro credit, education and housing, subject to certain limits.

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We are required to comply with the priority sector lending (PSL) requirements as of March 31 of each fiscal year, a date specified by the RBI for reporting. We have met our overall PSL targets of 40% and our total PSL achievement for fiscal 2015 stood at 44.13%. However, in fiscal 2015, agricultural loans made under the direct category were 13.3% of ANBC, against the requirement of 13.5%, with a shortfall of Rs. 5.04 billion, and advances to sections termed weaker by the RBI were 6.57% against the requirement of 10.0%, with a shortfall of Rs. 94.58 billion. We may be required by the RBI in the coming year to deposit with the Indian Development Banks certain amounts as specified by the RBI due to the shortfall in certain sub-categories of PSL targets. As of March 31, 2015, our total investments as directed by RBI in such deposits were Rs. 148.18 billion yielding returns ranging from 3% to 8.25%.

The following table sets forth, for the periods indicated, our directed lending broken down by sector:

| | As of March 31, (in millions) | | | | |
|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** |
| Directed lending: | | | | | |
| Agriculture | Rs. 204,506.2 | Rs. 246,506.4 | Rs. 291,689.2 | Rs. 324,173.2 | Rs. 392,441.4 |
| Micro and small enterprises | 222,933.8 | 248,497.9 | 296,012.3 | 363,485.8 | 454,716.8 |
| Other | 123,550.0 | 148,296.9 | 184,872.3 | 214,786.0 | 221,829.8 |
| Total directed lending | Rs. 550,990.0 | Rs. 643,301.2 | Rs. 772,573.8 | Rs. 902,445.0 | Rs. 1,068,988.0 |

**Non-Performing Loans**

The following table sets forth, for the periods indicated, information about our non-performing loan portfolio:

| | As of March 31, (in millions, except percentages) | | | | |
|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** |
| Non-performing loans: | | | | | |
| Retail loans | Rs. 11,159.5 | Rs. 11,311.3 | Rs. 14,579.1 | Rs. 20,928.3 | Rs. 25,835.2 |
| Wholesale loans | 9,502.9 | 7,723.6 | 6,553.0 | 8,758.2 | 13,489.6 |
| Gross non-performing loans | Rs. 20,662.4 | Rs. 19,034.9 | Rs. 21,132.1 | Rs. 29,686.5 | Rs. 39,324.8 |
| Specific valuation allowances | Rs. 16,089.8 | Rs. 15,316.7 | Rs. 16,466.9 | Rs. 20,649.2 | Rs. 24,709.0 |
| Unallocated valuation allowances | 9,804.5 | 12,590.2 | 17,227.3 | 21,964.0 | 22,625.1 |
| Non-performing loans net of specific valuation allowance | 4,572.6 | 3,718.2 | 4,665.2 | 9,037.3 | 14,615.8 |
| Gross loan assets | 1,648,750.3 | 2,034,281.2 | 2,538,245.8 | 3,228,261.3 | 3,943,449.1 |

| | | | | | |
|---|---|---|---|---|---|
| Net loan assets | Rs. 1,622,856.0 | Rs. 2,006,374.3 | Rs. 2,504,551.6 | Rs. 3,185,648.1 | Rs. 3,896,115.0 |
| Gross non-performing loans as a percentage of gross loans | 1.3% | 0.9% | 0.8% | 0.9% | 1.0% |
| Gross unsecured non-performing loans as a percentage of gross non-performing loans | 16.0% | 14.4% | 15.2% | 15.8% | 13.9% |
| Unsecured non-performing loans as a percentage of gross unsecured loans. | 0.9% | 0.6% | 0.6% | 0.7% | 0.6% |
| Non-performing loans net of specific valuation allowance as a percentage of net loan assets | 0.3% | 0.2% | 0.2% | 0.3% | 0.4% |
| Specific valuation allowance as a percentage of gross non-performing loans | 77.9% | 80.5% | 77.9% | 69.6% | 62.8% |
| Total valuation allowance as a percentage of gross non-performing loans | 125.3% | 146.6% | 159.4% | 143.5% | 120.4% |

***Recognition of Non-Performing Loans***

We classify our loan portfolio into loans that are performing and loans that are non-performing or impaired. We have categorized our gross loans based on their performance status as follows:

| | At March 31, | | | | |
|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** |
| | | | **(in millions)** | | |
| Performing | Rs. 1,628,087.9 | Rs. 2,015,246.3 | Rs. 2,517,113.7 | Rs. 3,198,574.8 | Rs. 3,904,124.3 |
| Non-performing or impaired: | | | | | |
| On accrual status | 3,938.0 | 624.4 | 253.3 | 271.8 | 2,431.2 |
| On non-accrual status | 16,724.4 | 18,410.5 | 20,878.8 | 29,414.7 | 36,893.6 |
| Total non-performing or impaired | 20,662.4 | 19,034.9 | 21,132.1 | 29,686.5 | 39,324.8 |
| Total | Rs. 1,648,750.3 | Rs. 2,034,281.2 | Rs. 2,538,245.8 | Rs. 3,228,261.3 | Rs. 3,943,449.1 |

We consider a loan to be performing when no principal or interest payment is one quarter or more past due and where we expect to recover all amounts due to us. In the case of wholesale loans, we also identify loans as non-performing or impaired even when principal or interest payments are less than one quarter past due but where we believe recovery of all principal and interest amounts is doubtful. Interest income from loans is recognized on an accrual basis using effective interest method when earned except in respect of loans placed on non-accrual status, for which interest income is recognized when received. Loans are placed on non-accrual status when interest or principal payments are one quarter past due.

Our methodology for determining specific and unallocated allowances is discussed separately below for each category of loans.

***Retail***

Our retail loan loss allowance consists of specific and unallocated allowances.

We establish a specific allowance on our retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due and the nature of the security available. Additionally we monitor loan to value ratios for loans against securities. The loans are charged off against allowances typically when the account becomes 150 to 1,083 days past due depending on the type of loans. The defined delinquency levels at which major loan types are charged off are 150 days past due for personal loans and credit card receivables, 180 days past due for auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when we believe that any future cash flows from these loans are remote, including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements are not feasible.

We also record unallocated allowances for retail loans by product type. Our retail loan portfolio is comprised of groups of large numbers of small value homogeneous loans. We establish an unallocated allowance for loans in each product group based on our estimate of the overall portfolio quality, asset growth, economic conditions and other risk factors. We estimate unallocated allowance for retail loans based on an internal credit slippage matrix, which measures our historic losses for our standard loan portfolio. Subsequent recoveries, if any, against write off cases are

adjusted to provision for credit losses in the consolidated statement of income.

*Wholesale*

The allowance for wholesale loans consists of specific and unallocated components. The allowance for such credit losses is evaluated on a regular basis by us and is based upon our view of the probability of recovery of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, factors affecting the industry which the loan exposure relates to and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans are charged off against the allowance when management believes that the loan balance cannot be recovered. Subsequent recoveries, if any, against write off cases are adjusted to provision for credit losses in the consolidated statement of income.

We grade our wholesale loan accounts considering both qualitative and quantitative criteria. Wholesale loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by us in determining impairment include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due.

We establish specific allowances for each impaired wholesale loan customer in the aggregate for all facilities, including term loans, cash credits, bills discounted and lease finance, based on either the present value of expected future cash flows discounted at the loan s effective interest rate or the net realizable value of the collateral if the loan is collateral dependent.

Wholesale loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired but are placed on a surveillance watch list and closely monitored for deterioration. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed.

The Bank has also established an unallocated allowance for wholesale standard loans based on the overall portfolio quality, asset growth, economic conditions and other risk factors. We estimate our wholesale unallocated allowance based on an internal credit slippage matrix, which measures our historic losses for our standard loan portfolio.

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***Analysis of Non-Performing Loans by Industry Sector***

The following table sets forth, for the periods indicated, our non-performing loans by borrowers industry or economic activity in each of the respective periods and as a percentage of our loans in the respective industry or economic activity sector. These figures do not include credit substitutes, which we include for purposes of calculating our industry concentration for RBI reporting. See *Risk Factors We have high concentrations of exposures to certain customers and sectors and if any of these exposures were to become non-performing, the quality of our portfolio could be adversely affected and our ability to meet capital requirements could be jeopardized* .

| | | As of March 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2012 | | | 2013 | | | 2014 | | |
| on rming ans | % of loans in industry | Gross Loans | Non performing loans | % of loans in industry | Gross Loans | Non performing loans | % of loans in industry | Gross Loans | Non performing loans | % of loans in industry |
| | | (in millions, except percentages) | | | | | | | | |
| | % | Rs. 5,105.8 | Rs. 138.4 | 2.7% | Rs. | Rs. | % | Rs. | Rs. | % |
| 207.6 | 0.5 | 40,755.1 | 57.7 | 0.1 | 53,229.3 | 492.6 | 0.9 | 82,959.4 | 1,811.8 | 2.2 |
| 156.7 | 2.6 | | | | 12,054.3 | 8.2 | 0.1 | 18,449.8 | 548.4 | 3.0 |
| | | | | | 3,716.0 | 5.7 | 0.2 | 3,865.5 | 5.7 | 0.1 |
| | | 11,004.0 | 529.5 | 4.8 | 9,955.8 | 604.2 | 6.1 | 11,922.0 | 479.8 | 4.0 |
| 178.7 | 0.5 | 12,242.2 | 78.5 | 0.6 | 38,076.9 | 97.8 | 0.3 | 26,358.9 | 86.7 | 0.3 |
| 224.3 | 0.9 | 33,487.0 | 212.3 | 0.6 | 42,721.6 | 557.1 | 1.3 | 57,349.9 | 1,220.3 | 2.1 |
| 505.7 | 6.4 | 13,865.0 | 505.7 | 3.6 | 11,103.0 | 504.4 | 4.5 | 16,576.9 | 504.4 | 3.0 |
| 891.7 | 1.0 | 129,736.4 | 770.4 | 0.6 | 157,938.8 | 1,316.0 | 0.8 | 150,177.4 | 2,077.9 | 1.4 |
| | | | | | | | | 37,164.8 | 64.0 | 0.2 |
| 256.6 | 0.5 | 45,591.8 | 166.9 | 0.4 | 51,213.7 | 205.5 | 0.4 | 155,559.1 | 260.1 | 0.2 |
| ,410.0 | 8.2 | 17,931.2 | 1,430.5 | 8.0 | 28,010.3 | 918.0 | 3.3 | 44,831.6 | 693.5 | 1.5 |
| 728.6 | 1.1 | 110,828.9 | 638.5 | 0.6 | 178,552.2 | 805.8 | 0.5 | 235,711.9 | 780.5 | 0.3 |
| 129.1 | 0.9 | 28,992.4 | 134.7 | 0.5 | 41,809.8 | 5.6 | 0.0 | 28,995.5 | 253.8 | 0.9 |
| ,147.1 | 4.0 | 47,563.0 | 1,782.7 | 3.7 | 35,588.9 | 1,124.2 | 3.2 | 57,796.1 | 891.4 | 1.5 |
| 373.2 | 3.5 | 11,878.3 | 365.2 | 3.1 | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 18.4 | | | | | | | | 56,469.4 | 136.3 | 0.2 |
| ,888.0 | 4.9 | 52,373.5 | 269.0 | 0.5 | 71,102.3 | 147.9 | 0.2 | 90,086.2 | 147.9 | 0.2 |
| 878.2 | 2.5 | 46,444.1 | 829.9 | 1.8 | 69,213.0 | 571.7 | 0.8 | 99,588.0 | 534.1 | 0.5 |
| 21.7 | 0.1 | 38,967.0 | 16.3 | | 73,335.2 | 16.3 | 0.0 | 96,238.8 | 16.3 | 0.0 |
| 266.9 | 0.3 | 70,078.3 | 281.8 | 0.4 | 105,073.6 | 254.1 | 0.2 | 145,886.7 | 360.0 | 0.2 |
| ,267.8 | 1.4 | 996,118.1 | 10,543.5 | 1.1 | 1,170,409.1 | 13,215.0 | 1.1 | 1,365,922.1 | 18,724.5 | 1.4 |
| | | 6,324.2 | 76.7 | 1.2 | 9,479.8 | 76.7 | 0.8 | | | |
| | | | | | 27,095.7 | 74.2 | 0.3 | 33,908.0 | 31.3 | 0.1 |
| | | | | | 8,898.3 | 9.4 | 0.1 | 13,402.1 | 9.2 | 0.1 |
| | | 14,519.3 | 49.1 | 0.3 | | | | | | |
| | | 44,135.9 | 48.6 | 0.1 | 49,453.9 | 48.6 | 0.1 | 70,980.3 | 48.6 | 0.1 |
| 59.2 | 0.4 | 19,053.5 | 77.0 | 0.4 | 17,239.0 | 66.1 | 0.4 | | | |
| 2.4 | | 18,764.1 | 1.9 | | 17,431.6 | 1.5 | 0.0 | | | |
| 50.5 | 0.2 | 12,167.8 | 30.1 | 0.2 | 14,175.2 | 5.5 | 0.0 | | | |
| **,662.4** | | | **19,034.9** | | | **21,132.1** | | | **29,686.5** | |

| | | | |
|---|---|---|---|
| ,089.8 | 15,316.7 | 16,466.9 | 20,649.2 |
| **,572.6** | **3,718.2** | **4,665.2** | **9,037.3** |

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As of March 31, 2015, our gross non-performing loan as a percentage of gross loans in the respective industries was the highest in glass and glass product, iron and steel and paper and paper products.

Glass and Glass Product

Growth in the glass industry has remained subdued. There has been an increase in demand for flat glass due to revival of the auto sector, as well as an increase in demand for container glass, which is used in the pharmaceutical and beverage sectors. As a result, we expect that there will be a corresponding increase in the glass industry as a whole. However, the float glass industry continues to struggle as a result of cheaper imports which have remained competitive despite the existence of an anti-dumping duty.

Iron and Steel

Weak domestic demand, increasing production capabilities and cheap imports will keep the iron and steel industry under pressure. International steel prices are at an all time low. As a result, India is a net importer of steel, despite having surplus domestic capacity. Lower steel prices have caused the operating margins of steel manufacturers to erode. As production capacity increases, the industry is also struggling with demand lagging behind the increase in supply. This differential has reduced utilization rates, further adding to the challenges facing domestic players.

Paper and Paper Products

Growth in the paper industry has remained subdued in fiscal 2015 due to lower industrial activity. With the revival of industrial activity and government spending, it is expected that the paper industry will grow at a steady pace. The utilization levels of existing players are expected to improve in light of the fact that planned increases in production capacity are relatively lower than expected increases in demand.

***Top Ten Non-Performing Loans***

As of March 31, 2015, we had 316 wholesale non-performing loans outstanding. Our top ten non-performing loans represented 22.3% of our gross non-performing loans and 0.2% of our gross loan portfolio.

The following table sets forth information regarding our ten largest non-performing loans. The table also sets forth our share of collateral value. We periodically obtain details of collateral from borrowers and external valuation reports and carry out certain procedures for updating and assessing fair values of collateral, however these procedures may not be conclusive to determine the precise net realizable values of any such collateral, which may be substantially less. Only in respect of borrower 3 is the loan collateral dependent (i.e. the borrower has no means of repaying the impaired loan other than the collateral) and as of March 31, 2015 the fair value of the collateral and our share thereof exceeds the loan amount outstanding net of allowance for credit losses. Interest payments not being serviced as of fiscal 2015 for all other loans is because of specific factors which have temporarily resulted in inadequate cash flows. The fair value of the collateral and our share thereof and the present value of expected future cash flows from these loans are adequate to cover the principal outstanding net of allowances for credit losses.

| | As of March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Industry** | **Type of banking arrangement** | **Gross principal outstanding** | **Principal outstanding net** | **Our share in collateral value** | **Currently servicing all** |

| | | | | of allowance for credit losses | | interest payments |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| Borrower 1 | Iron and Steel | Consortium | Rs. 3,372.4 | Rs. 3,080.3 | Rs. 4,364.6 | No |
| Borrower 2 | Glass & Products | Consortium | 1,634.1 | 1,484.1 | 4,716.3 | Yes |
| Borrower 3 | Wholesale Trade | Consortium | 612.2 | | 418.1 | No |
| Borrower 4 | Engineering | Multiple | 607.6 | | 258.0 | No |
| Borrower 5 | Mining and Minerals | Consortium | 505.9 | | | No |
| Borrower 6 | Iron and Steel | Consortium | 492.8 | | 202.1 | Yes |
| Borrower 7 | Information Technology | Multiple | 399.3 | | | No |
| Borrower 8 | Paper, Printing and Stationery | Consortium | 387.0 | 42.8 | 134.1 | No |
| Borrower 9 | Engineering | Multiple | 386.9 | | 98.4 | No |
| Borrower 10 | NBFC / Financial Intermediaries | Consortium | 362.7 | | 362.8 | Yes |
| | | | Rs. 8,760.9 | Rs.4,607.2 | | |

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***Restructuring of Non-Performing Loans***

Our non-performing loans are restructured on a case-by-case basis after our management has determined that restructuring is the best means of maximizing realization of the loan. These loans continue to be on a non-accrual basis and are reclassified as performing loans only after sustained performance under the loan s renegotiated terms for a period of at least one year.

Pursuant to recently enacted regulations creating a system of Corporate Debt Restructuring, we may also be involuntarily required to restructure loans if decided by at least 60% of the number of lenders, holding at least 75% of the debt, in a consortium in which we participate.

The following table sets forth, as of the dates indicated, our non-performing loans that have been restructured through rescheduling of principal repayments and deferral or waiver of interest:

| | At March 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| | (in millions, except percentages) | | | | |
| Gross restructured loans | Rs. 2,123.0 | Rs. 4,353.2 | Rs. 3,638.5 | Rs. 3,382.3 | Rs. 4,165.6 |
| Allowance for credit losses | 1,061.9 | 3,332.0 | 3,126.0 | 2,687.4 | 2,056.9 |
| Net restructured loan | Rs. 1,061.1 | Rs. 1,021.2 | Rs. 512.5 | Rs. 694.9 | Rs. 2,108.7 |
| Gross restructured loans as a percentage of gross non-performing loans | 10.3% | 22.9% | 17.2% | 11.4% | 10.6% |
| Net restructured loans as a percentage of net non-performing loans | 23.2% | 27.5% | 11.0% | 7.7% | 14.4% |

If there is a failure to meet payment or other terms of a restructured loan, it may be considered a failed restructuring, in which case it is no longer classified as a restructured loan.

***Remediation Strategy for Non-Performing Loans***

We focus on early problem recognition and active remedial management efforts in relation to our non-performing loans. Because we are involved primarily in working capital finance with respect to wholesale loans, we track our borrowers performance and liquidity on an ongoing basis. This enables us to define remedial strategies proactively and manage our exposures to industries or customers that we believe are displaying deteriorating credit trends. Relationship managers lead the recovery effort together with strong support from the credit group in the corporate office in Mumbai. Recovery is pursued through, among others, legal processes, enforcement of collateral, negotiated one-time settlements and other similar strategies. The particular strategy pursued depends upon the level of cooperation of the borrower, our assessment of the borrower s management integrity and long-term viability, the credit structure and the role of other creditors.

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*Allowance for Credit Losses on Loans*

The following table sets forth, for the periods indicated, movements in our allowance for credit losses:

| | For the years ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 (in millions) | 2014 | 2015 |
| Specific allowance for credit losses at the beginning of the period | Rs. 13,820.3 | Rs. 16,089.8 | Rs. 15,316.7 | Rs. 16,466.9 | Rs. 20,649.2 |
| Net allowance for credit losses for the period | | | | | |
| Retail | 10,480.4 | 7,781.9 | 12,710.3 | 16,815.3 | 19,615.7 |
| Wholesale | 3,634.9 | 1,674.6 | 315.9 | 2,276.1 | 4,248.1 |
| Less allowances no longer required on account of write-offs | (11,845.8) | (10,229.6) | (11,876.0) | (14,909.1) | (19,804.0) |
| Specific allowance for credit losses at the end of period | Rs. 16,089.8 | Rs. 15,316.7 | Rs. 16,466.9 | Rs. 20,649.2 | Rs. 24,709.0 |
| Unallocated allowance for credit losses at the beginning of the period | Rs. 9,940.3 | Rs. 9,804.5 | Rs. 12,590.2 | Rs. 17,227.3 | Rs. 21,964.0 |
| Additions during the period | (135.8) | 2,785.7 | 4,637.1 | 4,736.7 | 661.1 |
| Unallocated allowance for credit losses at the end of the period | Rs. 9,804.5 | Rs. 12,590.2 | Rs. 17,227.3 | Rs. 21,964.0 | Rs. 22,625.1 |
| Total allowance for credit losses at the beginning of the period | Rs. 23,760.6 | Rs. 25,894.3 | Rs. 27,906.9 | Rs. 33,694.2 | Rs. 42,613.2 |
| Allowance no longer required on account of write-offs | (11,845.8) | (10,229.6) | (11,876.0) | (14,909.1) | (19,804.0) |
| Net addition to total allowance for the period charged to expense | 13,979.5 | 12,242.2 | 17,663.3 | 23,828.1 | 24,524.9 |
| Total allowance for credit losses at the end of the period | Rs. 25,894.3 | Rs. 27,906.9 | Rs. 33,694.2 | Rs. 42,613.2 | Rs. 47,334.1 |

Movements in our allowances for credit losses charged to expense do not include recoveries against write off cases amounting to Rs. 6,400.0 million and Rs. 7,524.7 million for fiscals 2014 and 2015, respectively. Allowances for credit losses for the periods presented have been disclosed net of recoveries.

The following table sets forth, for the periods indicated, the allocation of the total allowance for credit losses:

| | As of March 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |

| | | | **(in millions)** | | |
|---|---|---|---|---|---|
| **Wholesale** | | | | | |
| Allocated | Rs. 7,577.5 | Rs. 6,433.7 | Rs. 5,754.5 | Rs. 7,316.1 | Rs. 8,083.8 |
| Unallocated | 1,447.5 | 1,207.7 | 2,495.7 | 2,738.5 | 3,248.4 |
| Subtotal | Rs. 9,025.0 | Rs. 7,641.4 | Rs. 8,250.2 | Rs. 10,054.6 | Rs. 11,332.2 |
| **Retail** | | | | | |
| Allocated | 8,512.3 | 8,883.0 | 10,712.4 | 13,333.1 | 16,625.2 |
| Unallocated | 8,357.0 | 11,382.5 | 14,731.6 | 19,225.5 | 19,376.7 |
| Subtotal | Rs. 16,869.3 | Rs. 20,265.5 | Rs. 25,444.0 | Rs. 32,558.6 | Rs. 36,001.9 |
| Allowance for credit losses | Rs. 25,894.3 | Rs. 27,906.9 | Rs. 33,694.2 | Rs. 42,613.2 | Rs. 47,334.1 |

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## MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations together with our audited financial statements included in this report. The following discussion is based on our audited financial statements, which have been prepared in accordance with U.S. GAAP, and on information publicly available from the RBI and other sources.*

### Introduction

***Overview***

We are a new generation private sector bank in India. Our principal business activities are retail banking, wholesale banking and treasury services. Our retail banking division provides various products such as deposit products, loans, credit cards, debit cards, third-party mutual funds and insurance products, investment advice, bill payment services and other services. Through our wholesale banking operations we provide products such as loans, deposit products, documentary credits, guarantees, bullion trading, debt syndication services and foreign exchange and derivative products. We also provide cash management services, clearing and settlement services for stock and commodity exchanges, tax and other collections for the Government, custody services and correspondent banking services. Our treasury services segment undertakes trading operations on the proprietary account (including investments in government securities), foreign exchange operations and derivatives trading both on the proprietary account and customer flows and borrowings.

***Certain Factors Affecting our Results of Operations***

Our revenue consists of interest and dividend revenue as well as non-interest revenue. Our interest and dividend revenue is primarily generated by interest on loans, dividends from securities and other activities. We offer a range of loans to retail customers and working capital and term loans to corporate customers. The primary components of our securities portfolio are statutory liquidity ratio investments, credit substitutes and other investments. Statutory liquidity ratio investments principally consist of Government of India treasury securities. Credit substitute securities typically consist of commercial paper and debentures issued by the same customers with whom we have a lending relationship in our wholesale banking business. Other investments include asset-backed securities, mortgage-backed securities, deposit certificates issued by banks as well as equity securities and units of mutual funds. Interest revenue from other activities consists primarily of interest on our placements made to comply with the extant Reserve Bank of India (RBI) guidelines on shortfalls in directed lending sub-limits and interest from inter-bank placements.

Two important measures of our results of operations are net interest revenue, which is equal to our interest and dividend revenue net of interest expense, and net interest revenue after allowance for credit losses. Interest expense includes interest on deposits as well as on borrowings. Our interest revenue and expense are affected by fluctuations in interest rates as well as volume of activity. Our interest expense is also affected by the extent to which we fund our activities with low-interest and non-interest bearing deposits, and the extent to which we rely on borrowings. Our allowance for credit losses is comprised of specific and unallocated allowances for loan loss. Impairments of credit substitutes are not included in our loan loss provision, but are reflected under Non-interest revenue other than temporary losses on available for sale securities in our consolidated statements of income.

We also use net interest margin and spread to measure our results. Net interest margin represents the ratio of net interest revenue to average interest-earning assets. Spread represents the difference between yield on average interest-earning assets and the cost of average interest-bearing liabilities, including current accounts which are

non-interest bearing.

Our non-interest revenue includes fee and commission income, realized gains and losses on sales of securities and spread from foreign exchange and derivative transactions and income from affiliates. Our principal sources of fee and commission revenue are retail banking services, retail asset fees and charges, credit card fees, home loan sourcing commissions, cash management services, documentary credits and bank guarantees, distribution of third party mutual funds and insurance products and capital market services.

Our non-interest expense includes expenses for salaries and staff benefits, premises and equipment maintenance, depreciation and amortization, administrative and other expenses and amortization of intangible assets. The costs of outsourcing back office and other functions are included in administrative and other expenses.

Our financial condition and results of operations are affected by general economic conditions prevailing in India. Fiscal 2015 was a year of consolidation for the Indian economy that had, over the previous two years, weathered a series of domestic and external headwinds. The Government continued to work towards overcoming some of the policy and supply-side bottlenecks facing raw material supply, such as coal mining and natural resources mining (including linkages), and is also in the process of reforming land acquisition and clearance procedures that have dampened domestic investment and growth. As a result, the industrial growth increased from 4.5% in fiscal 2014 to 6.1% in fiscal 2015 and growth in services also gathered momentum increasing from 9.1% in fiscal 2014 to 10.2% in fiscal 2015. These improvements helped offset the drag on agricultural growth, which declined from 3.7% in fiscal 2014 to 0.2% in fiscal 2015 primarily on account of weather disturbances.

The pressure on domestic drivers of growth, particularly investments, to spearhead domestic economic activity is more acute than usual given the fact that global demand remains weak. While muted domestic growth and increased global supply, especially in the case of oil, have caused commodity prices to decrease and kept India s external and fiscal balances in check, they have also caused export growth to fall. Export growth declined from 7.3% in fiscal 2014 to negative 0.8% in fiscal 2015. The current account deficit declined from 1.7% of GDP in fiscal 2014 to 1.3% of GDP in fiscal 2015 and the fiscal gap shrunk from 4.5% of GDP in fiscal 2014 to 4.0% of GDP in fiscal 2015.

The combination of global disinflationary pressures (a result of falling commodity prices and subdued growth), better supply management of food items, weak domestic demand and subdued corporate pricing power has helped keep domestic inflation in check thereby causing average CPI inflation to fall from 9.0% in fiscal 2014 to 6.0% in fiscal 2015. This, along with the marked improvement in macro stability as a result of a shrinking current account and fiscal deficit and a stabilization of the rupee has created space for the Reserve Bank of India (RBI) to address growth concerns more aggressively. The RBI has reduced its policy rate (the rate at which it lends to banks) by 75 bps since January 2015 and further rate reductions cannot be ruled out. Taken together with an increase in government-led infrastructure investment could help to improve domestic credit growth, which has eased from 13.5% in fiscal 2014 to 12.6% in fiscal 2015.

## Critical Accounting Policies

We have set forth below some of our critical accounting policies under U.S. GAAP. Investors should keep in mind that we prepare our general purpose financial statements in accordance with Indian GAAP and also report to the RBI and the Indian stock exchanges in accordance with Indian GAAP. In certain circumstances, we may take action that is required or permitted by Indian banking regulations which may have consequences under Indian GAAP that may be different from those under U.S. GAAP.

### *Allowance for Credit Losses*

We provide an allowance for credit losses based on management s best estimate of losses inherent in the loan portfolio which includes troubled debt restructuring. The allowance for credit losses consists of allowances for retail loans and wholesale loans.

*Retail*

Our retail loan loss allowance consists of specific and unallocated allowances.

We establish a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due and the nature of the security available. Additionally we monitor loan to value ratios for loan against securities. The loans are charged off against allowances typically when

the account becomes 150 to 1,083 days past due depending on the type of loan. The defined delinquency levels at which major loan types are charged off are 150 days past due for personal loans and credit card receivables, 180 days past due for auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when management believes that any future cash flows from these loans are remote including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements are not feasible.

We also record unallocated allowances for retail loans by product type. Our retail loan portfolio is comprised of groups of large numbers of small value homogeneous loans. We establish an unallocated allowance for loans in each product group based on our estimate of the overall portfolio quality, asset growth, economic conditions and other risk factors. We estimate our unallocated allowance for retail loans based on an internal credit slippage matrix, which measures our historic losses for our standard loan portfolio. Subsequent recoveries, if any, against write-off cases are adjusted to provision for credit losses in the consolidated statement of income.

*Wholesale*

The allowance for wholesale loans consists of specific and unallocated components. The allowance for such credit losses is evaluated on a regular basis by management and is based upon management s view of the probability of recovery of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, factors affecting the industry to which the loan exposure relates and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans are charged off against the allowance when management believes that the loan balance cannot be recovered. Subsequent recoveries, if any, against write-off cases are adjusted to provision for credit losses in the consolidated statement of income.

We grade our wholesale loan accounts considering both qualitative and quantitative criteria. Wholesale loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due.

We establish specific allowances for each impaired wholesale loan customer in the aggregate for all facilities, including term loans, cash credits, bills discounted and lease finance, based on either the present value of expected future cash flows discounted at the loan s effective interest rate or the net realizable value of the collateral if the loan is collateral dependent.

Wholesale loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired but are placed on a surveillance watch list and closely monitored for deterioration. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed.

We have also established an unallocated allowance for wholesale standard loans based on the overall portfolio quality, asset growth, economic conditions and other risk factors. We estimate our wholesale unallocated allowance based on an internal credit slippage matrix, which measures our historic losses for our standard loan portfolio.

***Revenue Recognition***

Interest income from loans and from investments is recognized on an accrual basis using effective interest method when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received. Nominal loan application fees are charged which offset the related costs incurred. Fees and commissions from guarantees issued are amortized over the contractual period of the commitment, provided the amounts are

collectible. Dividends from investments are recognized when declared. Realized gains and losses on sale of securities are recorded on the trade date and are determined using the weighted average cost method. Other fees and income are recognized when earned, which is when the service that results in the income has been provided. We amortize the annual fees on credit cards over the contractual period of the fees.

***Investments in Securities***

Investments consist of securities purchased as part of our treasury operations, such as government securities and other debt and equity securities, and investments purchased as part of our wholesale banking operations, such as credit substitute securities issued by our wholesale banking customers. Credit substitute securities typically consist of commercial paper and short-term debentures issued by the same customers with whom we have a lending relationship in our wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as for loans, and we bear the same customer credit risk as we do for loans extended to those customers. Additionally, the yield and maturity terms are generally directly negotiated by us with the issuer. As our exposures to such securities are similar to our exposures on our loan portfolio, additional disclosures have been provided on impairment status in Note 8 of the Financial Statements and on concentrations of credit risk in Note 12 of the Financial Statements.

All other securities including mortgage and asset-backed securities are actively managed as part of our treasury operations. The issuers of such securities are either government, public financial institutions or private issuers. These investments are typically purchased from the market, and debt securities are generally publicly rated.

Securities that are held principally for resale in the near term are classified as held for trading ( HFT ) and are carried at fair value, with changes in fair value recorded in earnings. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity ( HTM ) and are carried at amortized cost.

Equity securities with readily determinable fair values and all debt securities that are not classified as HTM or HFT are classified as available for sale ( AFS ) and are carried at fair value. Unrealized gains and losses on such securities, net of applicable taxes, are reported in accumulated other comprehensive income (loss), a separate component of shareholders equity.

Fair values are based on market quotations where a market quotation is available or otherwise based on present values at current interest rates for such investments.

Transfers between categories are recorded at fair value on the date of the transfer.

Declines in the fair values of held to maturity and available for sale securities below their carrying value that are other than temporary are reflected in earnings as realized losses, based on management s best estimate of the fair value of the investment. We identify other than temporary declines based on an evaluation of all significant factors, including the length of time and extent to which fair value is less than carrying value and the financial condition and economic prospects of the issuer. Estimates of any declines in the fair values of credit substitute securities that are other than temporary are measured on a case-by-case basis together with loans to those customers. We do not recognize an impairment for debt securities if the cause of the decline is related solely to interest rate increase and we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis.

***Business Combination***

We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions especially concerning the determination of the fair values of the acquired intangible and tangible assets, as well as the liabilities assumed at the date of the acquisition. The judgments made in the context of the purchase price allocation can materially impact our future results of operations.

The valuations are based on information available at the acquisition date. Purchase consideration in excess of bank s interest and the acquiree s net fair value of identifiable assets and liabilities is recognized as goodwill.

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### *Goodwill and Other Intangibles*

Goodwill is tested for impairment in accordance with FASB ASC 350-20 Goodwill . Under applicable accounting guidance, goodwill is reviewed at the reporting unit level for potential impairment at least on an annual basis at the end of the reporting period, or more frequently if events or circumstances indicate a potential impairment. This analysis is a two-step process. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated balance sheet. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted. ASC 350-20 Goodwill stipulates that goodwill of a reporting unit shall be tested on an annual basis and in the interim period under certain circumstances. Accordingly, we have determined that we will test the goodwill on our books for impairment at annual rests, unless circumstances warrant us to carry out impairment tests in an interim period. We examined our goodwill that had arisen on acquisition of CBoP for possible impairment as of March 31, 2015. The results of the first step of the impairment test showed no indication of impairment. Accordingly we did not perform the second step of the impairment test.

Intangible assets consist of branch network, representing contractual and non-contractual customer relationships, customer list, core deposit intangible and favorable leases. These are amortized over their estimated useful lives. Amortization of intangible assets is computed in a manner that best reflects the economic benefits of the intangible assets as follows:

| | Useful lives (years) | Amortization method |
|---|---|---|
| Branch network | 6 | Straight-line |
| Customer lists | 2 | Straight-line |
| Core deposit | 5 | Straight-line |
| Favorable leases | 1 to 15 | Straight-line |

For intangible assets subject to amortization, impairment is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible asset.

Branch network intangible represents the benefit that we received through the acquisition of a ready branch network from CBoP as opposed to having to build a new one. The fair value attributable to the branch network intangible is the difference in the present values of the earnings (net of costs) that we would have generated if we had set up our own branches/ATMs (the Hypothetical New Branch Network Earnings ) and the earnings (net of costs) that were generated because of the acquisition of CBoP (the CBoP Branch Network Earnings ). Similar streams of revenues and operating costs (and therefore profits) from CBoP s existing customer base and loan portfolio (includes net interest income, fees

and commission) have been considered in determining the values of the Hypothetical New Branch Network Earnings and the CBoP Branch Network Earnings. Other assets including intangibles such as customer list, core deposits, loans, premises and equipment have been considered as assets of Hypothetical New Branch Network Earnings and the CBoP Branch Network Earnings and the value of these assets have been included in both of the networks. The aforesaid present values to compute the said intangible assets was intended to capture the advantages that we received through the acquisition of a ready branch network from CBoP (as opposed to having to build a new one) in terms of time and of avoiding the administrative process required to obtaining branch licenses from the RBI. We calculated the value of the customer list intangible through the cost approach by considering the estimated direct unit costs to source these customers multiplied by the number of customers. We used the cost savings approach, i.e. the difference between the estimated cost of funds on deposit (interest cost and net maintenance costs) and the estimated cost of an equal amount of funds from an alternative source to calculate the core deposit intangible. The valuation of favorable leases intangibles was based on the cost saving to us and future economic benefit until the lease expiry.

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***Fair Value Measurements***

FASB ASC 820 (Topic 820) Fair Value Measures and Disclosures establishes a fair value hierarchy structure that prioritizes the inputs to valuation techniques used to determine the fair value of an asset or liability. ASC 820 distinguishes between inputs that are based on observed market data and unobservable inputs that reflect market participants assumptions. It emphasizes the use of valuation methodologies that maximize market inputs. For financial instruments carried at fair value, the best evidence of fair value is a quoted price in an actively traded market (Level 1). Where the market for a financial instrument is not active, valuation techniques are used. The majority of valuation techniques use market inputs that are either observable or indirectly derived from and corroborated by observable market data for substantially the full term of the financial instrument (Level 2). Because Level 1 and Level 2 instruments are determined by observable inputs, less judgment is applied in determining their fair values. In the absence of observable market inputs, the financial instrument is valued based on valuation techniques that feature one or more significant unobservable inputs (Level 3). The determination of the level of fair value hierarchy within which the fair value measurement of an asset or a liability is classified often requires judgment. We consider the following factors in developing the fair value hierarchy:

- whether the asset or liability is transacted in an active market with a quoted market price that is readily available;
- the size of transactions occurring in an active market;
- the level of bid-ask spreads;
- whether only a few transactions are observed over a significant period of time;
- whether the inputs to the valuation techniques can be derived from or corroborated with market data; and
- whether significant adjustments are made to the observed pricing information or model output to determine the fair value.

Level 1 inputs are unadjusted quoted prices in active markets that the reporting entity has the ability to access for the identical assets or liabilities. A financial instrument is classified as a Level 1 measurement if it is listed on an exchange. We regard financial instruments such as equity securities and bonds listed on the primary exchanges of a country to be actively traded.

Level 2 inputs are inputs that are observable either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets, for substantially the full term of the financial instrument but do not qualify as Level 1 inputs. We generally classify derivative contracts and investments in debt securities, units of mutual funds, mortgage-backed securities and asset-backed securities as Level 2 measurements. Currently, substantially all such items qualify as Level 2 measurements. Level 2 items are fair valued using quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs are unobservable estimates that management expects market participants would use to determine the fair value of the asset or liability. That is, Level 3 inputs incorporate market participants assumptions about risk and the risk premium required by market participants in order to bear that risk. We develop Level 3 inputs based on the best information available in the circumstances.

If quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

We review and update our fair value hierarchy classifications semi-annually. Changes from one half year to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels. Imprecision in estimating unobservable market inputs can impact the amount of revenue, loss or changes in common shareholder s equity recorded for a particular financial instrument. Furthermore, while we believe our valuation methods are appropriate, the use of different methodologies or assumptions to determine the fair value of certain financial assets and liabilities could result in a different estimate of fair value at the reporting date. See Note 32 of the Financial Statements, *Fair Value Measurement* for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

As of March 31, 2015, our Level 3 instruments recorded at fair value on a recurring basis were available for sale pass through certificates aggregating Rs. 16,249.4 million. The Level 3 instruments comprised 1.0% of our total securities portfolio and 0.3% of our total assets, as of March 31, 2015. The valuation of these pass through certificates is dependent on the estimated cash flows that the underlying trust would pay out. The underlying trust makes assumptions with regards to the various variables arrived at the estimated cash flows. The cash flows for pass through certificates are discounted at the yield-to-maturity rates and credit spreads published by Fixed Income Money Market and Derivatives Association on month ends. There have been no transfers between level 1, 2 and 3 for the year ended March 31, 2014 and March 31, 2015.

A control framework has been established which is designed to ensure that fair values are either determined or validated by a function independent of the risk-taker. To that end, the ultimate responsibility for the validation of the valuation model rests with the treasury analytics section. The valuation model is also reviewed by the market risk department. The middle office department, which functions independent of the risk taker, is responsible for reporting fair values. Wherever necessary the valuation model is vetted through independent experts. In addition, the model prices are compared with market maker quotes. The types of valuation techniques used include present value based models, Black-Scholes valuation models, including variations and interest rate models as used by market practitioners. Where appropriate the models are calibrated to market prices. The models used apply appropriate control processes and procedures to ensure that the derived inputs are used to value only those instruments that share similar risk to the relevant benchmark indexes and therefore demonstrate a similar response to market factors. Market data used along with interpolation techniques are as per market conventions.

The validation process consists of an independent validation of the pricing model. The pricing model validation for significant product variants are conducted using an external validation agency or authority. In addition the model prices are also validated by comparing with market maker quotes. All market data conventions are adhered to in terms of yield curve components, volatility surfaces and calibration instruments.

***Recently Issued Accounting Pronouncements Not Yet Effective***

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) . This update clarifies the principles for revenue recognition in transactions involving contracts with customers. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. We have not yet evaluated what impact, if any, the adoption of this guidance may have on our financial condition, results of operations, or disclosures.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860) , The amendments in this update change the current accounting outcome by requiring repurchase-to-maturity transactions to be accounted for as secured borrowings and for repurchase financing arrangement the amendments require separate accounting for a transfer of the financial asset executed contemporaneously with a repurchase agreement with same counterparty. The amendments also require new disclosures. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2014 and early adoption is not permitted. We have not yet evaluated what impact, if any, the adoption of this guidance may have on our financial condition, results of operations, or disclosures.

In August 2014, the FASB also issued ASU 2014-15, Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. This ASU requires management to perform an assessment of going concern and provides specific guidance on when and how to assess or disclose going concern uncertainties. The new standard also defines terms used in the evaluation of going concern, such as substantial doubt. Following application, the Bank will be required to perform assessments at each annual and interim period, provide an assessment period of one year from the issuance date, and make disclosures in certain circumstances in which substantial doubt is identified. The amendment will be

effective for the Bank for the first reporting period ending after December 15, 2016. Earlier application is permitted. We do not expect this ASU to have an impact on its financial position, result of operations, or disclosures.

In January 2015, FASB issued ASU 2015-01 - Income Statement -Extraordinary and Unusual Items (Subtopic 225-20). The Update removes the concept of extraordinary items from GAAP and eliminates the requirement for extraordinary items to be separately presented in the statement of income. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2015 and early adoption is permitted. The Update will not have a material impact on our consolidated financial statements.

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In February 2015, FASB issued ASU 2015-02 - Consolidation (Topic 810). The Update primarily amends the criteria companies use to evaluate whether they should consolidate certain variable interest entities that have fee arrangements and the criteria used to determine whether partnerships and similar entities are variable interest entities. The Update also excludes certain money market funds from the consolidation guidance. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2015 and early adoption is permitted. We have not yet evaluated what impact, if any, the adoption of this guidance may have on the Bank s financial condition, results of operations, or disclosures.

In April 2015, FASB issued ASU 2015-03 - Interest - Imputation of Interest (Subtopic 835-30). The Update changes the balance sheet presentation for debt issuance costs. Under the new guidance, debt issuance costs should be reported as a deduction from debt liabilities rather than as a deferred charge classified as an asset. . The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2015 and early adoption is permitted. We have not yet evaluated what impact, if any, the adoption of this guidance may have on the Bank s financial condition, results of operations, or disclosures.

In May 2015, FASB issued ASU 2015-07 - Fair Value Measurement (Topic 820). The Update eliminates the disclosure requirement to categorize investments within the fair value hierarchy that are measured at fair value using net asset value as a practical expedient. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2015 and early adoption is permitted. The Update will not affect the Bank s consolidated financial statements as it impacts only the fair value disclosure requirements for certain investments.

**Fiscal Year Ended March 31, 2015 Compared to Fiscal Year Ended March 31, 2014**

***Net Interest Revenue after Allowance for Credit Losses***

Our net interest revenue after allowances for credit losses increased by 25.1% from Rs. 175.1 billion in fiscal 2014 to Rs. 219.2 billion in fiscal 2015. Our net interest margin increased to 4.8% in fiscal 2015. The following table sets out the components of net interest revenue after allowance for credit losses:

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2014 | 2015 | Increase/ Decrease | % Increase/ Decrease |
| | (in millions, except percentages) | | | |
| Interest on loans | Rs. 326,755.3 | Rs. 388,264.7 | Rs. 61,509.4 | 18.8 |
| Interest on securities, including dividends and interest on trading assets | 83,380.5 | 99,252.5 | 15,872.0 | 19.0 |
| Other interest revenue | 12,075.5 | 13,270.0 | 1,194.5 | 9.9 |
| **Total interest and dividend revenue** | **422,211.3** | **500,787.2** | **78,575.9** | **18.6** |
| Interest on deposits | 187,574.7 | 227,321.9 | 39,747.2 | 21.2 |
| Interest on short-term borrowings | 18,075.0 | 6,944.6 | (11,130.4) | (61.6) |
| Interest on long term debt | 23,976.6 | 29,948.0 | 5,971.4 | 24.9 |
| Other interest expense | 12.9 | 396.4 | 383.5 | 2,972.9 |
| **Total interest expense** | **229,639.2** | **264,610.9** | **34,971.7** | **15.2** |
| **Net interest revenue** | **Rs. 192,572.1** | **Rs. 236,176.3** | **Rs. 43,604.2** | **22.6** |
| Less: Allowance for credit losses: | | | | |
| Retail | 14,942.4 | 12,355.4 | (2,587.0) | (17.3) |
| Wholesale | 2,485.7 | 4,644.8 | 2,159.1 | 86.9 |
| **Total** | **Rs. 17,428.1** | **Rs. 17,000.2** | **Rs. (427.9)** | **(2.5)** |
| **Net interest revenue after allowance for credit losses** | **Rs. 175,144.0** | **Rs. 219,176.1** | **Rs. 44,032.1** | **25.1** |

***Interest and Dividend Revenue***

Interest income on loans increased by 18.8% primarily due to an increase in our average loan book. The average balance of our total loan book increased by 20.0% from Rs. 2,839.5 billion in fiscal 2014 to Rs. 3,408.3 billion in fiscal 2015. Our average balance of retail loans increased by 24.4% from Rs. 1,884.5 billion in fiscal 2014 to Rs. 2,345.0 billion in fiscal 2015. The growth in retail loans was across the product segments. Our average balance of wholesale loans increased by 11.4% from Rs. 955.0 billion in fiscal 2014 to Rs. 1,063.4 billion in fiscal 2015. Retail loan yields decreased to 12.1% in fiscal 2015 as compared to 12.4% in fiscal 2014. Wholesale loan yields marginally increased from 9.8% in fiscal 2014 to 9.9% in fiscal 2015.

Interest on securities, including dividends, increased by 19.0% from Rs. 83.4 billion in fiscal 2014 to Rs. 99.3 billion in fiscal 2015, driven by an increase of Rs. 177.0 billion in the average balance of investments. Yields marginally increased from 8.0% in fiscal 2014 to 8.1% in fiscal 2015.

Other interest revenue increased by 9.9% for fiscal 2015 compared to fiscal 2014 due to an increase in interest from securities purchased under resell agreements and placements with central government bodies which are made to comply with the extant RBI guidelines on shortfall in priority sector lending sub-limits and term placements with other banks. Average securities purchased under resell agreements increased by Rs. 17.3 billion in fiscal 2015 and yields thereon increased marginally from 7.0% in fiscal 2014 to 7.1% in fiscal 2015. Average placements with central government bodies increased by Rs. 0.6 billion in fiscal 2015 and yields thereon increased from 5.3% in fiscal 2014 to 5.8% in fiscal 2015.

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### *Interest Expense*

Our interest expense on deposits increased by 21.2% from Rs. 187.6 billion in fiscal 2014 to Rs. 227.3 billion in fiscal 2015 due to an increase in average interest bearing deposits by 22.9% from Rs. 2,737.9 billion in fiscal 2014 to Rs. 3,365.4 billion in fiscal 2015.

There was an increase in the average balance of our savings account deposits from Rs. 893.6 billion in fiscal 2014 to Rs. 1,054.4 billion in fiscal 2015 and an increase in the average balance of our time deposits from Rs. 1,844.2 billion in fiscal 2014 to Rs. 2,311.0 billion in fiscal 2015. Our average cost of deposits remained stable at 5.9% in fiscal 2015. Our interest expense on short-term borrowings decreased by 59.4% from Rs. 18.1 billion in fiscal 2014 to Rs. 7.3 billion in fiscal 2015 mainly on account of a decrease in our average balance of short-term borrowings which decreased by 60.2% from Rs. 327.9 billion in fiscal 2014 to Rs. 130.5 billion in fiscal 2015. This was partially offset by an increase in our cost of short-term borrowings from 5.5% in fiscal 2014 to 5.6% in fiscal 2015. Our interest expense on long-term debt increased by 24.9% primarily on account of an increase in our average balance of long-term debt from Rs. 296.8 billion in fiscal 2014 to Rs. 449.1 billion in fiscal 2015. This was partially offset by a decrease in our cost of long-term debt from 8.1% in fiscal 2014 to 6.7% in fiscal 2015.

### *Allowance for Credit Losses*

Our loan loss allowance for credit losses consists of specific and unallocated components. Allowances for credit losses decreased by 2.5% from Rs. 17.4 billion in fiscal 2014 to Rs. 17.0 billion in fiscal 2015.

Our loan loss allowance for credit losses in our wholesale loan portfolio increased by 86.9% from Rs. 2.5 billion in fiscal 2014 to Rs. 4.6 billion in fiscal 2015. The increase was primarily due to a higher specific loan loss allowance attributable to our recognition of exposure to a specific borrower as impaired which we wrote down in fiscal 2015. The increase in our specific loan loss allowance in our wholesale loan portfolio was further augmented by higher wholesale unallocated loan loss allowance, which increased from Rs. 0.2 billion in fiscal 2014 to Rs. 0.5 billion in fiscal 2015.

Our loan loss allowance for credit losses in our retail loan portfolio decreased by 17.3% from Rs. 14.9 billion in fiscal 2014 to Rs. 12.4 billion in fiscal 2015. The decrease was primarily due to lower allowances in our commercial vehicle and equipment finance loan segment. This decrease was further augmented by lower retail unallocated allowances, which decreased by 96.6% from Rs. 4.5 billion in fiscal 2014 to Rs. 0.2 billion in fiscal 2015. This decrease was mainly attributable to the reduction in expected losses in our commercial vehicle and equipment finance loan segment.

### *Non-Interest Revenue*

Our non-interest revenue increased by 12.7% from Rs. 70.8 billion in fiscal 2014 to Rs. 79.8 billion in fiscal 2015. The following table sets forth the components of our non-interest revenue:

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2014 | 2015 | Increase/ Decrease | % Increase/ Decrease |
| | (in millions, except percentages) | | | |
| Fees and commissions | Rs. 60,314.1 | Rs. 71,423.6 | Rs. 11,109.5 | 18.4% |
| | 1,091.0 | 5,166.1 | 4,075.1 | 373.5 |

| | | | | |
|---|---|---|---|---|
| Realized gains/(loss) on AFS securities | | | | |
| Trading securities gains/(loss), net | (345.1) | 698.1 | 1,043.2 | * |
| Foreign exchange transactions | 9,010.5 | 9,358.0 | 347.5 | 3.9 |
| Derivatives gains/(loss) | 119.5 | (7,393.0) | (7,512.5) | (6,286.6) |
| Other | 644.5 | 568.7 | (75.8) | (11.8) |
| **Total non-interest revenue** | **Rs. 70,834.5** | **Rs.79,821.5** | **Rs. 8,987.0** | **12.7** |

* *Not meaningful*

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Fees and commissions increased by 18.4% from Rs. 60.3 billion in fiscal 2014 to Rs. 71.4 billion in fiscal 2015 primarily on account of an increase in fees and commissions generated by the retail segment. This increase was largely attributable to fees on debit and credit cards, transactional charges, fees on deposit accounts, fees on retail assets and commission on distribution of mutual funds and insurance products.

Gain on trading securities was partly attributable to realized gains on sale of trading securities and partly attributable to mark-to-market gains. Realized gains on AFS securities were primarily on account of sale of Government of India securities.

In fiscal 2015, derivative transactions (unadjusted for credit spread) resulted in a loss of Rs. 7.8 billion, primarily on account of a loss of Rs. 7.6 billion from forward exchange contracts due to mark-to-market losses, which were partially offset by gains on cancellations of forward exchange contracts. In fiscal 2015 currency options, currency swaps and forward rate agreements resulted in a gain of Rs. 0.2 billion. In fiscal 2014, derivative transactions (unadjusted for credit spread) resulted in income of Rs. 0.5 billion primarily on account of income of Rs. 1.6 billion from forward exchange contracts which was largely attributable to cancellations of forward exchange contracts by non-bank customers. This was further augmented by a gain of Rs. 0.7 billion from currency options and currency swaps and partially offset by a loss of Rs. 1.8 billion from interest rate derivatives. Loss from derivative transactions (net of gain of Rs. 0.4 billion on account of credit spread) was Rs. 7.4 billion in fiscal 2015 compared to a gain of Rs. 0.1 billion (net of loss of Rs. 0.4 billion on account of credit spread) in fiscal 2014. Income from foreign exchange transactions amounted to Rs. 9.4 billion during fiscal 2015 as compared to Rs. 9.0 billion in fiscal 2014.

***Non-Interest Expense***

Our non-interest expense was comprised of the following:

| | Years ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | **2015** | **Increase/ Decrease** | **% Increase/ Decrease** | **2014 % of net revenues** | **2015 % of net revenues** |
| | (in millions, except percentages) | | | | | |
| Salaries and staff benefits | Rs. 57,550.3 | Rs. 66,909.4 | Rs. 9,359.1 | 16.3 | 23.4 | 22.4 |
| Premises and equipment | 18,722.8 | 20,499.2 | 1,776.4 | 9.5 | 7.6 | 6.9 |
| Depreciation and amortization | 6,980.3 | 6,905.8 | (74.5) | (1.1) | 2.8 | 2.3 |
| Administrative and other | 39,436.2 | 50,439.6 | 11,003.4 | 27.9 | 16.0 | 16.9 |
| Amortization of intangibles | 1,538.5 | 219.0 | (1,319.5) | (85.8) | 0.6 | 0.1 |
| **Total non-interest expense** | **Rs. 124,228.1** | **Rs. 144,973.0** | **Rs. 20,744.9** | **16.7** | **50.4** | **48.6** |

Total non-interest expense increased by 16.7% from Rs. 124.2 billion in fiscal 2014 to Rs. 145.0 billion in fiscal 2015. As of March 31, 2015, we had 4,014 branches and 11,766 ATMs across 2,464 locations, which increased from 3,403 branches and 11,256 ATMs across 2,171 locations as of March 31, 2014. This led to an overall increase in our non-interest expense. Our net interest revenue after allowances for credit losses increased by 25.1% from Rs. 175.1 billion in fiscal 2014 to Rs. 219.2 billion in fiscal 2015. As a result, our non-interest expense as a percentage of our net revenues was 48.6% in fiscal 2015 as compared to 50.4% in fiscal 2014.

Salaries and staff benefits increased by 16.3% from Rs. 57.6 billion in fiscal 2014 to Rs. 66.9 billion in fiscal 2015. This increase was primarily attributable to an increase in staff salaries and allowances and in the number of employees

from 68,165 employees as of March 31, 2014 to 76,286 employees as of March 31, 2015.

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Premises and equipment costs increased by 9.5% from Rs. 18.7 billion in fiscal 2014 to Rs. 20.5 billion in fiscal 2015 on account of an increase in rent, electricity, security, equipment maintenance and other infrastructure costs relating to the expanded branch network.

Depreciation and amortization expenses decreased marginally from Rs. 7.0 billion in fiscal 2014 to Rs. 6.9 billion in fiscal 2015.

Administrative and other expenses increased by 27.9% from Rs. 39.4 billion in fiscal 2014 to Rs. 50.4 billion in fiscal 2015 primarily on account of higher printing and stationery, insurance, advertisement and operating expenses for our credit cards and transactional banking businesses.

We continued to amortize the intangible assets that were acquired on the merger of CBoP (i.e. our branch network representing contractual and non-contractual customer relationships, customer list, core deposit intangible, and favorable leases) over their estimated remaining useful life. This amortization resulted in a charge of Rs. 0.2 billion in fiscal 2015.

***Income Tax***

Our income tax expense, net of interest earned on income tax refunds, increased by 28.9%, from Rs. 42.3 billion in fiscal 2014 to Rs. 54.5 billion in fiscal 2015. Our effective tax rate was 34.7% in fiscal 2014 and 35.4% in fiscal 2015. The effective tax rate was higher in fiscal 2015 primarily on account of higher stock-based compensation, which was partially offset by higher tax free income from our investments.

The following table gives a reconciliation of the Indian statutory income tax rate to our annual effective income tax rate for fiscals 2014 and 2015:

| | **Year ended March 31,** | |
|---|---|---|
| | **2014** | **2015** |
| Effective statutory income tax rate | 33.99% | 33.99% |
| Adjustments to reconcile statutory income tax rate to effective income tax rate: | | |
| Stock-based compensation (net of forfeitures) | 1.53 | 2.02 |
| Income exempt from taxes | (0.37) | (0.67) |
| Interest on income tax refunds | (0.01) | (0.04) |
| Other, net | 0.10 | 0.09 |
| Effect of change in statutory tax rate | (0.50) | |
| Annual effective income tax rate | 34.74% | 35.39% |

***Net Income***

As a result of the foregoing factors, our net income after taxes increased by 25.1% from Rs. 79.3 billion in fiscal 2014 to Rs. 99.2 billion in fiscal 2015.

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**Fiscal Year Ended March 31, 2014 Compared to Fiscal Year Ended March 31, 2013**

***Net Interest Revenue after Allowance for Credit Losses***

Our net interest revenue after allowances for credit losses increased by 21.3% from Rs. 144.4 billion in fiscal 2013 to Rs. 175.1 billion in fiscal 2014. Our net interest margin increased to 4.7% in fiscal 2014. The following table sets out the components of net interest revenue after allowance for credit losses:

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | Increase/ (Decrease) | % Increase/ (Decrease) |
| | (in millions, except percentages) | | | |
| Interest on loans | Rs. 271,730.5 | Rs. 326,755.3 | Rs. 55,024.8 | 20.2% |
| Interest on securities, including dividends and interest on trading assets | 72,334.2 | 83,380.5 | 11,046.3 | 15.3 |
| Other interest revenue | 9,813.8 | 12,075.5 | 2,261.7 | 23.0 |
| **Total interest and dividend revenue** | **353,878.5** | **422,211.3** | **68,332.8** | **19.3** |
| Interest on deposits | 163,092.7 | 187,574.7 | 24,482.0 | 15.0 |
| Interest on short-term borrowings | 13,888.4 | 18,075.0 | 4,186.6 | 30.1 |
| Interest on long term debt | 19,556.9 | 23,976.6 | 4,419.7 | 22.6 |
| Other interest expense | 264.0 | 12.9 | (251.1) | (95.1) |
| **Total interest expense** | **196,802.0** | **229,639.2** | **32,837.2** | **16.7** |
| **Net interest revenue** | **Rs. 157,076.5** | **Rs. 192,572.1** | **Rs. 35,495.6** | **22.6%** |
| Less allowance for credit losses: | | | | |
| Retail | 11,107.1 | 14,942.4 | 3,835.3 | 34.5 |
| Wholesale | 1,580.9 | 2,485.7 | 904.8 | 57.2 |
| **Total** | **Rs. 12,688.0** | **Rs. 17,428.1** | **Rs. 4,740.1** | **37.4%** |
| **Net interest revenue after allowance for credit losses** | **Rs. 144,388.5** | **Rs. 175,144.0** | **Rs. 30,755.5** | **21.3%** |

***Interest and Dividend Revenue***

Interest income on loans increased by 20.2% primarily due to an increase in our average loan book. The average balance of our total loan book increased by 22.0% from Rs. 2,328.3 billion in fiscal 2013 to Rs. 2,839.5 billion in fiscal 2014. Our average balance of retail loans increased by 25.7% from Rs. 1,499.2 billion in fiscal 2013 to Rs. 1,884.5 billion in fiscal 2014. The growth in retail loans was across the product segments. Our average balance of wholesale loans increased by 15.2% from Rs. 829.2 billion in fiscal 2013 to Rs. 955.0 billion in fiscal 2014. Retail loan yields decreased to 12.4% in fiscal 2014 as compared to 12.6% in fiscal 2013. Wholesale loan yields marginally decreased from 9.9% in fiscal 2013 to 9.8% in fiscal 2014.

Interest on securities, including dividends, increased by 15.3% from Rs. 72.3 billion in fiscal 2013 to Rs. 83.4 billion in fiscal 2014, driven by an increase of Rs. 148.3 billion in the average balance of investments. Yields marginally declined from 8.1% in fiscal 2013 to 8.0% in fiscal 2014.

Other interest revenue increased by 23.0% for fiscal 2014 compared to fiscal 2013 due to an increase in interest from our placements with central government bodies which are made to comply with the extant RBI guidelines on shortfall in priority sector lending sub-limits and term placements with other banks. Average placements with central government bodies increased by Rs. 12.0 billion in fiscal 2014 and yields thereon increased from 4.9% in fiscal 2013 to 5.3% in fiscal 2014.

***Interest Expense***

Our interest expense on deposits increased by 15.0% from Rs. 163.1 billion in fiscal 2013 to Rs. 187.6 billion in fiscal 2014 due to an increase in average interest bearing deposits by 21.9% from Rs. 2,245.5 billion in fiscal 2013 to Rs. 2,737.9 billion in fiscal 2014.

There was an increase in the average balance of our savings accounts from Rs. 764.2 billion in fiscal 2013 to Rs. 893.6 billion in fiscal 2014 and an increase in the average balance of our time deposits from Rs. 1,481.3 billion in fiscal 2013 to Rs. 1,844.2 billion in fiscal 2014. Our average cost of deposits declined marginally from 6.1% in fiscal 2013 to 5.9% in fiscal 2014 as a result of a decrease in the average cost of time deposits from 9.0% in fiscal 2013 to 8.2% in fiscal 2014.

Our interest expense on short-term borrowings increased by 27.8% from Rs. 14.2 billion in fiscal 2013 to Rs. 18.1 billion in fiscal 2014 mainly on account of an increase in our average balance of short-term borrowings which increased by 35.5% from Rs. 241.9 billion in fiscal 2013 to Rs. 327.9 billion in fiscal 2014. This was partially offset by a decrease in our cost of short-term borrowings from 5.9% in fiscal 2013 to 5.5% in fiscal 2014. Our interest expense on long-term debt increased by 22.6% primarily on account of an increase in our average balance of long-term debt from Rs. 234.5 billion in fiscal 2013 to Rs. 296.8 billion in fiscal 2014. This was partially offset by a decrease in our cost of long-term debt from 8.3% in fiscal 2013 to 8.1% in fiscal 2014.

***Allowance for Credit Losses***

Our loan loss allowance for credit losses consists of specific and unallocated components. Allowances for credit losses increased by 37.4% from Rs. 12.7 billion in fiscal 2013 to Rs. 17.4 billion in fiscal 2014.

This increase was mainly attributable to an increase in the allowances for credit losses in our wholesale loan portfolio which increased by 57.2% from Rs. 1.6 billion in fiscal 2013 to Rs. 2.5 billion in fiscal 2014. The increase was primarily due to higher specific loan loss allowances attributable to certain specific segments which were adversely affected by slower GDP growth, the ban on mining of iron ore in many areas due to environmental factors and a slowdown in industrial investments. The increase in our specific loan loss allowance in our wholesale loan portfolio was partially offset by a decrease in the wholesale unallocated loan loss allowance, which decreased from Rs. 1.3 billion in fiscal 2013 to Rs. 0.2 billion in fiscal 2014.

Our loan loss allowance for credit losses in our retail loan portfolio increased by 34.5% from Rs. 11.1 billion in fiscal 2013 to Rs. 14.9 billion in fiscal 2014. The increase was primarily due to higher allowances in our commercial vehicle and equipment finance loan segment. Unfavorable economic situation characterized by continued stress in the segment largely attributable to the moderation in industrial activity and continued stagnancy in mining activity led to an increase in the delinquency of these loans. This was further augmented by higher retail unallocated allowances, which increased by 34.2% from Rs. 3.3 billion in fiscal 2013 to Rs. 4.5 billion in fiscal 2014. This increase was mainly attributable to the growth in our retail loan portfolio and expected losses thereon. The average balance of our retail loans increased by 25.7% from Rs. 1,499.2 billion in fiscal 2013 to Rs. 1,884.5 billion in fiscal 2014.

***Non-Interest Revenue***

Our non-interest revenue increased by 8.7% from Rs. 65.2 billion in fiscal 2013 to Rs. 70.8 billion in fiscal 2014. The following table sets forth the components of our non-interest revenue:

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | Increase/ (Decrease) | % Increase/ (Decrease) |
| | (in millions, except percentages) | | | |
| Fees and commissions | Rs. 53,989.6 | Rs. 60,314.1 | Rs. 6,324.5 | 11.7% |

| | | | | |
|---|---|---|---|---|
| Realized gains/(losses) on AFS securities | 681.5 | 1,091.0 | 409.5 | 60.1 |
| Trading securities gain/(loss), net | 105.0 | (345.1) | (450.1) | (428.7) |
| Foreign exchange transactions | 9,727.0 | 9,010.5 | (716.5) | (7.4) |
| Derivatives gains/(loss) | 241.9 | 119.5 | (122.4) | (50.6) |
| Other | 432.4 | 644.5 | 212.1 | 49.1 |
| **Total non-interest revenue** | **Rs. 65,177.4** | **Rs. 70,834.5** | **Rs. 5,657.1** | **8.7%** |

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Fees and commissions increased by 11.7% from Rs. 54.0 billion in fiscal 2013 to Rs. 60.3 billion in fiscal 2014 primarily on account of an increase in fees and commissions generated by the retail segment. This increase was primarily attributable to fees and charges on retail asset products, fees on credit cards and transactional charges and fees on deposit accounts. Fees and charges on retail asset products were primarily comprised of processing fees on new loans, foreclosure charges and certain transaction specific charges. An increase in volume of credit card spends led to higher interchange income. Increase in our fees and commissions earned from our wholesale banking business was partially offset by a decline in the income from our consignment bullion business attributable to the regulatory changes during the fiscal year to contain import of bullion in India.

Realized gains on AFS securities were primarily on account of sale of Government of India securities and some of our other investment securities. Loss on trading securities was primarily attributable to mark-to-market losses.

In fiscal 2014, derivative transactions (unadjusted for credit spread) resulted in income of Rs. 0.5 billion. The income during fiscal 2014 was primarily on account of income of Rs. 1.6 billion from forward exchange contracts which was primarily attributable to cancellations of forward exchange contracts by non-bank customers. This income was further augmented by a gain of Rs. 0.7 billion from currency options and currency swaps and partially offset by loss of Rs. 1.8 billion from interest rate derivatives. Loss from interest rate derivatives was largely attributable to mark-to-market loss on account of increase in interest rates during fiscal 2014. In fiscal 2013, derivative transactions (unadjusted for credit spread) resulted in income of Rs. 0.3 billion primarily due to gain of Rs. 3.1 billion from forward exchange contracts, offset by loss of Rs. 2.2 billion from interest rate derivatives and loss of Rs. 0.7 billion from currency options and currency swaps. Gain from derivative transactions (net of loss of Rs. 0.4 billion on account of credit spread) was Rs. 0.1 billion in fiscal 2014 as compared to a gain of Rs. 0.2 billion (net of loss of Rs. 0.1 billion on account of credit spread) in fiscal 2013. Income from foreign exchange transactions decreased from Rs. 9.7 billion in fiscal 2013 to Rs. 9.0 billion in fiscal 2014.

***Non-Interest Expense***

Our non-interest expense was comprised of the following:

| | Year ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | Increase/ (Decrease) | % Increase/ (Decrease) | 2013 % of net revenues | 2014 % of net revenues |
| | (in millions, except percentages) | | | | | |
| Salaries and staff benefits | Rs. 53,954.1 | Rs. 57,550.3 | Rs. 3,596.2 | 6.7% | 25.7% | 23.4% |
| Premises and equipment | 17,391.4 | 18,722.8 | 1,331.4 | 7.7 | 8.3 | 7.6 |
| Depreciation and amortization | 6,686.2 | 6,980.3 | 294.1 | 4.4 | 3.2 | 2.8 |
| Administrative and other | 37,254.9 | 39,436.2 | 2,181.3 | 5.9 | 17.8 | 16.0 |
| Amortization of intangibles | 2,304.5 | 1,538.5 | (766.0) | (33.2) | 1.1 | 0.6 |
| **Total non-interest expense** | **Rs. 117,591.1** | **Rs. 124,228.1** | **Rs. 6,637.0** | **5.6%** | **56.1%** | **50.4%** |

Total non-interest expense increased by 5.6% from Rs. 117.6 billion in fiscal 2013 to Rs. 124.2 billion in fiscal 2014. As of March 31, 2014, we had 3,403 branches and 11,256 ATMs across 2,171 locations, which increased from 3,062 branches and 10,743 ATMs across 1,845 locations as of March 31, 2013. This led to an overall increase in our non-interest expense. We undertook measures for cost management and productivity improvement of our staff during

the fiscal. These measures also helped us in expanding our distribution network without a corresponding increase in the number of our employees. This caused the growth in our non-interest expense to be lower than the pace of our revenue growth. Our net interest revenue after allowances for credit losses increased by 21.3% from Rs. 144.4 billion in fiscal 2013 to Rs. 175.1 billion in fiscal 2014. As a result, our non-interest expense as a percentage of our net revenues was 50.4% in fiscal 2014 as compared to 56.1% in fiscal 2013.

Salaries and staff benefits increased by 6.7% from Rs. 54.0 billion in fiscal 2013 to Rs. 57.6 billion in fiscal 2014. This increase was primarily attributable to an increase in staff salaries and allowances partially offset by a decline in the number of employees from 69,065 employees as of March 31, 2013 to 68,165 employees as of March 31, 2014.

Premises and equipment costs increased by 7.7% from Rs. 17.4 billion in fiscal 2013 to Rs. 18.7 billion in fiscal 2014 on account of an increase in rent, electricity, housekeeping, security, equipment maintenance and other infrastructure costs relating to the expanded branch network.

Depreciation and amortization expenses increased by 4.4% from Rs. 6.7 billion in fiscal 2013 to Rs. 7.0 billion in fiscal 2014 due to the increase in our distribution network and higher spending on technology and infrastructure to support our growth.

Administrative and other expenses increased by 5.9% from Rs. 37.3 billion in fiscal 2013 to Rs. 39.4 billion in fiscal 2014 primarily on account of higher insurance, postage and communication and operating expenses for our credit cards and transactional banking businesses.

We continued to amortize the intangible assets that were acquired on the merger of CBoP i.e. our branch network representing contractual and non-contractual customer relationships, customer list, core deposit intangible, and favorable leases over their estimated remaining useful life. This amortization resulted in a charge of Rs. 1.5 billion in fiscal 2014.

***Income Tax***

Our income tax expense, net of interest earned on income tax refunds, increased by 41.8%, from Rs. 29.8 billion in fiscal 2013 to Rs. 42.3 billion in fiscal 2014. Our effective tax rate was 32.4% in fiscal 2013 and 34.7% in fiscal 2014. The effective tax rate was higher in fiscal 2014 primarily on account of lower tax free income from our investments and an increase in the statutory income tax rate.

The following table gives a reconciliation of the Indian statutory income tax rate to our annual effective income tax rate for fiscals 2013 and 2014:

| | **Year ended March 31,** | |
|---|---|---|
| | **2013** | **2014** |
| Effective statutory income tax rate | 32.45% | 33.99% |
| Adjustments to reconcile statutory income tax rate to effective income tax rate: | | |
| Stock-based compensation (net of forfeitures) | 1.60 | 1.53 |
| Income exempt from taxes | (0.65) | (0.37) |
| Interest on income tax refunds | (0.83) | (0.01) |
| Other, net | (0.13) | 0.10 |
| Effect of change in statutory tax rate | | (0.50) |
| Annual effective income tax rate | 32.44% | 34.74% |

***Net Income***

As a result of the foregoing factors, our net income after taxes increased by 28.3% from Rs. 61.8 billion in fiscal 2013 to Rs. 79.3 billion in fiscal 2014.

**Liquidity and Capital Resources**

Our growth is financed by a combination of cash generated from operations, increases in our customer deposits, borrowings and new issuances of equity capital and other securities qualifying as Tier 2 capital.

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The following table sets forth our cash flows from operating activities, investing activities and financing activities in a condensed format. We have aggregated certain line items set forth in the cash flow statement that is part of our financial statements included elsewhere in this report in order to facilitate an understanding of significant trends in our business.

| | Year ended March 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | | (in millions) | |
| **Cash Flows from Operating Activities:** | | | |
| Net income before non-controlling interest | Rs. 62,134.7 | Rs. 79,446.2 | Rs. 99,504.7 |
| Non-cash adjustments to net income | 21,323.4 | 23,298.2 | 29,081.3 |
| Net change in other assets and liabilities | (11,944.6) | 24,406.9 | (19,228.9) |
| **Net cash provided by operating activities** | **Rs. 71,513.5** | **Rs. 127,151.3** | **Rs. 109,357.1** |
| **Cash Flows from Investing Activities:** | | | |
| Net change in term placements | (49,169.2) | 22,784.0 | 6,492.2 |
| Net change in investments | (200,007.5) | 93,594.1 | (556,126.5) |
| Net change in repurchase options and reverse repurchase options | 88,868.3 | (195,322.6) | 105,730.0 |
| Loans purchased net of repayments | (11,047.2) | (18,862.0) | (47,002.7) |
| Increase in loans originated, net of principal collections | (503,662.9) | (669,463.7) | (672,149.0) |
| Net additions to property and equipment | (9,951.0) | (9,601.2) | (8,584.5) |
| **Net cash used in investing activities** | **Rs. (684,969.5)** | **Rs. (776,871.4)** | **Rs. (1,171,640.5)** |
| **Cash Flows from Financing Activities:** | | | |
| Net increase in deposits | 493,240.6 | 708,925.0 | 824,928.2 |
| Net increase/(decrease) in short-term borrowings | 33,123.4 | 477.7 | 61,577.6 |
| Proceeds from issuance of shares by subsidiaries to non-controlling interest | 34.6 | 162.4 | 340.8 |
| Net increase in long-term debt | 116,830.3 | 95,278.0 | 54,933.6 |
| Proceeds from issuance of equity shares for options exercised | 10,949.5 | 7,232.9 | 9,954.1 |
| Proceeds from application for issuance of equity shares for options exercised pending allotment | 221.5 | | 97,227.9 |
| Payment of dividends and dividend tax | (11,787.0) | (15,372.6) | (19,300.5) |
| Purchase of subsidiary shares from noncontrolling interest | | (2,265.8) | (715.7) |
| **Net cash provided by financing activities** | **Rs. 642,612.9** | **Rs. 794,437.6** | **Rs. 1,028,946.0** |
| Effect of exchange rate changes on cash and cash equivalents | 1,540.3 | 7,377.5 | 3,626.5 |
| **Net change in cash and cash equivalents** | **30,697.2** | **152,095.0** | **(29,710.9)** |
| Cash and cash equivalents, beginning of year | 188,043.0 | 218,740.2 | 370,835.2 |
| **Cash and cash equivalents, end of year** | **Rs. 218,740.2** | **Rs. 370,835.2** | **Rs. 341,124.3** |

**Fiscal Year Ended March 31, 2015 Compared to Fiscal Year Ended March 31, 2014**

***Cash Flows from Operating Activities***

Our net cash provided by operating activities reflects our net income, adjustments for tax and non-cash charges (such as depreciation and amortization), as well as changes in other assets and liabilities. Our net cash provided by operating activities decreased from Rs. 127.2 billion in fiscal 2014 to Rs. 109.4 billion in fiscal 2015 mainly due to lower cash flows in fiscal 2015 as compared to fiscal 2014. Lower cash flows were largely a result of a decrease in remittances in transit and accounts payable, which were partially offset by an increase in our net income.

***Cash Flows from Investing Activities***

We used our cash from operations and financing activities primarily to invest in our loan book and debt securities. The increase in loans originated and purchased, net of principal collections and repayments, was Rs. 719.2 billion in fiscal 2015 and Rs. 688.3 billion in fiscal 2014 largely on account of an increase in both our retail and wholesale loan portfolios. The increase in investments in fiscal 2015 was Rs. 556.1 billion primarily on account of an increase in available-for-sale Government of India securities and in our investments in credit substitutes.

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*Cash Flows from Financing Activities*

Our primary sources of cash flows from financing activities are deposits and, to a lesser extent, borrowings. Our total deposits increased by 22.7% from Rs. 3,670.0 billion in fiscal 2014 to Rs. 4,501.7 billion in fiscal 2015. Savings account deposits at Rs. 1,249.3 billion and current account deposits at Rs. 733.0 billion accounted for 44.0% of total deposits as of March 31, 2015. There was a 24.4% increase in our time deposits from Rs. 2,025.8 billion in fiscal 2014 to Rs. 2,519.4 billion in fiscal 2015. Our short-term borrowings increased by Rs. 63.4 billion from Rs. 150.8 billion in fiscal 2014 to Rs. 214.2 billion in fiscal 2015. There was an increase in long-term debt from Rs. 395.2 billion in fiscal 2014 to Rs. 457.9 billion in fiscal 2015 mainly on account of the issuance of long-term debt of Rs. 30.0 billion in accordance with RBI guidelines for issuance of long term bonds by banks for financing infrastructure project loans and lending to the affordable housing sector.

**Fiscal Year Ended March 31, 2014 Compared to Fiscal Year Ended March 31, 2013**

*Cash Flows from Operating Activities*

Our net cash provided by operating activities reflects our net income, adjustments for tax and non-cash charges such as depreciation and amortization, as well as changes in other assets and liabilities. Our net cash provided by operating activities increased from Rs. 71.5 billion in fiscal 2013 to Rs. 127.2 billion in fiscal 2014, mainly due to higher cash flows in fiscal 2014 as compared to fiscal 2013 as a result of increase in our net income and a decrease in our investments held for trading.

*Cash Flows from Investing Activities*

We used our cash from operations and financing activities primarily to invest in our loan book and debt securities. The increase in loans originated and purchased, net of principal collections and repayments, was Rs. 688.3 billion in fiscal 2014 and Rs. 514.7 billion in fiscal 2013 on account of an increase in both our retail and wholesale loan portfolios. The decrease in investments in fiscal 2014 was Rs. 93.6 billion primarily on account of decrease in available-for-sale Government of India securities.

*Cash Flows from Financing Activities*

Our primary sources of cash flows from financing activities are deposits and, to a lesser extent, borrowings. Our total deposits increased by 24.0% from Rs. 2,960.5 billion in fiscal 2013 to Rs. 3,670.0 billion in fiscal 2014. Savings account deposits at Rs. 1,031.3 billion and current account deposits at Rs. 612.8 billion accounted for approximately 45% of total deposits as of March 31, 2014. There was a 30.2% increase in our time deposits from Rs. 1,556.1 billion in fiscal 2013 to Rs. 2,025.8 billion in fiscal 2014. This included an inflow of US$ 3.4 billion of foreign currency non-resident (FCNR) deposits raised under the prescribed RBI scheme for attracting foreign currency flows in India. Our short-term borrowings increased by Rs. 5.2 billion from Rs. 145.6 billion in fiscal 2013 to Rs. 150.8 billion in fiscal 2014. There was an increase in long-term debt from Rs. 295.2 billion in fiscal 2013 to Rs. 395.2 billion in fiscal 2014 mainly on account of issuance of debt instruments primarily to fund the growth in loans of our overseas branches.

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## Financial Condition

### *Assets*

The following table sets forth the principal components of our assets as of March 31, 2014 and March 31, 2015:

| | As of March 31, | | | |
|---|---|---|---|---|
| | 2014 | 2015 | Increase/ (decrease) | % Increase/ (decrease) |
| | (in millions except percentages) | | | |
| Cash and cash equivalents | Rs. 370,835.2 | Rs. 341,124.3 | Rs. (29,710.9) | (8.0) |
| Term placements | 176,481.7 | 169,989.5 | (6,492.2) | (3.7) |
| Investments held for trading | 65,077.9 | 61,292.8 | (3,785.1) | (5.8) |
| Investments available for sale | 908,824.3 | 1,504,412.8 | 595,588.5 | 65.5 |
| Securities purchased under agreements to resell | 57,322.6 | 1,592.6 | (55,730.0) | (97.2) |
| Loans, net | 3,185,648.1 | 3,896,115.0 | 710,466.9 | 22.3 |
| Accrued interest receivable | 40,388.5 | 45,705.0 | 5,316.5 | 13.2 |
| Property and equipment | 31,369.1 | 33,355.9 | 1,986.8 | 6.3 |
| Intangibles | 231.0 | 12.0 | (219.0) | (94.8) |
| Goodwill | 74,937.9 | 74,937.9 | | |
| Other assets | 214,291.0 | 130,478.0 | (83,813.0) | (39.1) |
| **Total assets** | **Rs. 5,125,407.3** | **Rs. 6,259,015.8** | **Rs. 1,133,608.5** | **22.1** |

Our total assets increased by 22.1% to Rs. 6,259.0 billion in fiscal 2015 from Rs. 5,125.4 billion in fiscal 2014.

Our cash and cash equivalents decreased from Rs. 370.8 billion as of March 31, 2014 to Rs. 341.1 billion as of March 31, 2015 primarily on account of net cash used in our investing activities, partially offset by net cash provided by our operating and financing activities. Cash and cash equivalents include currency on hand as well as demand deposits with banks or financial institutions. We are also required to maintain cash balances with the RBI to meet our cash reserve ratio requirement. We are required to maintain a specific percentage of our demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system.

Term placements consist of placements with banks and financial institutions in the ordinary course of business. These have original maturities for periods ranging between three months and fifteen years. Term placements decreased primarily on account of decrease in our placements with central government bodies. Placements with central government bodies are made to comply with the extant RBI guidelines on shortfalls in priority sector lending sub-limits and account for 87% of term placements as of March 31, 2015.

Securities held under the trading portfolio are for trading purposes and are generally sold within 90 days from purchase. Investments held for trading decreased by 5.8% from Rs. 65.1 billion as of March 31, 2014 to Rs. 61.3 billion as of March 31, 2015 primarily on account of the sale of our investments in corporate bonds, partially offset by an increase in our Government of India securities.

Investments available for sale increased by 65.5% primarily on account of an increase in our Government of India securities and investments in credit substitutes.

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Net loans increased on account of an increase in both our retail lending as well as wholesale lending. Our outstanding gross retail loan portfolio increased by 24.3% from Rs. 2,188.3 billion as of March 31, 2014 to Rs. 2,721.0 billion as of March 31, 2015. The growth in retail loans was across the product segments. Our gross wholesale loan book increased by 17.6% from Rs. 1,039.9 billion in fiscal 2014 to Rs. 1,222.5 billion in fiscal 2015 primarily on account of an increase in our corporate banking loan portfolio.

Accrued interest receivable increased by 13.2% from Rs. 40.4 billion to Rs. 45.7 billion primarily on account of an increase in our loans and investment securities.

Our property and equipment increased by 6.3% from Rs. 31.4 billion in fiscal 2014 to Rs. 33.4 billion in fiscal 2015, primarily on account of growth in our distribution network. As of March 31, 2014 we had a network of 3,403 branches in 2,171 locations which grew to 4,014 branches across 2,464 locations as of March 31, 2015.

We acquired a branch network representing contractual and non-contractual customer relationships, customer lists, core deposits and favorable leases as identified intangible assets on account of our acquisition of CBoP in 2008. These intangibles amounted to Rs. 16.0 billion as of the date of acquisition. We have amortized these intangibles over their estimated remaining useful life, resulting in a charge of Rs. 1.5 billion and Rs. 0.2 billion for fiscals 2014 and 2015, respectively. Consequently, these intangibles were carried at an amortized value of Rs. 231.0 million and Rs. 12.0 million as of March 31, 2014 and March 31, 2015, respectively.

We paid a purchase consideration of Rs. 102.8 billion to acquire the net assets of CBoP at a fair value of Rs. 27.8 billion, thereby recognizing unidentified intangibles (goodwill) of Rs. 74.9 billion during fiscal 2009. The primary purpose of the acquisition was to realize potential synergies, growth opportunities and cost savings from combining our businesses. The goodwill arising from the business combination is tested on an annual basis for impairment. The said goodwill has not been impaired as of March 31, 2015 and has been carried forward at the same value as the value at the acquisition date.

Other assets decreased by 39.1% from Rs. 214.3 billion as of March 31, 2014 to Rs. 130.5 billion as of March 31, 2015 primarily on account of a decrease in derivatives from Rs. 142.5 billion in fiscal 2014 to Rs. 72.4 billion in fiscal 2015. This was largely attributable to the decrease in mark-to-market gains from forward exchange contracts.

***Liabilities and Shareholders Equity***

The following table sets forth the principal components of our liabilities and shareholders equity as of March 31, 2014 and March 31, 2015:

| | As of March 31, | | | |
|---|---|---|---|---|
| | | | Increase/ | Increase/ |
| | **2014** | **2015** | **(decrease)** | **(decrease)** |
| | (in millions, except percentages) | | | % |
| **Liabilities** | | | | |
| *Interest bearing deposits* | Rs. 3,057,154.5 | Rs. 3,768,678.8 | Rs. 711,524.3 | 23.3 |
| *Non-interest bearing deposits* | 612,845.6 | 733,032.0 | 120,186.4 | 19.6 |
| **Total deposits** | **3,670,000.1** | **4,501,710.8** | **831,710.7** | **22.7** |
| | | 50,000.0 | 50,000.0 | |

| | | | | |
|---|---|---|---|---|
| Securities sold under repurchase agreements | | | | |
| Short-term borrowings | 150,775.5 | 214,191.9 | 63,416.4 | 42.1 |
| Accrued interest payable | 27,734.7 | 32,689.5 | 4,954.8 | 17.9 |
| Long-term debt | 395,208.6 | 457,934.4 | 62,725.8 | 15.9 |
| Accrued expenses and other liabilities | 348,687.7 | 250,921.6 | (97,766.1) | (28.0) |
| **Total liabilities** | **4,592,406.6** | **5,507,448.2** | **915,041.6** | **19.9** |
| Non-controlling interest in subsidiaries | 1,094.0 | 1,315.5 | 221.5 | 20.2 |
| HDFC Bank Limited shareholders equity | 531,906.7 | 750,252.1 | 218,345.4 | 41.0 |
| **Total liabilities and shareholders equity** | **Rs. 5,125,407.3** | **Rs. 6,259,015.8** | **Rs. 1,133,608.5** | **22.1** |

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Our total liabilities increased by 19.9% from Rs. 4,592.4 billion as of March 31, 2014 to Rs. 5,507.4 billion as of March 31, 2015. The increase in our interest-bearing deposits was on account of an increase in savings deposits and time deposits. Savings account deposits increased by 21.1% from Rs. 1,031.3 billion as of March 31, 2014 to Rs. 1,249.3 billion as of March 31, 2015. Time deposits increased by 24.4% from Rs. 2,025.8 billion as of March 31, 2014 to Rs. 2,519.4 billion as of March 31, 2015. Our non-interest bearing deposits increased by 19.6% from Rs. 612.8 billion as of March 31, 2014 to Rs. 733.0 billion as of March 31, 2015. Of our total deposits as of March 31, 2015, retail deposits accounted for 79% and wholesale deposits accounted for the balance.

Most of our funding requirements are met through short-term and medium-term funding sources. Of our total non-equity sources of funding, primarily comprised of deposits and borrowings, deposits accounted for 81.7%, short-term borrowings accounted for 3.9% and long-term debt accounted for 8.3% as of March 31, 2015. Our short-term borrowings, comprised primarily of money market borrowings, increased by Rs. 63.4 billion from Rs. 150.8 billion as of March 31, 2014 to Rs. 214.2 billion as of March 31, 2015 and our long-term debt increased by 15.9% from Rs. 395.2 billion as of March 31, 2014 to Rs. 457.9 billion as of March 31, 2015.

Accrued interest payable increased by Rs. 5.0 billion from Rs. 27.7 billion as of March 31, 2014 to Rs. 32.7 billion as of March 31, 2015. This increase was primarily on account of interest accrued on our subordinated debt borrowings and deposits.

Accrued expenses and other liabilities decreased by 28.0% from Rs. 348.7 billion as of March 31, 2014 to Rs. 250.9 billion as of March 31, 2015 primarily because of a decrease in derivatives from Rs. 124.2 billion as of March 31, 2014 to Rs. 71.8 billion as of March 31, 2015. This was largely attributable to a decrease in the mark-to-market losses from forward exchange contracts and accounts payable.

Pursuant to shareholder and regulatory approvals, on February 10, 2015, we concluded a qualified institutions placement of 18,744,142 equity shares at a price of Rs. 1,067 per equity share aggregating approximately Rs. 20 billion and an American depository receipt (ADR) offering of 22,000,000 ADRs (representing 66,000,000 equity shares) at a price of USD 57.76 per ADR, aggregating approximately US$ 1.3 billion. As a result of these issuances, the shareholders equity increased by Rs. 97.2 billion, net of share issue expenses of Rs. 1.5 billion. Shareholders equity further increased on exercise of 22,700,740 stock options by employees and an increase in our retained earnings and accumulated other comprehensive income (primarily on account of mark-to-market gains on available for sale securities).

## Capital

We are a banking company within the meaning of the Indian Banking Regulation Act, 1949, registered with and subject to supervision by the RBI. Failure to meet minimum capital requirements could lead to regulatory actions by the RBI that, if undertaken, could have a material effect on our financial position. The RBI issued detailed guidelines for implementation of Basel III capital regulations in May 2012. The minimum capital requirements under Basel III are being phased-in as per the guidelines prescribed by the RBI. Accordingly, we are required to maintain a minimum common equity tier I ratio of 5.5%, a minimum total tier I capital ratio of 7.0% and a minimum total capital ratio of 9.0% as of March 31, 2015.

Our regulatory capital and capital adequacy ratios measured in accordance with Indian GAAP and calculated under Basel III as of March 31, 2014 and March 31, 2015 are as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | (in millions, except percentages) | | |
| Tier 1 capital | Rs. 406,545.2 | Rs. 577,220.7 | US$ 9,263.7 |
| Tier 2 capital | 148,555.5 | 132,442.2 | 2,125.5 |
| **Total capital** | **Rs. 555,100.7** | **Rs. 709,662.9** | **US$ 11,389.2** |
| Total risk weighted assets and contingents | Rs. 3,453,008.5 | Rs. 4,226,699.2 | US$ 67,833.4 |
| Capital ratios of the Bank: | | | |
| Tier 1 | 11.77 | 13.66% | 13.66% |
| Total capital | 16.07 | 16.79% | 16.79% |
| Minimum capital ratios required by the RBI: | | | |
| Tier 1 | 6.50 | 7.00% | 7.00% |
| Total capital | 9.00 | 9.00% | 9.00% |

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## Capital Expenditure

Our capital expenditures consist principally of expenditures relating to our branch network expansion, as well as investments in our technology and communications infrastructure. We have current plans for aggregate capital expenditures of approximately Rs. 12.1 billion in fiscal 2016. This budgeted amount includes Rs. 4.5 billion to expand our branch and back office network, Rs. 0.5 billion to expand our ATM network, Rs. 5.0 billion to upgrade and expand our hardware, data center, network and other systems and the balance primarily to add new equipments in and expand our existing premises, to relocate our branches and back-offices. We may use these budgeted amounts for other purposes depending on, among other factors the business environment prevailing at the time, and consequently our actual capital expenditures may be higher or lower than our budgeted amounts.

## Financial Instruments and Off-Balance Sheet Arrangements

Our foreign exchange and derivative product offerings to our customers cover a range of products, including foreign exchange and interest rate transactions and hedging solutions, such as spot and forward foreign exchange contracts, forward rate agreements, currency swaps, currency options, and interest rate derivatives. These transactions enable our customers to transfer, modify or reduce their foreign exchange and interest rate risks. A specified group of relationship managers from our Treasury front office works on such product offerings jointly with the relationship managers from Wholesale Banking.

We enter into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants, similar to our Wholesale Banking business, where we enter into such transactions with our customers. To support our clients activities, we are an active participant in the Indian inter-bank foreign exchange market. We also trade, to a more limited extent, for our own account. We also engage in proprietary trades of rupee-based interest rate swaps and use them as part of our asset liability management.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. A currency option is a contract where the purchaser of the option has the right but not the obligation to either purchase or sell and the seller of the option agrees to sell or purchase an agreed amount of a specified currency at a price agreed in advance and denominated in another currency on a specified date or by an agreed date in the future. A forward rate agreement is a financial contract between two parties to exchange interest payments for a notional principal amount on a settlement date, for a specified period from a start date to a maturity date. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchanges of principal amounts at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees.

We earn profit on customer transactions by way of a margin as a mark-up over the inter-bank exchange or interest rate. We earn profit on inter-bank transactions by way of a spread between the purchase rate and the sale rate. These profits are recorded as income from foreign exchange and derivative transactions. The RBI imposes limits on our ability to hold overnight positions in foreign exchange and derivatives. The following table presents the aggregate notional principal amounts of the Bank s outstanding forward exchange and derivative contracts as of March 31, 2015, together with the fair values on each reporting date:

| | As of March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Notional | Gross Assets | Gross Liabilities | Net Fair Value | Notional | Net Fair Value |
| | (In millions) | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest rate derivatives | Rs 2,210,332.2 | Rs. 6,959.2 | Rs. 7,289.0 | Rs. (329.8) | US$ 35,473.2 | US$ (5.3) |
| Forward rate agreements | 8,098.5 | 2.5 | 2.6 | (0.1) | 130.0 | |
| Currency options | 144,827.2 | 952.5 | 1,062.1 | (109.6) | 2,324.3 | (1.8) |
| Currency swaps | 70,521.8 | 4,225.2 | 3,093.3 | 1,131.9 | 1,131.8 | 18.2 |
| Forward exchange contracts | 6,740,520.9 | 60,276.3 | 60,320.5 | (44.2) | 108,177.2 | (0.7) |
| **Total** | **Rs 9,174,300.6** | **Rs. 72,415.7** | **Rs. 71,767.5** | **Rs. 648.2** | **US$ 147,236.5** | **US$ 10.4** |

We have not designated the above derivative contracts as accounting hedges and accordingly the contracts are recorded at fair value on the balance sheet with subsequent changes in fair value recorded in earnings.

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### *Guarantees and Documentary Credits*

As a part of our commercial banking activities, we issue documentary credits and guarantees. Documentary credits, such as letters of credit, enhance the credit standing of our customers. Guarantees generally represent irrevocable assurances that we will make payments in the event that the customer fails to fulfill its financial or performance obligations. Financial guarantees are obligations to pay a third party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third party beneficiary where a customer fails to perform a non-financial contractual obligation. The nominal values of guarantees and documentary credits for the dates set forth below were as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | | (In millions) | |
| Nominal values: | | | |
| Bank guarantees: | | | |
| Financial guarantees | Rs. 161,259.8 | Rs. 160,779.8 | US$ 2,580.3 |
| Performance guarantees | 88,204.3 | 114,906.3 | 1,844.1 |
| Documentary credits | 192,095.2 | 279,900.5 | 4,492.1 |
| **Total** | **Rs. 441,559.3** | **Rs. 555,586.6** | **US$ 8,916.5** |

Guarantees and documentary credits outstanding increased by 25.8% to Rs. 555.6 billion as of March 31, 2015 from Rs. 441.6 billion as of March 31, 2014 principally due to growth in our trade finance business.

### *Loan Sanction Letters*

In some cases we issue sanction letters to customers indicating our intent to provide new loans. The amount of loans referred to in these letters that have not yet been made was Rs. 628.1 billion as of March 31, 2015. On request, we disburse these loans subject to the customer s creditworthiness at that time and at interest rates in effect on the date the loans are made. We are not obligated to make these loans, and the sanctions are subject to periodic review. See also Note 24 to our audited financial statements included elsewhere in this report.

### Contractual Obligations and Commercial Commitments

The table below summarizes our principal contractual obligations as of March 31, 2015 by expected settlement period.

### *Contractual Obligations*

| | Payments due by period, as of March 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | After 5 years |
| | | | (in millions) | | |
| Subordinated debt | Rs. 175,849.0 | Rs. 12,020.0 | Rs. 4,150.0 | Rs. 13,000.0 | Rs. 146,679.0 |
| Other long term debt | 282,085.4 | 27,693.0 | 195,495.1 | 28,897.3 | 30,000.0 |
| Operating leases[(a)] | 55,028.8 | 8,070.8 | 15,082.6 | 11,655.7 | 20,219.7 |
| Short-term borrowings | 214,191.9 | 214,191.9 | | | |

| | | | | | |
|---|---|---|---|---|---|
| Securities sold under repurchase agreements | 50,000.0 | 50,000.0 | | | |
| Unconditional purchase obligations [(b)] | 3,260.4 | 3,260.4 | | | |
| **Total** | **Rs. 780,415.5** | **Rs. 315,236.1** | **Rs. 214,727.7** | **Rs. 53,553.0** | **Rs. 196,898.7** |

(a) Operating leases are principally for the lease of office, branch and ATM premises, residential premises for executives and office equipments.

(b) Unconditional purchase obligations principally constitute the capital expenditure commitments made as of March 31, 2015. See *Note 27 Commitments and contingencies* of the audited consolidated financial statements.

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***Commercial Commitments***

Our commercial commitments consist principally of letters of credit, guarantees, forward exchange contracts and derivative contracts.

We have recognized a liability of Rs. 1.5 billion as of March 31, 2015 as required by FASB ASC 460-10. Based on historical trends and as required by FASB ASC 450, we have recognized a liability of Rs. 1.0 billion as of March 31, 2015.

As part of our risk management activities, we continuously monitor the creditworthiness of customers as well as guarantee exposures. However, if a customer fails to perform a specified obligation to a beneficiary, the beneficiary may draw upon the guarantee by presenting documents that are in compliance with the guarantee. In that event, we make payment to the beneficiary on account of the indebtedness of the customer or make payment on account of the default by the customer in the performance of an obligation, up to the full notional amount of the guarantee. The customer is obligated to reimburse us for any such payment. If the customer fails to pay, we would, as applicable, liquidate collateral and/or set off accounts.

The residual maturities of the above commitments as of March 31, 2015 are set forth in the following table:

| | Amount of commitment expiration per period, as of March 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Total amounts Committed | Less than 1 year | 1-3 years | 3-5 years | Over 5 years |
| | | | (in millions) | | |
| Documentary credits | Rs. 279,900.5 | Rs. 275,760.8 | Rs. 3,816.9 | Rs. 318.4 | Rs. 4.4 |
| Guarantees | 275,686.1 | 166,556.3 | 89,245.3 | 14,381.4 | 5,503.1 |
| Derivatives* | 9,174,300.6 | 7,634,951.1 | 954,003.4 | 487,688.9 | 97,657.2 |
| **Total** | **Rs. 9,729,887.2** | **Rs. 8,077,268.2** | **Rs. 1,047,065.6** | **Rs. 502,388.7** | **Rs. 103,164.7** |

* Denotes notional principal amounts.

***Extent of dependence on single customer exposures***

Our exposure to a borrower is subject to the regulatory limits established by the RBI from time to time, or specific approval by RBI. The exposure-ceiling limit for a single borrower is 15% of our capital funds. This limit may be exceeded by an additional 5% (i.e. up to 20%) provided the additional credit exposure is on account of infrastructure or by an additional 10% (i.e. up to 25%) provided the credit exposure is to oil companies to whom bonds have been issued by the Government of India. In addition to the above exposure limit, we may, in exceptional circumstances, with the approval of the Board, consider increasing our exposure to a borrower up to an additional 5% of the capital funds. Our exposure to a single NBFC or NBFC-asset financing companies (AFC) should not exceed 10.0% or 15.0%, respectively, of our capital funds. We may, however, assume exposures on a single NBFC or NBFC-AFC up to 15.0% or 20.0%, respectively, if it is on account of funds on-lent by the NBFC or NBFC-AFC to the infrastructure sector. Our exposure to infrastructure finance companies (IFC) should not exceed 15.0% of our capital funds. However, this may be exceeded by an additional 5% (i.e. up to 20%) if the same is on account of funds on-lent by the IFC to the infrastructure sector.

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Our exposures to our ten largest borrowers as of March 31, 2015, computed as per RBI guidelines, based on the higher of the outstanding balances of or limits on, funded and non-funded exposures as per Indian GAAP were as follows. None of these exposures were impaired as of March 31, 2015:

| | | March 31, 2015 | | | |
|---|---|---|---|---|---|
| | Borrower Industry | Funded Exposure | Non-Funded Exposure | Total Exposure | Total Exposure |
| | | (in millions) | | | |
| Borrower 1 | NBFC / Financial Intermediaries | Rs. 122,505.0 | Rs. 290.5 | Rs.122,795.5 | US$ 1,970.7 |
| Borrower 2 | Coal & Petroleum Products | 25,516.9 | 55,571.8 | 81,088.7 | 1,301.4 |
| Borrower 3 | Coal & Petroleum Products | 22,117.2 | 50,000.0 | 72,117.2 | 1,157.4 |
| Borrower 4 | NBFC / Financial Intermediaries | 65,000.0 | 16.3 | 65,016.3 | 1,043.4 |
| Borrower 5 | Iron and Steel | 23,919.4 | 21,789.0 | 45,708.4 | 733.6 |
| Borrower 6 | Automobile & Auto Ancillary | 38,545.2 | 2,068.5 | 40,613.7 | 651.8 |
| Borrower 7 | Non-ferrous Metals | 496.1 | 34,598.7 | 35,094.8 | 563.2 |
| Borrower 8 | NBFC / Financial Intermediaries | 35,000.0 | | 35,000.0 | 561.7 |
| Borrower 9 | Telecom | 15,512.9 | 15,134.6 | 30,647.5 | 491.9 |
| Borrower 10 | Engineering | 15,338.0 | 15,127.9 | 30,465.9 | 488.9 |

As of March 31, 2015, our exposure to our ten largest borrowers was, for each such borrower, equal to or more than 5% of our capital funds, which was mainly comprised of large credit facilities to these borrowers. Of the total exposure to these ten borrowers, approximately 41% was secured by collateral.

Our top single customer exposure is to a financial institution that was established by an act passed by the Indian Parliament for agricultural and rural development. Our exposure to the said organization is in the nature of placements made to comply with the extant RBI guidelines on shortfall in directed lending sub-limits. The regulatory ceiling prescribed by RBI is not applicable to exposures to this organization.

There were no exposures that exceeded the regulatory ceiling established by RBI.

***Cross border exposures***

The RBI requires banks in India to implement RBI prescribed guidelines on country risk management in respect of those countries where a bank has net funded exposure in excess of a prescribed percentage of its total assets. In the normal course of business, we have both direct and indirect exposure to risks related to counter parties and entities in foreign countries. We monitor such cross-border exposures on an ongoing basis. As of March 31, 2015, our aggregate country risk exposure was less than 4% of our total assets and our net funded exposure to any other country did not exceed 1% of our total assets. The level of our exposure to countries in Europe (primarily in the nature of commercial credits) which has been impacted by the sovereign debt crisis is not significant; it aggregates to 0.03% of our total assets.

***Cyber Security***

We offer internet banking services to our customers. Our internet banking channel includes multiple services such as electronic funds transfer, bill payment services, usage of credit cards on-line, requesting account statements and requesting check books. We are therefore exposed to cyber threats, such as hacking, phishing and trojans, targeting our customers, wherein fraudsters send unsolicited mails to our customers seeking account sensitive information;

hacking, wherein hackers seek to hack into our website with the primary intention of causing reputational damage to us; and data theft, wherein cyber criminals may intrude into our network with the intention of stealing our internal data or our customer information or to extort money.

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We have implemented various measures to mitigate risks that emanate from offering online banking to our customers. These are briefly enumerated below:

Phishing: We identify phishing sites and trojans targeting our customers and then shut down such sites. Forensic information such as customers details which may have been compromised are retrieved from such sites and acted upon. We have implemented Secure Access which provides an additional layer of security beyond customer id and password for internet banking transactions. This system evaluates every transaction based on our risk model and helps us determine whether the incumbent transaction is a genuine one or suspicious. Should the transaction be deemed suspicious, the system has the option of either declining the transaction or asking for additional authentication. As a practice, we send awareness mails to our customers educating them about phishing and the measures that they need to take to protect themselves in falling prey to it.

Hacking and Data Theft: We have implemented firewalls and Intrusion Prevention System at the perimeter of our network to block any attempts made to hack or intrude into our network. Our 24 by 7 Security Operations Center analyzes logs of its perimeter defenses to identify any attempts made to intrude into our network. We have an incident management process to ensure that in the event of any incident, relevant stakeholders are made aware of what their role is in resolving the incident. We also test our internet facing infrastructure and applications for vulnerability. Any vulnerability thus identified is remediated in a time bound manner. We have defined baseline security standards for the technologies in use. These standards were created taking into consideration industry best practices and are reviewed on a regular basis to counter new threat vectors and avoid obsolescence.

We have also undertaken internal data security measures that are taken with respect to breaches or theft of material or sensitive customer data. These are briefly enumerated below:

Data Loss Prevention (DLP): Information is an important asset of any organization that supports business processes and management decisions. Usage and protection of business information can be heavily influenced by individuals in the end user environment, where most of the corporate data is processed, shared and stored. We have implemented enterprise solutions such as DLP to monitor sensitive data stored, transmitted and shared by users, and to prevent and detect data breaches. Individual business functions are also involved in incident reviews which helps create a sense of ownership and awareness amongst our employees.

Laptop Encryption: Data Encryption helps ensure that business-critical and sensitive data does not fall into the wrong hands, thereby preventing reputational damage or curtailing any monetary losses. The cost arising out of loss of data residing in a laptop is far higher than the cost of replacing the actual device. We have therefore introduced a laptop encryption tool which is being implemented on the Bank s laptops in a phased manner.

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# MANAGEMENT

## Directors and Senior Management

Our Memorandum and Articles of Association (Articles) provide that until otherwise determined by a general meeting of shareholders, the number of our directors shall not be less than three nor more than 15, excluding directors appointed pursuant to the terms of issued debt. Our Board of Directors consisted of 11 members as of March 31, 2015.

As per the Companies Act, at least two-thirds of our non-independent directors are required to retire by rotation, with one-third of these retiring at each annual general meeting. However, any retiring director may be re-appointed by resolution of the shareholders. Companies are required to have at least one director who has stayed in India for at least 182 days in the previous calendar year (i.e. an Indian resident).

Under the terms of our Articles, our promoter, Housing Development Finance Corporation Limited (HDFC Limited), has a right to nominate two directors who are not required to retire by rotation to our Board, so long as HDFC Limited, its subsidiaries or any other company promoted by HDFC Limited, either singly or in the aggregate, holds not less than 20% of our paid-up equity share capital. The two directors so nominated by HDFC Limited currently are the Chairperson and the Managing Director of the Bank.

The Banking Regulation Act requires that not less than 51% of the board members shall have special knowledge or practical experience in one or more of the following areas: accounting, finance, agriculture and rural economy, banking, co-operation, economics, law, small scale industry and any other matter the RBI may specify. Out of these, not less than two directors shall have specialized knowledge or practical experience in agriculture and the rural economy, co-operation or small-scale industry. On March 31, 2015, the Bank appointed Mr. Malay Patel, who has special knowledge and experience in small scale industry, as a director in place of Mr. Vijay Merchant, who ceased to hold office as director on attaining 70 years of age.

Mrs. Shyamala Gopinath, who was appointed as the part-time Non-Executive Chairperson of the Bank for a period of three years, assumed office with effect from January 2, 2015. The appointment of Mrs. Gopinath as Non-executive Chairperson has been approved by the shareholders as well as the Reserve Bank of India (RBI).

Mr. Paresh Sukthankar was elevated to the position of Deputy Managing Director by the Board pursuant to a resolution dated December 24, 2013 passed by the Board of Directors. The RBI has, pursuant to its letter dated June 13, 2014, approved his appointment as Deputy Managing Director for a period of three years from June 13, 2014.

Mr. Kaizad Bharucha was appointed as an additional director by the Board and designated as an Executive Director in the whole time employment of the Bank pursuant to a resolution passed by the Board of Directors on December 24, 2013. The RBI has, pursuant to its letter dated June 13, 2014, approved his appointment as Executive Director for a period of three years from June 13, 2014.

Interested directors may not vote at board proceedings, except in relation to contracts or arrangement with a company in which that director (or two or more directors together) hold not more than 2% of the paid up share capital.

None of our directors or members of our senior management holds 1.0% or more of our equity shares.

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Our Board of Directors, as of March 31, 2015, comprised of:

| Name | Position | Age |
| --- | --- | --- |
| Mrs. Shyamala Gopinath | Chairperson | 66 |
| Mr. Anami N. Roy | Non-Executive Director | 65 |
| Mr. Bobby Parikh | Non-Executive Director | 51 |
| Mr. Keki Mistry | Non-Executive Director | 61 |
| Dr. Pandit Palande[1] | Non-Executive Director | 54 |
| Mr. Partho Datta | Non-Executive Director | 66 |
| Mrs. Renu Karnad | Non-Executive Director | 62 |
| Mr. Malay Patel[2] | Non-Executive Director | 38 |
| Mr. Aditya Puri | Managing Director | 64 |
| Mr. Paresh Sukthankar | Deputy Managing Director | 52 |
| Mr. Kaizad Bharucha | Executive Director | 49 |

1 *Dr. Pandit Palande ceased to be a Director with effect from April 24, 2015.*
2 *Mr Malay Patel was appointed as Director with effect from March 31, 2015.*

The following are brief biographies of our directors:

**Mrs. Shyamala Gopinath** is the part-time Non-Executive Chairperson of the Bank. She holds a master s degree in Commerce and is a Certified Associate of the Indian Institute of Bankers. She has 39 years of experience in financial sector policy formulation in different capacities at the RBI. As Deputy Governor of the RBI for seven years and member of the RBI s board of directors, she guided and influenced national policies in diverse areas of financial sector regulation and supervision, the development and regulation of financial markets, capital account management, management of government borrowings, foreign exchange reserves management and payment and settlement systems. During 2001 to 2003, she worked as senior financial sector expert in the then Monetary Affairs and Exchange Department of the International Monetary Fund (Financial Institutions Division). She also participated in Financial Sector Assessment Program missions to Tanzania, Nigeria, Hungary and Poland. She was actively involved in managing India s balance of payments crisis in 1991, the fall out of the Asian and the Russian crises and the recent financial crisis in the Indian financial system. She assisted the Narasimhan Committee on Financial Sector Reforms, chaired the Committee on Holding Companies and the Government Committee on Comprehensive Review of National Small Savings Fund. She has been RBI s nominee on a few public sector banks and financial institutions and handled the Uruguay Round negotiations on Financial Services between 1994-97. She served as Chairperson of the Advisory Board on Bank, Commercial and Financial Frauds for two years from 2012 to 2014. She is currently independent director of Tata Elxsi Limited (TEL), Gas Authority of India Limited (GAIL), E.I.D-Parry (India) Limited (E.I.D-Parry), NDDB Dairy Services Ltd (a not-for profit company), Vodafone India Limited and Grassroots Trading Network (a not-for-profit company registered under section 25 of the Companies Act) and an additional director (non-executive and independent) of Colgate-Palmolive (India) Limited. She is an independent Non-Executive member of the EY Global Governance Council. She is also the Chairperson of the Corporate Bonds and Securitisation Advisory Committee of SEBI.

**Mr. Anami N. Roy** is an independent Non-Executive Director of the Bank. He holds master s degrees in Arts and Philosophy and is a distinguished retired civil servant. During his long career of 38 years in the Indian Police Service, he held a range of assignments both in the state of Maharashtra and for the Government of India, including Commissioner of Police, Mumbai and Director General of Police, Maharashtra before retiring in 2010. His areas of

specialization include policy planning, budget, recruitment, training and other finance and administrative functions in addition to operational matters. Mr. Roy was instrumental in introducing technology solutions in the Indian police force, for example, in relation to citizen facilitation. He also held the position of Director General of the Anti-Corruption Bureau, in which capacity he initiated a policy document on vigilance matters for the Government of Maharashtra. Mr. Roy has wide knowledge and experience of security and intelligence matters at the state and national levels. Having handled multifarious field and staff assignments, Mr. Roy has extensive experience in functioning of the Government at various levels and of problem solving. Mr. Roy is a director on the boards of India Ventures Advisors Pvt Ltd, Glaxo SmithKline Pharmaceuticals Limited, Mayar Infrastructure Development Private Limited, The Skills Academy Private Limited and Bharat Heavy Electricals Limited. He is the Chairman of Vandana Foundation, a non-profit company in terms of the provisions of section 8 of the Companies Act, 2013.

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**Mr. Bobby Parikh** is an independent Non-Executive Director of the Bank. He holds a bachelor s degree in Commerce from Mumbai University and qualified as a Chartered Accountant in 1987. Mr. Parikh is a Senior Partner with BMR & Associates LLP and leads its financial services practice. Prior to joining BMR & Associates LLP, he was the Chief Executive Officer of Ernst & Young in India and held that responsibility until December 2003. Mr. Parikh worked with Arthur Andersen for over 17 years and was its Country Managing Partner, until the Andersen practice combined with that of Ernst &Young in June 2002. Over the years, Mr. Parikh has had extensive experience in advising clients across a range of industries. An area of focus for Mr. Parikh has been to work with businesses, both Indian and multinational, in interpreting the implications of the deregulation as well as the changes to India s policy framework, to help businesses better leverage opportunities that have become available and to address challenges that resulted from such changes. Mr. Parikh has led teams that have advised clients in the areas of entry strategy (multinational companies into India and Indian companies into overseas markets), business model identification, structuring a business presence, mergers, acquisitions and other business reorganizations. Mr. Parikh works closely with regulators and policy formulators, in providing inputs to aid in the development of new regulations and policies, and in assessing the implications and efficacy of these and providing feedback for action. Mr. Parikh led the Financial Services industry practice at Arthur Andersen and then also at Ernst & Young, and has advised a number of banking groups, investment banks, brokerage houses, fund managers and other financial services intermediaries in establishing operations in India, mergers and acquisitions and in developing structured financial products, besides providing tax and business advisory and tax reporting services at Ernst & Young. Mr. Parikh has been a member of a number of trade and business associations and their management or other committees, as well as on the advisory or executive boards of non-governmental and not-for-profit organizations. Mr. Parikh is a Director of BMR Business Solutions Private Limited, Tax and Advisors Private Limited, BMR Advisors Pte Limited, BMR Global Services Private Limited, Aviva Life Insurance Company India Limited, Green Infra Limited, Green Infra Wind Ventures Limited, Indostar Capital Finance Limited, Birla Sun Life AMC Limited and a designated partner of BMR & Associates LLP. He is one of the financial experts on the Audit Committee of the Board.

**Mr. Keki Mistry** is a Non-Executive Director of the Bank. He has obtained a bachelor s degree in Commerce from the University of Mumbai. He is also a Fellow Member of the Institute of Chartered Accountants of India (ICAI). Mr. Mistry started his career with The Indian Hotels Company Limited. In 1981, Mr. Mistry joined HDFC Limited. He was inducted on to the board of directors of HDFC Limited as an Executive Director in 1993 and is currently the Vice Chairman & Chief Executive Officer of HDFC Limited. Mr. Mistry is also a Director on the Board of Directors of HDFC Asset Management Company Limited, HDFC Standard Life Insurance Company Limited, HDFC ERGO General Insurance Company Limited, GRUH Finance Limited, Sun Pharmaceutical Industries Limited, Greatship (India) Limited, Torrent Power Limited and HCL Technologies Limited. Mr. Mistry is also member on the India Advisory Board at Price Waterhouse Coopers and Director of Griha Investments, Mauritius, CDC Group, London, Griha Pte Ltd, Singapore and the H T Parekh Foundation.

**Dr. Pandit Palande** has served as a Non-Executive Director of the Bank until April 23, 2015. He holds a Ph.D. in Business Administration and has completed an advanced course in Management at Oxford University and Warwick University in the United Kingdom. Dr. Palande has been working as a director of the School of Commerce and Management for 20 years in Yashwantrao Chavan Maharashtra Open University (YCMOU). Dr. Palande is a former Pro-Vice Chancellor of YCMOU. Dr. Palande has extensive experience working in the fields of business administration, management and agriculture. Presently, Dr. Palande is the Vice Chancellor of BRA Bihar University, Muzaffarpur. Dr. Palande is not a member of the board of directors of any other company.

**Mr. Partho Datta** is an independent Non-Executive Director of the Bank. He is an Associate Member of the ICAI. He joined Indian Aluminum Company Limited (INDAL) and was with INDAL and its parent company in Canada for 25 years and held positions as Treasurer, Chief Financial Officer and Director Finance during his tenure. Thereafter, he joined the Chennai based Murugappa Group as the head of Group Finance and was a member of the Management

Board of the Group, as well as director in several Murugappa Group companies. Post-retirement from the Murugappa Group, Mr. Datta was an advisor to the Central Government appointed board of directors of Satyam Computers Services Limited during the restoration process and has also been engaged in providing business/strategic and financial consultancy on a selective basis. Mr. Datta is a director of Peerless Funds Management Company Limited, IRIS Business Services Limited, Endurance Technologies Private Limited and Peerless General Finance and Investment Company Limited. Mr. Datta has extensive experience in various Financial and Accounting matters including financial management, investor relations, foreign exchange risk management, international financing, international tax, mergers and acquisitions and strategic planning. Mr. Datta is one of the financial experts on the Audit Committee of the Board.

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**Mrs. Renu Karnad** is a Non-Executive Director of the Bank. She is a law graduate from University of Mumbai and also holds a Master s Degree in Economics from Delhi University. She is a Parvin Fellow-Woodrow Wilson School of International Affairs, Princeton University, U.S.A. Mrs. Karnad is a Director on the Board of Directors of BOSCH Limited, GRUH Finance Limited, HDFC Limited, HDFC Asset Management Company Limited, HDFC ERGO General Insurance Company Limited, HDFC Standard Life Insurance Company Limited, Indraprastha Medical Corporation Limited, EIH Limited, ABB India Limited, Feedback Infrastructure Services Private Limited, Lafarge India Private Limited, H T Parekh Foundation, HDFC PLC, Maldives, WNS Holdings Limited, HIREF International LLC, HIREF International Fund II Pte Limited and HIF International Fund Pte Limited.

**Mr. Malay Patel** is a Non-Executive Director of the Bank. He holds a degree in Engineering (Mechanical) from Rutgers University and an A.A.B.A. in business from Bergen Community College. He is a director on the Board of Eewa Engineering Company Private Limited, a company in the plastics/packaging industry with exports to more than 50 countries. He has been involved in varied roles, such as export/import, procurement, sales and marketing with Eewa Engineering Company Private Limited. Mr. Patel has special knowledge and practical experience in matters relating to small scale industries in terms of Section 10-A (2a) of the Banking Regulation Act, 1949.

**Mr. Aditya Puri** is the Managing Director of the Bank. He holds a bachelor s degree in Commerce from Punjab University and is an Associate Member of the Institute of Chartered Accountants of India (ICAI). Prior to joining the Bank, Mr. Puri was the Chief Executive Officer of Citibank, Malaysia from 1992 to 1994. Mr. Puri has been the Managing Director of the Bank since September 1994. He has nearly 40 years of experience in the banking sector in India and abroad. Mr. Puri is not a director of any other company in India.

**Mr. Paresh Sukthankar** is the Deputy Managing Director of the Bank. Mr. Sukthankar is a Commerce Graduate from Mumbai University. He holds a master s degree in Management Studies from Jamnalal Bajaj Institute, Mumbai, and has completed the Advanced Management Program from Harvard Business School. Mr. Sukthankar has been with the Bank since its inception in 1994. Mr. Sukthankar has direct or supervisory responsibilities for the Bank s Credit and Risk Management, Finance and Human Resources functions and for various strategic initiatives of the Bank. Prior to joining the Bank, Mr. Sukthankar worked in Citibank for around nine years in various departments, including corporate banking, risk management, financial control and credit administration. He has been a member of various committees formed by the RBI and Indian Banks Association. Mr. Sukthankar is not a director of any other company in India.

**Mr. Kaizad Bharucha** is an Executive Director in the whole time employment of the Bank. Mr. Bharucha holds a bachelor s degree in Commerce from the University of Mumbai. Prior to his appointment as Executive Director, Mr. Bharucha has served as Group Head-Wholesale Banking responsible for Corporate Banking, Emerging Corporate Group, Business Banking, Capital Markets Business, Agri Lending and Department for Special Operations. He has also served as Group Head-Credit & Market Risk and was assigned responsibilities in respect of the entire gamut of Risk Management activities in the Bank; namely Credit Risk, Market Risk, Collections, Risk Intelligence and control functions. Mr. Bharucha has a rich experience of 27 years in the Banking and Financial sector and has been associated with the Bank since 1995. Prior to joining the Bank, Mr. Bharucha worked in SBI Commercial and International Bank in various areas including Trade Finance and Corporate Banking. Mr. Bharucha has represented the Bank as a member of the working group constituted by the RBI to examine the role of Credit Information Bureau and on the Sub-Committee with regard to adoption of Basel II guidelines. Mr. Bharucha is a director on the board of directors of HDB Financial Services Limited and HBL Global Private Limited. He was earlier a director on the board of directors of International Asset Reconstruction Company Private Limited.

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**Senior Management**

As of March 31, 2015, our senior management was comprised of the following:

| Name | Position | Age |
| --- | --- | --- |
| Mr. Aditya Puri | Managing Director | 64 |
| Mr. Paresh Sukthankar | Deputy Managing Director | 52 |
| Mr. Kaizad Bharucha | Executive Director | 49 |
| Mr. Abhay Aima | Head, Equities and Private Banking, Third Party Products and NRI Banking | 53 |
| Mr. Anil Jaggia | Head, Information Technology, Legal and Secretarial, QIG, Administration, Infrastructure and Sustainable Livelihood Initiative | 53 |
| Mr. Anil Nath | Head, Business Banking, Agri and Correspondent Banking | 62 |
| Mr. Ashish Parthasarthy | Head, Treasury | 47 |
| Mr. Bhavesh Zaveri | Head, Operations | 49 |
| Mr. Chakrapani Venkatachari | Head, Internal Audit and Vigilance | 51 |
| Mr. Deepak Maheshwari | Head, Wholesale Credit | 60 |
| Mr. Jimmy Tata | Chief Risk Officer | 48 |
| Mr. Navin Puri | Head, Branch Banking | 56 |
| Mr. Rahul N. Bhagat | Head, Retail Liabilities and Marketing | 51 |
| Mr. Rajender Sehgal | Head, Financial Institutions Group and Custody | 59 |
| Mr. Rakesh Singh | Head, Investment Banking, Capital & Commodity Markets | 46 |
| Mr. Sashidhar Jagdishan | Chief Financial Officer | 50 |

A brief biography of each of the members of the Bank s senior management is set out below:

**Mr. Abhay Aima** is a graduate of the National Defense Academy. Mr. Aima is the Head of Equities, Private Banking and Third Party Products of the Bank. He is also in charge of Non Resident Indian and International Consumer Banking. Mr. Aima serves as a director of Raab Investment Private Limited, HDFC Securities Limited and Bluechip Corporate Investment Centre Limited.

**Mr. Anil Jaggia** an engineer from IIT, Kanpur and a graduate from IIM Ahmedabad has strong credentials and brings with him 28 years of rich experience across a wide spectrum of financial services. He started his career with Citibank at Kolkata, Mumbai, Singapore, New York and Chicago where he worked for over 18 years. Mr. Jaggia held the position of Head-Forex & Derivatives as his last assignment with Citibank in India. Before joining the Bank he was Chief Operating Officer at Centurion Bank of Punjab Limited since 2004, for four years. As part of the Bank s management team, he also played an important role in the successful mergers of Bank of Punjab with Centurion Bank; Lord Krishna Bank with Centurion Bank of Punjab and Centurion Bank of Punjab with the Bank. After the merger with the Bank, Mr. Jaggia has taken over as CIO of the Bank. He holds additional responsibility for Sustainable Livelihood Initiatives (SLI), Quality Initiative Group, Legal and Secretarial, Administration and Infrastructure.

**Mr. Anil Nath** holds a master s degree in Business Administration from the University of Punjab and is a Certified Associate of the Indian Institute of Bankers. Mr. Nath has been with the Bank since 1995 and currently heads Business Banking, Agri and Correspondent Banking of the Bank. He has over 35 years of experience in banking, having worked with State Bank of India and Times Bank Limited prior to joining the Bank in 1995.

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**Mr. Ashish Parthasarthy** holds a bachelor s degree in Engineering from the Karnataka Regional Engineering College and has a Post-Graduate Diploma in Management from the Indian Institute of Management, Bangalore. He has over 20 years of experience in the interest rate and currency markets and holds the position of Head Treasury at the Bank.

**Mr. Bhavesh Zaveri** holds a master s degree in Commerce from the University of Mumbai and is a Certified Associate of the Indian Institute of Bankers. Mr. Zaveri has been with the Bank since 1998, and currently heads wholesale banking operations and cash management products of the Bank. Mr. Zaveri is a director on the board of the National Payment Corporation of India Limited (NPCI), The Clearing Corporation of India Limited, SWIFT Global Board and a member of the Technical Advisory Committee and Management Committee of NPCI.

**Mr. Chakrapani Venkatachari** is a member of the Institute of Company Secretaries of India, New Delhi and is a Certified Associate of the Indian Institute of Bankers. Mr. Chakrapani heads the Internal Audit and Vigilance function of the Bank and he has been with the Bank since 1994. Prior to joining the Bank, Mr. Chakrapani worked with Standard Chartered Bank where he was responsible for audit and review of all activities in the Western Region for Operations, Trade Services, Credit Cards, Forex and Credit.

**Mr. Deepak Maheshwari** holds a bachelor s degree in Commerce from The University of Rajasthan and is a Certified Associate of the Indian Institute of Bankers. Mr. Maheshwari heads the Wholesale Credit Risk function of the Bank and he has been with the Bank since 1996. Prior to joining the Bank, Mr. Maheshwari was Vice President (Credit) of the State Bank of India (SBI) where he was responsible for control over the entire credit and investment portfolio of the Bank s Canadian subsidiary. He was associated with SBI for 21 years.

**Mr. Jimmy Tata** holds a master s degree in Financial Management from the University of Mumbai and is a qualified Chartered Financial Analyst from the Institute of Chartered Financial Analysts of India, Hyderabad. He has over 20 years of work experience and has been with the Bank since 1994. He is currently the Chief Risk Officer of the Bank**.**

**Mr. Navin Puri** holds a bachelor s degree in Commerce from Calcutta University and is a member of the Institute of Chartered Accountants of India. He also received a master s degree in Business Administration from Texas University, U.S.A. Mr. Puri has over 19 years of banking experience. He has been with the Bank since 1999. He currently heads the Retail Branch Banking business, and is also the Business Head for Retail Current Accounts of the Bank.

**Mr. Rahul N. Bhagat** holds a bachelor s degree (with honors) in Arts in History from St. Stephen s College, Delhi University and a master s degree in International Affairs from the College of William & Mary, Virginia, USA. He has over 19 years of experience in consumer banking, having worked with ANZ Grindlays Bank and Bank of America prior to joining the Bank in 1999. Mr. Bhagat heads the Retail Liabilities, Marketing, High Net-Worth and Direct Channels businesses in the Bank.

**Mr. Rajender Sehgal** holds a master s degree in Business Administration from Delhi University with specialization in Financial and Marketing Management. He has nearly 36 years of experience in industrial finance credit and international banking. Mr. Sehgal was employed by SBI prior to joining the Bank. He has been with the Bank since 1998 and currently heads Financial Institutions Group and Custody of the Bank.

**Mr. Rakesh Singh** holds a bachelor s degree from St. Xavier s College Ranchi and Hansraj College, Delhi. He also holds a post graduate diploma in business management from Institute of Management Technology, Ghaziabad. He has over 21 years of experience in debt and equity capital markets, structured finance, leveraged finance, debt restructuring and managing proprietary investments. Prior to joining the Bank in 2011, he has worked with ANZ Investment Bank, Standard Chartered Bank, Morgan Stanley and Rothschild. He has led successful capital raisings for several Indian corporate houses and financial institutions and currently heads the Investment Banking, Capital &

Commodity Markets business within the Bank.

**Mr. Sashidhar Jagdishan** holds a bachelor s degree in Physics from the University of Mumbai and a master s degree in Economics of Money, Banking and Finance from the University of Sheffield, United Kingdom. He is also a Chartered Accountant of the ICAI. He has been with the Bank since 1996 and is the Chief Financial Officer of the Bank.

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## Corporate Governance

### *Audit Committee*

The Audit Committee of the Bank, as of March 31, 2015, had Mrs. Shyamala Gopinath, Dr. Pandit Palande, Mr. Partho Datta and Mr. Bobby Parikh as its members. The Committee is chaired by Mrs. Shyamala Gopinath. This Committee met eight times during fiscal 2015.

The terms of reference of the Audit and Compliance Committee are in accordance with Clause 49 of the Listing Agreement entered into with the Indian Stock Exchanges, and include the following:

a. Overseeing the Bank s financial reporting process and ensuring correct, adequate and credible disclosure of financial information;

b. Recommending appointment and removal of external auditors and the fixing of their fees;

c. Reviewing with management the annual financial statements before submission to the Board with special emphasis on accounting policies and practices, compliance with accounting standards and other legal requirements concerning financial statements;

d. Reviewing the adequacy of the Audit and Compliance functions, including their policies, procedures, techniques and other regulatory requirements; and

e. Any other terms of reference as may be included from time to time in Clause 49 of the Listing Agreement with the Indian Stock Exchanges.

The Board has also adopted a charter for the Audit Committee in connection with certain U.S. regulatory standards as the Bank s securities are also listed on the New York Stock Exchange.

### *Nomination and Remuneration Committee:*

The Nomination and Compensation Committees were amalgamated to form the Nomination and Remuneration Committee for recommending the appointment of directors on the Board of the Bank and to review the overall compensation structure and policies of the Bank. The Nomination and Remuneration Committee scrutinizes the nominations of the directors with reference to their qualifications and experience, for identifying Fit and Proper persons, to assess competency of the persons and to review compensation levels of the Bank s employees vis-à-vis other banks and the banking industry in general.

The following are the criteria to assess competency of the persons nominated:

Academic qualifications;

Previous experience;

Track record; and

Integrity of the candidates.

For assessing the integrity and suitability, features like criminal records, financial position, civil actions undertaken to pursue personal debts, refusal of admission to and expulsion from professional bodies, sanctions applied by regulators or similar bodies and previous questionable business practice are considered.

The Bank s compensation policy provides a fair and consistent basis for motivating and rewarding employees appropriately according to their job profile/role size, performance, contribution, skill and competence.

Mrs. Shyamala Gopinath, Dr. Pandit Palande, Mr. Partho Datta and Mr. Bobby Parikh were the members of the Committee as of March 31, 2015. Mr. Bobby Parikh is the Chairman of the Committee.

All the members of the Nomination and Remuneration Committee are independent directors. The Committee held two meetings during the year.

Before the amalgamation of the Committees in September 2014, the Nomination Committee of the Bank, which had Mr. C. M. Vasudev, Mr. Partho Datta and Dr. Pandit Palande as its members met twice during the year and the Compensation Committee of the Bank, which had Mr. C. M. Vasudev, Mr. Partho Datta, Dr. Pandit Palande and Mr. Bobby Parikh as its members held three meetings during the year.

***Stakeholders Relationship Committee***

The Stakeholders Relationship Committee, earlier named as the Investor Grievance (Share) Committee approves and monitors transfer, transmission, splitting and consolidation of shares and considers requests for dematerialization of shares. Allotment of shares to the employees on exercise of stock options granted under the various Employees Stock Option Schemes which are made in terms of the powers delegated by the Board in this regard, are placed before the Committee for ratification. The Committee also monitors redressal of complaints from shareholders relating to matters such as the transfer of shares, non-receipt of our annual report and dividends.

The Committee, as of March 31, 2015, consisted of Mr. Anami N. Roy, Mrs. Renu Karnad, Mr. Aditya Puri and Mr. Paresh Sukthankar. The Committee is chaired by Mr. Anami N. Roy. The powers to approve share transfers and dematerialization requests have been delegated to executives of the Bank to avoid delays that may arise due to non-availability of the members of the Committee. Mr. Sanjay Dongre, Executive Vice President (Legal), the Company Secretary of the Bank is the Compliance Officer responsible for expediting the share transfer formalities.

As on March 31, 2015, 36 instruments of transfer for 9,745 equity shares were pending for transfer and these have since been processed. The details of the transfers are reported to the Board from time to time.

During the year ended March 31, 2015, 2,886 complaints were received from the shareholders. The Bank had attended to all the complaints. Three complaints remained pending as of March 31, 2015. In addition, 6,803 letters were received from shareholders relating to change of address, nomination requests, updates to email and other contact details, updates to the IFSC/MICR code, ECS/NECS mandates, claims of shares from the unclaimed suspense account, queries relating to our annual reports, sub-division of shares of face value of Rs. 10 each into shares of face value of Rs. 2 each, amalgamations, requests for revalidation of dividend warrants and other investor related matters. We have also responded to these letters. The Committee met five times during the year.

***Risk Policy and Monitoring Committee***

The Risk Policy and Monitoring Committee has been formed as per RBI guidelines on Asset Liability Management / Risk Management Systems. The Committee develops the Bank s credit and market risk policies and procedures, verifies adherence to various risk parameters and prudential limits for treasury operations and reviews its risk monitoring system. The Committee also ensures that the Bank s credit exposure to any one group or industry does not exceed the internally set limits and that the risk is prudentially diversified.

The Committee, as of March 31, 2015, consisted of Mrs. Renu Karnad, Mrs. Shyamala Gopinath, Mr. Partho Datta, Mr. Aditya Puri and Mr. Paresh Sukthankar. The Committee is chaired by Mrs. Renu Karnad and held five meetings during the year.

***Credit Approval Committee***

The Credit Approval Committee approves credit exposures, which are beyond the powers delegated to executives of the Bank. This facilitates quick response to the needs of the customers and speedy disbursement of loans. The Committee, as of March 31, 2015, consisted of Mr. Bobby Parikh, Mr. Keki Mistry, Mr. Aditya Puri and Mr. Kaizad Bharucha. The Credit Approval Committee met nine times during fiscal 2015.

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*Premises Committee*

The Premises Committee approves purchases and leasing of premises for the use of the Bank s branches, back offices, ATMs and residence of executives in accordance with the guidelines laid down by the Board. As of March 31, 2015, Mrs. Renu Karnad, Dr. Pandit Palande and Mr. Aditya Puri were the members of the Committee. The Premises Committee met six times during fiscal 2015.

*Fraud Monitoring Committee*

Pursuant to the directions of the RBI, the Bank has constituted a Fraud Monitoring Committee, exclusively dedicated to the monitoring and following up of cases of fraud involving amounts of Rs. 10 million and above. The objectives of the Fraud Monitoring Committee are the effective detection of frauds and immediate reporting of the frauds and actions taken against the perpetrators of frauds to the concerned regulatory and enforcement agencies. The terms of reference of the Fraud Monitoring Committee are as under:

a. identify the systemic lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same;

b. identify the reasons for delay in detection, if any, and report to top management of the Bank and the RBI;

c. monitor progress of investigation by the Central Bureau of Investigation/Police Authorities and recovery position;

d. ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without any loss of time;

e. review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls; and

f. put in place other measures as may be considered relevant to strengthen preventive measures against frauds.

As of March 31, 2015, the members of the Committee were Mrs. Shyamala Gopinath, Dr. Pandit Palande, Mr. Partho Datta, Mr. Anami N. Roy, Mr. Keki Mistry and Mr. Aditya Puri. The Committee met four times during the year.

*Customer Service Committee*

The Customer Service Committee monitors the quality of services rendered to the Bank s customers and also ensures implementation of directives received from RBI in this regard. The terms of reference of the Committee are to formulate a comprehensive deposit policy incorporating the issues arising out of the death of a depositor for operations of his account, the product approval process, the annual survey of depositor satisfaction and the triennial audit of such services.

As of March 31, 2015, the members of the Committee were Mrs. Shyamala Gopinath, Dr. Pandit Palande, Mr. Anami N. Roy, Mr. Keki Mistry and Mr. Aditya Puri. The Committee met four times during the year.

***Corporate Social Responsibility (CSR) Committee***

The Board has constituted a CSR Committee with the following terms of reference:

a. to formulate the Bank s CSR strategy, policy and goals;

b. to monitor the Bank s CSR policy and performance;

c. to review the CSR projects/initiatives from time to time;

d. to ensure legal and regulatory compliance with respect to CSR; and

e. to ensure reporting and communication to stakeholders on the Bank s CSR.

As of March 31, 2015, the members of CSR Committee were Mrs. Renu Karnad, Mr. Partho Datta, Mr. Bobby Parikh, Mr. Aditya Puri and Mr. Paresh Sukthankar. Four meetings of the CSR Committee were held during fiscal 2015.

***Review Committee for Willful Defaulters Identification:***

On January 28, 2015, the Board constituted a Review Committee for Willful Defaulters Identification to review the orders passed by the Committee of Executives for Identification of Willful Defaulters and provide the final decision with regard to identified willful defaulters. As of March 31, 2015, Mrs. Shyamala Gopinath, Mr. Aditya Puri, Mr. Bobby Parikh, Mr. Partho Datta and Mr. Anami N. Roy were the members of the Committee. The Committee is chaired by Mrs. Shyamala Gopinath, or Mr.Aditya Puri in her absence. No meetings of the Committee were held during the year.

***Review Committee for Non-Cooperative Borrowers:***

On March 31, 2015, the Board has constituted a Review Committee to review matters related to Non-Cooperative Borrowers, which are handled by the Internal Committee of Executives appointed for this purpose. Mrs. Shyamala Gopinath, Mr. Aditya Puri, Mr. Bobby Parikh, Mr. Partho Datta and Mr. Anami N. Roy are the members of the Committee. The Committee is chaired by Mrs. Shyamala Gopinath, or Mr. Aditya Puri in her absence. No meetings of the Committee were held during the year.

***Committees of Executives***

We have also established committees of executives that meet frequently to discuss and determine the management of assets and liabilities and other operations and personnel issues.

***Borrowing Powers of Directors***

Our shareholders, have passed a special resolution through Postal Ballot pursuant to Section 180 (1)(c) of the Companies Act authorizing the Board of Directors to borrow, for business purposes of the Bank, such sum or sums of money as they may deem necessary, notwithstanding the fact that the money borrowed or to be borrowed from time to time (apart from acceptances of deposits of money from the public repayable on demand or otherwise and withdrawable by check, draft, order or otherwise and/or temporary loans obtained in the ordinary course of business from banks, whether in India or outside India) will exceed our aggregate of paid-up capital and free reserves, subject to the condition that the total outstanding amount of such borrowings shall not exceed Rs. 200 billion over and above our aggregate paid-up capital and free reserves at any time.

The terms on which the Board of Directors may borrow funds may include the lender s right to appoint directors, the allotment of shares to certain public financial institutions and, with prior shareholder and regulatory approval, the allotment of shares to other entities.

**Compensation of Directors and Members of Our Senior Management**

The compensation arrangements for our Chairman, Managing Director and Executive Directors are approved by the shareholders and the RBI on the recommendation of our Board of Directors.

At the 18th Annual General Meeting held on July 13, 2012, the shareholders of the Bank approved the re-appointment of our Managing Director for the period from April 1, 2013 to October 31, 2015 and also approved the revised salary/compensation and allowances of the Managing Director, with effect from April 1, 2013, subject to the approval of the RBI. The RBI has since approved the re-appointment of Mr. Aditya Puri as the Managing Director of the Bank for the period from April 1, 2013 to October 31, 2015 and the revision in his remuneration from April 1, 2013 onwards. The Board of Directors and the shareholders through resolutions passed by postal ballot have approved the appointment of Mr. Paresh Sukthankar as Deputy Managing Director and Mr. Kaizad Bharucha as Executive Director with effect from December 24, 2013. The RBI has approved both the aforementioned appointments for a period of three years each with effect from June 13, 2014.

At the 21st Annual General Meeting held on July 21, 2015, the shareholders of the Bank approved the re-appointment of Mr. Puri as the Managing Director of the Bank and also his revised salary/compensation and allowances, for a period of 5 years with effect from November 1, 2015, subject to the approval of and the prevailing guidelines/practice followed by the RBI.

For fiscal 2015, the aggregate amount of compensation paid to our Managing Director, Deputy Managing Director, Executive Directors and members of our senior management was approximately Rs. 387.6 million. This remuneration includes basic salary, allowances, performance bonus, cash allowances in lieu of perquisites or taxable value of perquisites, if availed as computed as per Income-tax rules but excludes gratuity, provident fund settlement, superannuation settlement and perquisite on exercise of stock options.

Under our organizational documents, each director, except the Managing Director, Deputy Managing Director and Executive Directors, is entitled to sitting fees for attending each meeting of the Board of Directors or of a Board Committee. The amount of sitting fees is decided by the Board from time to time in accordance with applicable regulations prescribed by the Companies Act or the Government of India. Sitting Fees at the rate of Rs. 20,000 per meeting were paid for attending each meeting of the Board and various Committees except for Stakeholder s Relationship Committee for which sitting fees at the rate of Rs. 10,000 per meeting were paid to the Directors during the period April 1, 2014 to December 31, 2014. Pursuant to the provisions of Companies Act, 2013 Directors are now paid sitting fees at the rate of Rs. 50,000 and Rs. 100,000 for attending Committee and Board meetings, respectively, with effect from January 2015.

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We reimburse directors for travel and related expenses in connection with Board and committee meetings and related matters. Stock options have not been granted to Non-Executive Directors.

Mrs. Shyamala Gopinath, Chairperson, was paid remuneration of Rs. 0.74 million during fiscal 2015. Mrs. Shyamala Gopinath is also paid sitting fees for attending Board and Committee meetings.

The details of the remuneration paid during fiscal 2015 to Mr. Aditya Puri, Managing Director, Mr. Paresh Sukthankar, Deputy Managing Director and Mr. Kaizad Bharucha, Executive Director are as follows:

| Particulars | Aditya Puri | Paresh Sukthankar | Kaizad Bharucha |
|---|---|---|---|
| | (Rs. in million, except stock options) | | |
| Basic | 27.4 | 14.6 | 6.2 |
| Allowances and perquisites | 18.2 | 13.7 | 10.4 |
| Provident fund | 3.3 | 1.8 | 0.7 |
| Superannuation | 4.1 | 2.2 | 0.9 |
| Performance bonus | 21.0* | 19.9* | 6.5 |
| Number of stock options granted during the year | 520,000 | 390,000 | 260,000 |

* Includes bonus paid for earlier financial years in terms of RBI approval.

Note: Mr. C. M. Vasudev, who retired as Chairman from the close of business hours on August 26, 2014, was paid remuneration of Rs. 1.8 million during fiscal 2015 and was also paid sitting fees for attending Board and Committee meetings.

The Bank provides for gratuity in the form of a lump-sum payment on retirement or on death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. The Bank makes annual contributions to a gratuity fund administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The Bank accounts for the liability for future gratuity benefits based on an independent external actuarial valuation carried out annually. Perquisites (evaluated as per Income Tax Rules wherever applicable and at actual cost to the Bank otherwise), such as the benefit of furnished accommodation, gas, electricity, water and furnishings, club fees, personal accident insurance, use of car and telephone at residence, medical reimbursement, leave and leave travel concession and retirement benefits, such as provident fund, superannuation and gratuity, are also provided.

The details of sitting fees paid to Non-Executive Directors during fiscal 2015 are as follows:

| Name of the Director | Sitting Fees (Rs.) |
|---|---|
| Mrs. Shyamala Gopinath[1] | 700,000 |
| Mr. C. M. Vasudev[2] | 340,000 |
| Mr. Keki Mistry | 890,000 |
| Mrs. Renu Karnad | 930,000 |
| Mr. Vijay Merchant[3] | 280,000 |
| Dr. Pandit Palande[4] | 1,230,000 |

| | |
|---|---|
| Mr. Partho Datta | 1,310,000 |
| Mr. Bobby Parikh | 1,180,000 |
| Mr. Anami N. Roy | 730,000 |

[1] Mrs Shyamala Gopinath assumed office as Chairperson with effect from January 2, 2015.
[2] Mr C. M. Vasudev ceased to be a Director with effect from August 26, 2014.
[3] Mr. Vijay Merchant ceased to be a Director with effect from October 4, 2014.
[4] Dr. Pandit Palande ceased to be a Director with effect from April 24, 2015.

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The details of remuneration paid to employees who were employed throughout the year and were in receipt of remuneration of more than Rs. 6.0 million per annum and those employed for part of the year and were in receipt of remuneration of more than Rs. 0.5 million per month are given in the Annexure to the Directors Report.

Other than our Chairperson, Managing Director, Deputy Managing Director and Executive Director, none of our directors has a service contract with us.

**Loans to Members of Our Senior Management**

Loans to members of our senior management are granted in the normal course within the Bank s scheme, as is the case with employees of the Bank. This is within the provisions of local regulations. The below table provides the details of loans granted to our senior management as of March 31, 2015:

| Name | Largest amount Outstanding since March 31, 2014 | Amount outstanding as of March 31, 2015 | Interest rate as of March 31, 2015 | Nature of Loan |
|---|---|---|---|---|
| | (Rs. in million, except percentages) | | | |
| Abhay Aima | 6.20 | 6.05 | 10.15% | Housing Loan |
| Abhay Aima | 0.32 | 0.21 | 5.00% | Personal Loan |
| Ashish Parthasarthy | 6.47 | 5.36 | 10.15% | Housing Loan |
| Aditya Puri | 5.00 | 5.00 | 10.15% | Housing Loan |
| Anil Nath | 2.40 | 1.78 | 10.15% | Housing Loan |
| Anil Jaggia | 20.00 | 20.00 | 10.15% | Housing Loan |
| Bhavesh Zaveri | 0.58 | 0.57 | 5.00% | Personal Loan |
| Bhavesh Zaveri | 7.50 | 7.38 | 10.15% | Housing Loan |
| Chakrapani Venkatachari | 3.52 | 1.85 | 10.15% | Housing Loan |
| Chakrapani Venkatachari | 0.17 | 0.07 | 5.00% | Personal Loan |
| Deepak Maheshwari | 3.63 | 3.15 | 10.15% | Housing Loan |
| Jimmy Tata | 0.60 | 0.49 | 5.00% | Personal Loan |
| Kaizad Bharucha | 4.43 | 4.35 | 10.15% | Housing Loan |
| Navin Puri | 6.12 | 5.76 | 10.15% | Housing Loan |
| Navin Puri | 0.11 | 0.01 | 5.00% | Personal Loan |
| Rahul Bhagat | 6.92 | 6.76 | 10.15% | Housing Loan |
| Rajender Sehgal | 3.67 | 3.51 | 10.15% | Housing Loan |
| Rajender Sehgal | 0.56 | 0.08 | 5.00% | Personal Loan |
| Sashidhar Jagdishan | 6.20 | 6.08 | 10.15% | Housing Loan |
| Sashidhar Jagdishan | 0.35 | 0.23 | 5.00% | Personal Loan |

**Employees Stock Options**

Our shareholders approved plan A in January 2000, plan B in June 2003, plan C in June 2005, plan D in June 2007 plan E in June 2010 and plan F in June 2013 for the issuance of stock options to employees and directors of the Bank under the Employees Stock Option Schemes (ESOSs), namely ESOS-001 to ESOS-024. Under plan A , the option price is set as the average of the daily closing prices on the BSE Limited during the 60 days preceding the grant date. Under plan B , the option price is set as the closing prices on the business day preceding the grant date on whichever stock exchange in India has the highest trading volume for our shares during the two weeks preceding the date of grant. Under plans C , D , E and F , the option price is set as the closing price on the business day preceding the grant

date on the stock exchange where there is the highest trading volume. Our Compensation Committee has issued options under these plans several times since January 2000. The options granted under ESOS-001 to ESOS-009 vest at the rate of 30.0%, 30.0% and 40.0% on each of the three successive anniversaries following the date of grant, stock options granted under ESOS-010 to ESOS-013 vest at the rate of 50.0% and 50.0% on each of the two successive anniversaries following the date of grant, those granted under ESOS-014 and ESOS-015 vest completely on the first anniversary of the date of the grant and options granted under ESOS-16, ESOS-17 and ESOS-18 vest at the rate of 75.0% and 25.0% on each of the two successive anniversaries following the date of grant and ESOS-19, ESOS-20, ESOS-21, ESOS-22, ESOS-23 and ESOS-24 vest at the rate of 40.0%, 30.0% and 30.0% on each of the three successive anniversaries. All the above are subject to standard vesting conditions. In fiscal 2015, 22.7 million equity shares having a face value of Rs. 2.0 each were allotted as a result of the exercise of stock options by the employees of the Bank. This resulted in our paid-up capital increasing by Rs. 45.4 million and the share premium by Rs. 9,908.8 million. As of March 31, 2015, 109,033,000 options convertible to equity shares of Rs. 2.0 each were outstanding.

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## Other Compensation

All employees, including our Managing Director, Deputy Managing Director, Executive Director and officers, receive the benefit of our gratuity and provident fund retirement schemes. Our superannuation fund covers all employees at a senior manager level or above, including our Managing Director. Our gratuity fund, required to be paid to an employee post-completion of a minimum of five years of continuous service under Indian law, is a defined benefit plan that, upon retirement, death while employed or termination/resignation of employment, pays a lump sum equivalent to 15 days basic salary for each completed year of service. The superannuation fund is a retirement plan under which we annually contribute 13.0% (15.0% for the Managing Director, Deputy Managing Director and Executive Directors) of the eligible employee s annual salary to the administrator of the fund. Under the provident fund, required by Indian law, both employer and the employee contribute monthly at a determined rate (12.0% of the employee s basic salary). Of this, the Bank contributes an amount (8.33% of the lower of Rs. 6,500 or the employee s basic salary) to the pension scheme administered by the Regional Provident Fund Commissioner, and the balance is contributed to a fund set up by the Bank, which is administered by a board of trustees.

## Controls and Procedures

### *Disclosure Controls and Procedures*

The Bank performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of March 31, 2015. Based on this evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act ) are effective.

Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures are effective as of March 31, 2015 to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions about required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

## Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or dispositions of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2015. In conducting its assessment, management based its evaluation on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992) (COSO). Based on its assessment, management has concluded that our internal control over financial reporting was effective as of March 31, 2015. Our independent registered public accounting firm, KPMG, has performed an integrated audit and has issued their report, included herein, on (1) our consolidated financial statements; and (2) the effectiveness of our internal control over financial reporting as of March 31, 2015.

### Changes in Internal Controls

There were no changes in our internal controls or in other factors that could, or are reasonably likely to, materially affect these controls during the period covered by this report.

### Audit Committee Financial Expert

Mr. Partho Datta and Mr. Bobby Parikh are the audit committee financial experts as defined in Item 401(h) of Regulation S-K and are independent pursuant to applicable Commission rules.

### Code of Ethics

We have a written code of ethics applicable to the Managing Director (Chief Executive Officer), the Chief Financial Officer and members of our senior management. We believe the code constitutes a code of ethics as defined in Item 16B of Form 20-F. We will provide a copy of such code of ethics to any person without charge upon request. Requests may be made by writing to shareholder.grievances@hdfcbank.com.

We also have a whistle blower policy that contains procedures for receiving, retaining and treating complaints received, and procedures for the confidential and anonymous submission by employees of complaints, regarding questionable accounting or auditing matters or conduct which results in a violation of law by the Bank or in a substantial mismanagement of the Bank s resources. Under this whistle blower policy, our employees are encouraged to report questionable accounting matters or any fraudulent financial information provided to our shareholders, the government or the financial markets, or any conduct that results in a violation of law by the Bank, to our management (on an anonymous basis, if employees so desire). Under this policy we have also prohibited discrimination, retaliation or harassment of any kind against any employee who, based on the employee s reasonable belief that such conduct or practices have occurred or are occurring, reports such information or participates in an investigation.

### Principal Accountant Fees and Services

The following table sets forth for the fiscal years indicated the fees paid to our principal accountant and its associated entities for various services provided during these periods:

| | Fiscal Year Ended | | |
|---|---|---|---|
| **Type of Services** | **March 31, 2014** | **March 31, 2015** | **Description of Services** |
| | **(in millions)** | | |
| Audit services | Rs. 32.3 | Rs. 41.3 | Audit and review of financial statements |
| Audit-related services | | | |
| Tax services | | | |

| | | | |
|---|---|---|---|
| Other services | 31.9 | 7.3 | Special audit/other services |
| Total | Rs. 64.2 | Rs. 48.6 | |

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Our Audit Committee charter requires us to receive the approval of our Audit Committee on every occasion we engage our principal accountants or their associated entities to provide us any non-audit services. All of the non-audit services provided by our principal accountants or their associated entities in the previous two fiscal years have been pre-approved by our Audit Committee.

**Compliance with NYSE Listing Standards on Corporate Governance**

We are incorporated under the Indian Companies Act and our equity shares are listed on the BSE Limited (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India Limited, which are the major stock exchanges in India. Our corporate governance framework is in compliance with the Companies Act, the regulations and guidelines of the Securities and Exchange Board of India ( SEBI ) and the requirements of the listing agreements entered into with the Indian stock exchanges ( Listing Agreement ). We also have American Depositary Shares ( ADSs ) listed on the New York Stock Exchange (the NYSE ).

Companies listed on the NYSE must comply with certain standards of corporate governance set forth in Section 303A of the NYSE s Listed Company Manual. Listed companies that are foreign private issuers, as the term is defined in Rule 3b-4 under the Securities Exchange Act of 1934 ( Exchange Act ), are permitted to follow home country practices in lieu of the provisions of this Section 303A, except that foreign private issuers are required to comply with the requirements of Sections 303A.06, 303A.11 and 303A.12(b) and (c) of the NYSE s Listed Company Manual. As per these requirements, a foreign private issuer must:

1. Establish an independent audit committee that has specified responsibilities and authority. *[NYSE Listed Company Manual Section 303A.06]*;

2. Provide prompt written notice by its chief executive officer if any executive officer becomes aware of any non-compliance with any applicable corporate governance rules. *[NYSE Listed Company Manual Section 303A.12(b)]*;

3. Provide to the NYSE annual written affirmations with respect to its corporate governance practices, and interim written affirmations in the event of a change to the board or a board committee. *[NYSE Listed Company Manual Section 303A.12(c)]*; and

4. Include a statement of significant differences between its corporate governance practices and those followed by U.S. companies in the annual report of the foreign private issuer. *[NYSE Listed Company Manual Section 303A.11]*

In a few cases, the Indian corporate governance rules under Clause 49 of the Listing Agreement differ from those in the NYSE s Listed Company Manual as summarized below:

| NYSE Corporate Governance Standards applicable to NYSE Listed Companies | Corporate Governance Rules as per Listing Agreements with Indian |
| --- | --- |

| | Stock Exchange(s) |
|---|---|
| ***Board of Directors (  Board  )*** | |
| An NYSE listed company needs to have a majority of independent directors. *[NYSE Listed Company Manual Section 303A.01]* | The board of an Indian stock exchange listed company needs to have an optimum combination of executive and non-executive directors, with not less than 50% of the directors being non-executive directors. |
| A director must meet certain criteria in order to qualify as  independent . An NYSE listed company must disclose the identity of its independent directors and the basis upon which it is determined they are independent. *[NYSE Listed Company Manual Section 303A.02]* | If the chairman of the board of directors is a non-executive director of the company, at least one-third of the directors must be independent. If the chairman is an executive director, at least half of the directors must be independent. However, if the non-executive chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or one level below the Board, at least half of the directors on the Board of the company must be independent.<br><br>The definition of the term  independent director  is different and is set out in Clause 49 (I)(A)(iii) of the Listing Agreement. |

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***Executive Sessions***

Non-management directors need to meet at regularly scheduled executive sessions without management. *[NYSE Listed Company Manual Section 303A.03]*

SEBI, in its circular dated April 17, 2014, has announced certain amendments in the corporate governance rules as per the listing agreements with the Indian stock exchanges with effect from October 1, 2014 ( revised corporate governance requirements ). The revised corporate governance requirements provide that the independent directors shall hold atleast one meeting a year without the attendance of non-independent directors and members of management.

***Nominating/Corporate Governance Committee***

An NYSE listed company needs to have a nominating/corporate governance committee composed entirely of independent directors. *[NYSE Listed Company Manual Section 303A.04]*

As per the revised corporate governance requirements, an Indian stock exchange listed company is required to constitute a nomination and remuneration committee with effect from October 1, 2014. The nomination and remuneration committee will comprise of atleast three non-executive directors and atleast half shall be independent directors.

The nominating/corporate governance committee needs to have a written charter that addresses certain specific committee purposes and responsibilities and provides for an annual performance evaluation of the committee. *[NYSE Listed Company Manual Section 303A.04]*

The revised corporate governance requirements prescribe the role of the nomination and remuneration committee which includes formulation of criteria for evaluation of independent directors and the Board.

***Compensation Committee***

An NYSE listed company needs to have a compensation committee composed entirely of independent directors. Compensation committee members must satisfy certain additional independence requirements set forth in Section 303A.02 of the NYSE Listed Company Manual by the deadline specified therein. [ *NYSE Listed Company Manual Section 303A.05]*

As per the revised corporate governance requirements a company shall be required to set up a combined nomination and remuneration committee with effect from October 1, 2014. The role of this committee includes recommending to the Board a policy relating to the remuneration of the directors, key managerial personnel and other employees.

The compensation committee needs to have a written charter that addresses certain specific purposes and responsibilities of the committee and provides for an annual performance evaluation of the committee. [ *NYSE Listed Company Manual Section 303A.05]*

Effective October 1, 2014, an Indian stock exchange listed company shall have a Nomination and Remuneration Committee. The role of this committee includes recommending to the Board a policy relating to the remuneration of the directors, key managerial personnel and other employees. The annual corporate governance report of an Indian stock exchange listed company shall include details of remuneration of the directors, including details of the remuneration policy of the company and the terms of reference of the Nomination and Remuneration Committee.

***Audit Committee***

| | |
|---|---|
| An NYSE listed company needs to have an audit committee with at least three members. All the members of the audit committee must satisfy the independence requirements of Rule 10A-3 under the Exchange Act and the requirements of NYSE Corporate Governance Standard 303A.02. *[NYSE Listed Company Manual Sections 303A.06 and 303A.07]* | An Indian stock exchange listed company must have a qualified and independent audit committee comprised of at least three members with certain specified powers and roles. At least 2/3 of the members must be independent and all members must be financially literate and at least one member must have accounting or related financial management expertise. The chairman of the committee must be an independent director. |

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The audit committee needs to have a written charter that addresses certain specific purposes of the committee, provides for an annual performance evaluation of the committee and sets forth certain specific minimum duties and responsibilities. *[NYSE Listed Company Manual Section 303A.07]*

The audit committee is not required to have a written charter. However, in the Listing Agreement, Clause 49C sets out the powers of the audit committee, Clause 49D sets forth the required roles of the audit committee and Clause 49E sets out the information which should mandatorily be reviewed by the audit committee.

***Internal Audit Function***

An NYSE listed company needs to have an internal audit function to provide management and the audit committee with ongoing assessments of the company s risk management processes and system of internal control. A company may choose to outsource this function to a third party service provider other than its independent auditor. *[NYSE Listed Company Manual Section 303A.07]*

Although an internal audit function is not required, one of the roles of the audit committee is reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit . All internal audit reports relating to internal control weaknesses of the company must be reviewed by the audit committee. Also, the appointment, removal and terms of remuneration of the chief internal auditor are subject to review by the audit committee. Therefore, an Indian stock exchange listed company is required to conduct an internal audit and to have a department to conduct the internal audit.

In accordance with the revised corporate governance requirements Indian stock exchange listed companies shall comply with the requirement relating to risk management . It includes establishing a procedure to inform the Board members about the risk assessment and minimization procedure, constituting a risk management committee of the Board and delegating powers to the Committee to monitor and review the risk management function. We have already constituted a Risk Policy and Monitoring Committee of the Board to review and monitor the risk management function prior to the revised corporate governance requirements coming into force. There is no requirement for such a committee under NYSE regulations for listed companies.

***Shareholder Approval of Equity Compensation Plans***

Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exemptions. *[NYSE Listed Company Manual Section 303A.08]*

There is a requirement of shareholders approval for equity compensation and material revisions thereto under the Companies Act and the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 but not under Clause 49 of the Listing Agreement.

***Corporate Governance Guidelines/Code of Ethics***

| | |
|---|---|
| An NYSE listed company needs to adopt and disclose corporate governance guidelines. *[NYSE Listed Company Manual Section 303A.09]* | There is no such mandatory requirement to adopt corporate governance guidelines. An Indian stock exchange listed company has to comply with all the requirements prescribed under Clause 49 of the Listing Agreement relating to Corporate Governance. |
| An NYSE listed company needs to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. *[NYSE Listed Company Manual Section 303A.10]* | An Indian stock exchange listed company needs to adopt a code of conduct / ethics applicable to all members of the board of directors and senior management one level below the board. The company s annual report must contain a declaration signed by the CEO stating that all board members and senior management personnel have complied with the code of conduct. The company s annual report and quarterly compliance report on corporate governance must disclose any non-compliance with the code by the board members and senior management. |

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***Certifications as to Compliance***

The CEO of each NYSE listed company has to certify on an annual basis that he or she is not aware of any violation by the company of the NYSE corporate governance listing standards. This certification, as well as the CEO/CFO certification required under Section 302 of the Sarbanes-Oxley Act of 2002, must be disclosed in the company s annual report to shareholders. *[NYSE Listed Company Manual Section 303A.12]*

The CEO and the CFO are required to provide an annual certification on the true and fair view of the company s financial statements and compliance with existing accounting standards, applicable laws and regulations. In addition, Indian stock exchange listed companies are required to submit a quarterly compliance report. Indian stock exchange listed companies are also required to submit a certificate from either the auditors or practicing company secretaries regarding compliance with conditions of corporate governance on an annual basis.

***Posting of Charters, Guidelines, etc. on Website***

An NYSE listed company is required to post the charters of its audit, compensation, and nominating/corporate governance committees, its corporate governance guidelines, and its code of business conduct and ethics on the company s website, and to state in its proxy statement or annual report that these documents are so posted. The listed company s website address must be included in such postings. *[NYSE Listed Company Manual Sections 303A.04, 303A.05, 303A.07, 303A.09 and 303A.10]*

There is no such similar requirement for an Indian listed company. However, the Board of an Indian listed company must have a code of conduct for all Board members and senior management of the company. The code of conduct must be posted on the website of the company.

**Memorandum and Articles of Association**

Our main objects are to carry on banking activity and other related activities. Our objects and purposes can be found in clauses A and B of our Memorandum of Association (the Memorandum ).

Under the Articles, a director may not vote, participate in discussions or be counted for purposes of a quorum with respect to any decision relating to whether we will enter into any contract or arrangement if the director is directly or indirectly interested in such contract or arrangement. The Board of Directors may not hold meetings in the absence of a quorum. Under the Companies Act, the quorum for meetings of the Board is one-third of the total number of directors (any fraction contained in that one-third being rounded off as one) or two directors, whichever is higher. However, where the number of interested directors is equal to or exceeds two-thirds of total strength, the remaining number of directors (i.e. directors who are not interested) present at the meeting, being not less than two will constitute the quorum during such time. Pursuant to the Companies Act, our directors have the power to borrow money for business purposes only with the consent of the shareholders (with certain limited exceptions) through a special resolution (with three-fourths majority).

Sections 172 through 187 of the Articles set forth certain rights and restrictions relating to dividend distributions. One of these restrictions is that dividends may be approved only at a general meeting of shareholders, but in no event in an amount greater than the amount recommended by the board of directors.

Subject to the Companies Act, profits of a company are divisible among shareholders in proportion to the amount of capital paid up on the shares held by them respectively. In the event of liquidation, surplus will be distributed in proportion to the capital paid up or which ought to have been paid up on the shares held by shareholders respectively

at the time of commencement of the winding up. The Board of Directors may make calls on shareholders in respect of all money unpaid on the shares held by them and not by the conditions of allotment thereof.

The rights and privileges of any class of shareholders may not be modified without the approval of three-fourths of the issued shares of that class or the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class.

The annual general meeting shall be called for at a time during business hours at our registered office or at some other place within Mumbai as the Board of Directors may determine. The notice of the meeting shall specify it as the Annual General Meeting. Any general meeting of the shareholders of the Bank other than its Annual General Meeting is called an Extraordinary General Meeting. The Board of Directors is required to call an Extraordinary General Meeting upon the request of a set number of shareholders, as set forth in the Companies Act.

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## PRINCIPAL SHAREHOLDERS

The following table contains information relating to the beneficial ownership of our equity shares as of March 31, 2015 by:

- each person or group of affiliated persons known by us to beneficially own 5.0% or more of our equity shares; and

- our individual directors and their relatives as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to equity shares. Unless otherwise indicated, the persons listed in the table have sole voting and sole investment control with respect to all equity shares beneficially owned. All shares issued in India have the same voting rights. We have not issued different classes of securities.

By a special resolution on July 6, 2011, the shareholders of the Bank approved a stock split resulting in a reduction in the par value of each equity share from Rs. 10.0 to Rs. 2.0 per equity share effective as of July 16, 2011. All share/ADS and per share/ADS data have been retroactively restated to reflect the effect of the stock split. One ADS continues to represent three shares.

We were founded by our promoter HDFC Limited, a housing finance company in India. As of March 31, 2015, HDFC Limited, together with its subsidiaries, held an aggregate of 21.67% of our equity shares.

| | **Number of Shares** | **Percentage of Total Equity Shares Outstanding** |
|---|---|---|
| HDFC group | 543,216,100 | 21.67% |
| Directors and relatives | 4,831,799 | 0.19% |

The ADSs are represented by underlying equity shares. As on March 31, 2015, Indian equity shares numbering 461,559,012 are held in the form of ADSs and constitute 18.41% of the Bank s capital. In our books only, the depositary, J.P. Morgan Chase Bank, N.A., is the shareholder with respect to equity shares underlying ADSs. We are unable to estimate the number of record holders of ADSs in the United States.

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## RELATED PARTY TRANSACTIONS

The following is a summary of transactions we have engaged in with our promoter and principal shareholder, HDFC Limited, and its subsidiaries and other related parties, including those in which we or our management have a significant equity interest. Figures herein reflecting our equity interests exclude shares held by our employees welfare trust, established for the benefit of our employees.

All transactions with HDFC group companies and the other related parties listed below are on terms that we believe are as favorable to us as those that could be obtained from a non-affiliated third party in an arm s-length transaction. In addition, our banking license from the RBI stipulates that we can only transact business with HDFC Limited and its affiliates on an arm s-length basis.

### Housing Development Finance Corporation Limited ( HDFC Limited )

#### *Housing Loans*

We participate in the home loan business by selling loans provided by HDFC Limited. Under this arrangement, HDFC Limited approves and disburses the loans, which are kept on the books of HDFC Limited, and we are paid a sourcing fee. Under the arrangement, we have an option but not an obligation to purchase up to 70% of the fully disbursed home loans sourced under this arrangement. During fiscal 2015, we purchased AAA-rated home loans aggregating to Rs. 82,492.1 million from HDFC Limited under the above arrangement, some of which qualified as priority sector advances. We earned Rs. 1,443.7 million from HDFC Limited in fiscal 2015 as fees for selling these loans and other services rendered. We paid Rs. 1,377.9 million to HDFC Limited towards administration and servicing of these loans. An amount of Rs.148.9 million was receivable from HDFC Limited as of March 31, 2015. An amount of Rs. 192.5 million was payable to HDFC Limited as of March 31, 2015.

#### *Property*

We have facilities located on four properties owned or leased by HDFC Limited. In fiscal 2015, we paid an aggregate of Rs. 20.4 million as rental fees, maintenance and service charges to HDFC Limited for use of these properties. We believe that we pay market rates for these properties. As of March 31, 2015, HDFC Limited held a deposit of Rs. 1.5 million that we have paid to secure these leased properties.

#### *Other Transactions*

We also enter into foreign exchange and derivative transactions with HDFC Limited. The notional principal amount and the mark to market gains in respect of foreign exchange and derivative contracts outstanding as of March 31, 2015 were Rs.1,000.0 million and Rs.18.0 million, respectively. We have issued guarantee of Rs. 1.1 million on behalf of HDFC Limited.

We paid a dividend of Rs. 2,693.5 million to HDFC Limited during fiscal 2015, as proposed in the previous fiscal year.

### HDFC Standard Life Insurance Company Limited ( HDFC Standard Life )

In fiscal 2015, we paid HDFC Standard Life Rs.710.4 million as our contribution towards superannuation, gratuity and term insurance. In the same period, we received fees and commissions from HDFC Standard Life aggregating Rs. 4,580.6 million for the sale of insurance policies and other services. As of March 31, 2015, Rs.212.6 million was

receivable from HDFC Standard Life. As of March 31, 2015, HDFC Standard Life had invested Rs. 850.0 million in the Bank s tier II bonds. During fiscal 2015, we sold to HDFC Standard Life securities of Rs. 2,874.1 million.

**HDFC Asset Management Company Limited ( HDFC AMC )**

During fiscal 2015, we earned Rs.1,127.6 million as fees from HDFC AMC for distribution of units of mutual funds and other services rendered. As of March 31, 2015, fees of Rs. 40.2 million were receivable from HDFC AMC.

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**HDFC Ergo General Insurance Company Limited ( HDFC Ergo )**

We paid Rs.310.2 million to HDFC Ergo towards insurance premiums in fiscal 2015. During fiscal 2015, we received Rs. 1,378.1 million for the sale of insurance policies and other services rendered. As of March 31, 2015, an amount of Rs. 134.9 million was receivable from HDFC Ergo. As of March 31, 2015, HDFC Ergo had invested Rs. 50.0 million in the Bank s tier II bonds. During fiscal 2015, we sold securities of Rs.500.0 million to HDFC Ergo. We have given a guarantee of Rs. 12.4 million on behalf of HDFC Ergo.

**GRUH Finance Limited ( GRUH Finance )**

During fiscal 2015, we earned Rs.2.7 million as fees from GRUH Finance for rendering cash management services. During fiscal 2015, we purchased from GRUH Finance, securities of Rs. 6,383.1 million.

**Credila Financial Services Private Limited ( Credila )**

During fiscal 2015, we earned Rs.11.1 million as fees from Credila for sourcing education loans. As of March 31, 2015, an amount of Rs. 2.9 million was receivable from Credila. During fiscal 2015, we purchased from Credila, debt securities of Rs.2,943.1 million. As of March 31, 2015, our investments in debt securities of Credila amounted to Rs.980.1 million and the outstanding balance of loans given was Rs. 0.9 million.

**Salisbury Investments Private Limited ( Salisbury Investments )**

We have paid a security deposit of Rs. 35.0 million to Salisbury Investments and, in fiscal 2015, we paid rent of Rs. 6.6 million for the residential accommodation of our Managing Director to Salisbury Investments in which the relatives of the managing director hold a stake.

**International Asset Reconstruction Company Limited ( IARCL )**

IARCL was an associate of CBoP due to the latter s investment in IARCL, which we took over on our acquisition of CBoP. As of March 31, 2015, the book value of our investment in the equity of IARCL was Rs. 311.7 million. As of March 31, 2015, the outstanding balance of loans given to IARCL was Rs. 256.7 million.

**HDFC Realty Limited ( HDFC Realty )**

In fiscal 2015, we paid Rs.2.7 million to HDFC Realty towards professional fees on real estate services. In the same period, we earned Rs.8.6 million as fees from HDFC Realty for referring our clients seeking advisory services relating to real estate. As of March 31, 2015, fees of Rs.2.0 million were receivable from HDFC Realty.

**Key Management Personnel and Their Relatives**

In fiscal 2015, we paid a total remuneration of Rs.151.0 million to Mr. Aditya Puri, our managing director, Mr. Paresh Sukthankar, our deputy managing director and Mr. Kaizad Bharucha, our executive director. In the same fiscal year, we paid Rs.3.7 million and Rs.3.4 million to Mr. Paresh Sukthankar and Mr. Kaizad Bharucha respectively, as rent for their residential accommodation. As of March 31, 2015, the outstanding balances of the security deposits we had given to Mr. Paresh Sukthankar and Mr. Kaizad Bharucha were Rs.17.5 million and Rs.7.6 million, respectively. As of March 31, 2015, the outstanding balances of the housing loans given to Mr. Aditya Puri and Mr. Kaizad Bharucha were Rs. 5.0 million and Rs. 4.4 million, respectively.

**HDFC Pension Management Company Limited ( HDFC PMC )**

We have given a guarantee of Rs. 1.0 million on behalf of HDFC PMC.

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**Other Strategic Investments**

We frequently partner with other HDFC group companies when making strategic investments. We currently have two strategic investments in which HDFC group companies are co-investors. We are required to comply with the RBI regulations on holding equity stake in another company. The following is a list of strategic investments made by us and the HDFC group companies:

| Company | Type of Business | HDFC Bank Investment (in millions) | HDFC Bank Ownership | Total HDFC Group ownership |
|---|---|---|---|---|
| Computer Age Management Services Private Limited ( CAMS ) | Unit capital accounting and transfer agency services | Rs. 2.0 | 6.2% | 23.2% |
| Softcell Technologies Limited ( Softcell ) | Business-to-business software services | Rs. 26.0 | 12.0% | 26.0% |

We routinely conduct business with some of the companies in which we have made strategic investments.

We have entered into normal banking transactions with some of the above parties and we believe all such transactions to be at arm s-length.

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# TAXATION

## Indian Taxation of the ADSs

*The following is a summary of the principal Indian tax consequences for non-resident investors of the ADSs and the equity shares issuable on surrender of ADSs for equity shares (  conversion  ). The summary is based on the provisions of Section 115AC and other applicable provisions of the Income Tax Act, 1961 (43 of 1961) (Indian Income Tax Act) and the Depositary Receipt Scheme, 2014 promulgated by the Government of India (the  Depositary Receipt Scheme  ) (together the  Section 115AC Regime  ). Further, it only addresses the tax consequences for persons who are non-residents, as defined in the Indian Income Tax Act, who acquire ADSs or equity shares (upon conversion) and who hold such ADSs or equity shares (upon conversion) as capital asset as per Indian Income Tax, and does not address the tax consequences which may be relevant to other classes of non-resident investors, including dealers. The summary assumes that the person continues to remain a non-resident when income by way of dividends and capital gains is earned.*

**EACH INVESTOR IS ADVISED TO CONSULT HIS/HER TAX ADVISOR ABOUT THE PARTICULAR TAX CONSEQUENCES APPLICABLE TO HIS/HER INVESTMENT IN THE ADSs.**

The following discussion describes the material Indian income tax and stamp duty consequences of the purchase, ownership and disposal of the ADSs.

This summary is not intended to constitute a complete analysis of the tax consequences under Indian law of the acquisition, ownership and sale of the ADSs (or equity shares upon conversion) by non-resident investors. Investors should therefore consult their tax advisors about the tax consequences of such acquisition, ownership and sale including, specifically, tax consequences under Indian law, the laws of the jurisdiction of their residence, any tax treaty between India and their country of residence or the United States, the country of residence of the overseas depositary bank (Depositary), as applicable and, in particular, the applicable provisions of the Indian Income Tax Act and the Section 115AC regime. The Indian Income Tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of the Section 115AC regime may be modified or amended by future amendments to the Income Tax Act.

### *Taxation of Distributions*

Indian companies distributing dividends are subject to a dividend distribution tax. With effect from October 1, 2014, the rate of the dividend distribution tax was set at 20% (approximately) (inclusive of a surcharge of 10% of the tax amount and education cess of 3% on the aggregate amount of tax and surcharge) on the amount of dividend paid out. Dividends are not taxable in the hands of the recipient. Accordingly, dividends distributed to the Depositary in respect of the equity shares underlying the ADSs and to ADS holders in respect of the ADSs and dividends distributed to the holders of the equity shares following conversion of the ADSs would not be taxable in the hands of holders.

Distribution to non-residents of bonus ADSs or bonus shares or rights to subscribe for equity shares (for the purposes of this section, Rights) made with respect to ADSs or equity shares should not be subject to Indian tax provided that there is no disproportionate or non-uniform allotment.

### *Taxation of Capital Gains in Relation to ADSs*

The taxation of capital gains in the hands of the non-resident investor in the time of ADSs and after conversion of ADSs into equity shares is set forth below.

*Transfer of ADSs between non-residents*

The transfer of ADSs by a non-resident to another non-resident outside India is covered under Section 115AC of the Indian Income Tax Act. However, pursuant to a specific exemption under Section 47(viia) of the Indian Income Tax Act, this is not considered a transfer and therefore is not liable to capital gains tax in India.

*Conversion of ADSs into Equity Shares*

The receipt of equity shares by a non-resident upon conversion of ADSs should not constitute a taxable event for Indian income tax purposes.

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### *Sale of Equity Shares Received Upon Conversion of ADSs*

When a non-resident sells equity shares received upon conversion of ADSs, which shares have been held for more than 12 months from the date of conversion, on a recognized stock exchange, and also pays securities transaction tax (STT) in respect of such sale, then the gains realized are considered long-term capital gains. Such gains are exempt from tax under Section 10(38) of the Indian Income Tax Act. If, on the other hand, a non-resident sells equity shares received upon conversion of ADS, which shares have been held for less than 12 months from the date of conversion, on a recognized stock exchange and pays STT in respect of such sale, then the gains realized are considered short-term capital gains. Such gains are taxable at the rate of 15 percent, plus the applicable surcharge and education cess, under Section 111A(1)(b)(i) of the Indian Income Tax Act.

In respect of a sale and purchase of equity shares entered into on a recognized stock exchange, both the buyer and the seller are required to pay STT at the rate of 0.1% of the transaction value of the securities, if the transaction is a delivery based transaction, which means that the transaction involves actual delivery or transfer of shares. The seller of the shares is required to pay STT at the rate of 0.025% of the transaction value of the securities if the transaction is a non-delivery based transaction, which means that the transaction is settled without taking actual delivery or transfer of the shares, as would be the case with our equity shares.

For the purpose of computing capital gains tax on the sale of the equity shares the cost of acquisition of equity shares received in exchange for ADSs will be determined on the basis of the prevailing price of the equity shares on the BSE or the NSE as of the date on which the depositary gives notice to its custodian for the delivery of such equity shares upon redemption of the ADSs. A non-resident holder s holding period (for the purpose of determining the applicable Indian capital gains tax rate) in respect of equity shares received in exchange for ADSs commences on the date of the advice of withdrawal of such equity shares by the relevant Depositary to its custodian.

The provision of the Agreement for Avoidance of Double Taxation entered into by the Government of India with the country of residence of the non-resident investor will be applicable to the extent they are more beneficial to the non-resident investor. The India-U.S. income tax treaty does not limit India s ability to tax capital gains.

### *Tax Deduction at Source*

Tax on long-term and short-term capital gains, if payable as discussed above upon a sale of equity shares, is to the deducted at source by the person responsible for paying the non-resident, in accordance with the relevant provisions of the Indian Income Tax Act, and the non-resident will be entitled to a certificate evidencing such tax deduction in accordance with the provisions of Section 203 of the Indian Income Tax Act.

### *Capital Losses*

Neither Section 115AC nor the Depositary Receipt Scheme deals with capital losses arising on a transfer of equity shares in India. In general terms, losses arising from a transfer of a capital asset in India can only be set off against capital gains on transfer of another capital asset. Furthermore, a long-term capital loss can be set off only against a long-term capital gain. To the extent that losses are not absorbed in the year of transfer, they may be carried forward for a period of eight assessment years immediately succeeding the assessment year for which the loss was first determined by the assessing authority and may be set off against the capital gains assessable for such subsequent assessment years. In order to set off capital losses as above, the non-resident investor would be required to file appropriate and timely tax returns in India and undergo the customary assessment procedures. However, long-term capital loss on sale of equity shares being chargeable to STT will not be allowed to be set-off or carried forward for set-off against any capital gains.

***Stamp Duty***

There is no stamp duty on the sale or transfer of ADSs outside India.

Generally, the transfer of ordinary shares in physical form would be subject to Indian stamp duty at the rate of 0.25% of the market value of the ordinary shares on the trade date, and such stamp duty customarily is borne by the transferee, i.e., the purchaser. In order to register a transfer of equity shares in physical form, it is necessary to present a stamped deed of transfer. An acquisition of shares in physical form from the depositary in exchange for ADSs representing such equity shares will not render an investor liable for Indian stamp duty. We will be required to pay stamp duty at the applicable rate on the share certificate. However, since our equity shares are compulsorily deliverable in dematerialized form (except for trades of up to 500 equity shares, which may be delivered in physical form) there would be no stamp duty payable in India on transfer.

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*Other Taxes*

At present, there is no wealth tax, gift tax or inheritance tax which may apply to the ADSs or the underlying shares.

**Material United States Federal Income Tax Consequences**

The following summary describes the material United States federal income tax consequences relating to an investment in our ADSs or equity shares as of the date hereof. This summary is based on the Internal Revenue Code of 1986, as amended (Code), its legislative history, existing final, temporary and proposed Treasury Regulations, rulings and judicial decisions, all as currently in effect and all of which are subject to prospective and retroactive rulings and changes.

This summary does not purport to address all United States federal income tax consequences that may be relevant to a particular investor and you are urged to consult your own tax advisor regarding your specific tax situation. The summary applies only to investors who own ADSs or equity shares as capital assets (generally, property held for investment) under the Code, and does not address the tax consequences that may be relevant to investors in special tax situations, including for example:

- insurance companies;
- regulated investment companies and real estate investment trusts;
- tax-exempt organizations;
- broker-dealers;
- traders in securities that elect to mark-to-market;
- banks or certain other financial institutions;
- United States investors whose functional currency is not the United States dollar;
- certain former citizens or residents of the United States subject to Section 877 of the Code;
- investors that hold our ADSs or equity shares as part of a hedge, straddle or conversion transaction; or
- holders that own, directly, indirectly or constructively 10.0% or more of our total combined voting stock.

Further, this summary does not address the alternative minimum tax consequences of an investment in ADSs or equity shares, or the indirect consequences to owners of equity or partnership interests in entities that own our ADSs or equity shares. In addition, this summary does not address the state, local and foreign tax consequences of an investment in our ADSs or equity shares.

You should consult your own tax advisor regarding the United States federal, state, local and foreign and other tax consequences of purchasing, owning and disposing of our ADSs or equity shares in your particular circumstances.

***Taxation of U.S. Holders***

You are a U.S. Holder if you are, for United States federal income tax purposes, a beneficial owner of ADSs or equity shares and you are:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, or any state thereof, including the District of Columbia;
- an estate, the income of which is subject to United States federal income tax regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust, or if the trust has made a valid election to be treated as a United States person.

A Non-U.S. Holder is a beneficial owner of ADSs or equity shares that is neither a U.S. Holder nor a partnership or other entity or arrangement treated as a partnership for United States federal income tax purposes. If a partnership holds ADSs or equity shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding our ADSs or equity shares should consult their own tax advisors.

For United States federal income tax purposes, a U.S. Holder of an ADS will generally be treated as the owner of the equity shares represented by the ADS. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for equity shares. A U.S. Holder s tax basis in the equity shares will be the same as the tax basis in the ADS surrendered therefor, and the holding period in the equity shares will include the period during which the holder held the surrendered ADS.

This discussion assumes that we are not, and will not become, a passive foreign investment company (PFIC) for United States federal income tax purposes, as described below.

*Distributions on ADSs or Equity Shares*

The gross amount of cash distributions made by us to a U.S. Holder with respect to ADSs or equity shares generally will be taxable to such U.S. Holder as ordinary dividend income when such U.S. Holder receives the distribution, actually or constructively, to the extent paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). Indian companies distributing dividends are subject to a dividend distribution tax and such dividend distributions are not taxable in the hands of the recipient. See *Indian Taxation of the ADSs Taxation of Distributions* . Indian dividend distribution tax, therefore, should not be treated as part of the gross amount of the dividend received by the U.S. Holder and should not be eligible for a credit or deduction against a U.S. Holder s United States federal income taxes as the dividend distribution tax is imposed on the company making the distribution and not the U.S. Holder. Dividends paid on the ADSs or equity shares will generally be treated as passive category foreign source income, which may be relevant to certain U.S. Holders in computing their foreign tax credit limitations.

If these dividends constitute qualified dividend income (QDI), individual U.S. Holders of our ADSs or equity shares will generally pay tax on such dividends at a reduced rate, provided certain holding period requirements and other conditions are satisfied. Assuming we are not a PFIC in the taxable year in which we pay the dividends or in the preceding taxable year, dividends paid by us will be QDI if we are a qualified foreign corporation (QFC) at the time the dividends are paid. We believe that we are currently, and will continue to be, a QFC so we expect all dividends paid by us to be QDI for United States federal income tax purposes. Distributions in excess of our current and accumulated earnings and profits (as determined for United States federal income tax purposes) will be treated first as a non-taxable return of capital reducing such U.S. Holder s tax basis in the ADSs or equity shares. Any distribution in excess of such tax basis will be treated as capital gain and will be either long-term or short-term capital gain depending upon whether the U.S. Holder held the ADSs or equity shares for more than one year. However, we currently do not, and we do not intend to, calculate our earnings and profits under United States federal income tax principles. Therefore, a U.S. Holder should expect that a distribution generally will be reported as dividend income. Dividends paid by us generally will not be eligible for the dividends-received deduction available to certain United States corporate shareholders.

The amount of any cash distribution paid in Indian rupees will equal the United States dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is received by the depositary, in the case of ADSs, or by the U.S. Holder, in the case of equity shares, regardless of whether the payment is in fact converted to United States dollars at that time. Generally, a U.S. Holder should not recognize any foreign currency gain or loss if such Indian rupees are converted into United States dollars on the date received and it is expected that the depositary will in the ordinary course convert foreign currency received by it as distributions into United States dollars on the date of receipt. If the Indian rupees are not converted into United States dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent sale or other disposition of the Indian rupees. Such foreign currency gain or loss, if any, will be United States source ordinary income or loss.

*Sale or Exchange of ADSs or Equity Shares*

A U.S. Holder will generally recognize capital gain or loss upon the sale, exchange or other disposition of ADSs or equity shares measured by the difference between the United States dollar value of the amount received and the U.S. Holder s tax basis (determined in United States dollars) in the ADSs or equity shares. Any gain or loss will be long-term capital gain or loss if the ADSs or equity shares in the sale, exchange or other taxable disposition have been held for more than one year and will generally be United States source gain or loss. The holding period for equity shares withdrawn from the depositary facility will include the holding period of the ADSs exchanged therefor. Your ability to deduct capital losses is subject to limitations. Under certain circumstances described under Indian Taxation of the ADSs Taxation of Capital Gains in Relation to ADSs , you may be subject to Indian tax upon the disposition of ADSs or equity shares. In such circumstances and subject to applicable limitations a U.S. Holder entitled to the benefits of the India-U.S. income tax treaty may be able to credit the Indian tax against the U.S. Holder s United States federal income tax liability. You should consult your tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

For cash-basis U.S. Holders who receive foreign currency in connection with a sale or other taxable disposition of equity shares, the amount realized will be based upon the United States dollar value of the foreign currency received with respect to such equity shares as determined on the settlement date of such sale, exchange or other taxable disposition.

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Pursuant to the Treasury Regulations applicable to foreign currency transactions, accrual-basis U.S. Holders may elect the same treatment required of cash-basis taxpayers with respect to a sale, exchange or other taxable disposition of equity shares, provided that the election is applied consistently from year to year. Such election cannot be changed without the consent of the Internal Revenue Service (IRS). Accrual-basis U.S. Holders that do not elect to be treated as cash-basis taxpayers for this purpose may have a foreign currency gain or loss for United States federal income tax purposes because of differences between the United States dollar value of the foreign currency received prevailing on the date of such sale, exchange or other taxable disposition and the value prevailing on the date of payment. Any such foreign currency gain or loss will generally be treated as ordinary income or loss that is United States source, in addition to the gain or loss, if any, recognized on the sale, exchange or other taxable disposition of equity shares.

*Medicare Tax*

Certain U.S. Holders who are individuals, estates, or trusts are required to pay a 3.8% Medicare surtax on all or part of that holder s net investment income , which includes, among other items, dividends on, and capital gains from the sale or other taxable disposition of, the ADSs or equity shares, subject to certain limitations and exceptions. Prospective investors should consult their own tax advisors regarding the effect, if any, of this surtax on their ownership and disposition of the ADSs or equity shares.

*Passive Foreign Investment Company Rules*

U.S. Holders generally will be subject to a special, adverse tax regime that would differ in certain respects from the tax treatment described above if we are, or were to become, a PFIC for United States federal income tax purposes. Although the determination of whether a corporation is a PFIC is made annually and thus may be subject to change, based on an active banking exception, we do not believe that we are, nor do we expect to become, a PFIC. However, the matter is not free from doubt. We urge you to consult your own tax advisor regarding the potential application of the PFIC rules.

*Information with Respect to Foreign Financial Assets*

Individuals (and, under proposed Treasury Regulations, certain entities) who are U.S. Holders that own specified foreign financial assets , including stock of a non-U.S. corporation not held through a financial institution, with an aggregate value in excess of certain dollar thresholds may be required to file an information report with respect to such assets on IRS Form 8938 with their United States federal income tax returns. Penalties apply for failure to properly complete and file IRS Form 8938. U.S. Holders are encouraged to consult their tax advisors regarding the application of this reporting requirement to their ownership of our ADSs or equity shares.

***Taxation of Non-U.S. Holders***

*Distributions on ADSs or Equity Shares*

Non-U.S. Holders generally will not be subject to United States federal income or withholding tax on dividends received from us with respect to ADSs or equity shares, unless such income is considered effectively connected with the Non-U.S. Holder s conduct of a United States trade or business for United States federal income tax purposes (and, if required by an applicable income tax treaty, the income is attributable to a permanent establishment maintained in the United States).

*Sale or Exchange of ADSs or Equity Shares*

Non-U.S. Holders generally will not be subject to United States federal income tax on any gain realized upon the sale, exchange or other taxable disposition of ADSs or equity shares unless:

- such gain is considered effectively connected with the Non-U.S. Holder s conduct of a United States trade or business (and, if required by an applicable income tax treaty, the income is attributable to a permanent establishment maintained in the United States); or

- such Non-U.S. Holder is an individual that is present in the United States for 183 days or more during the taxable year of the disposition and certain other conditions are met.

In addition, if you are a corporate Non-U.S. Holder, any effectively connected dividend income or gain (subject to certain adjustments) may be subject to an additional branch profits tax at a rate of 30.0% (or such lower rate as may be specified by an applicable income tax treaty).

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***Backup Withholding and Information Reporting***

In general, dividends on ADSs or equity shares, and payments of the proceeds of a sale, exchange or other taxable disposition of ADSs or equity shares, paid to a U.S. Holder within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a rate currently equal to 28.0% unless the U.S. Holder:

- is a corporation or other exempt recipient; or
- provides an accurate taxpayer identification number and certifies that no loss of exemption from backup withholding applies to such U.S. Holder.

Non-U.S. Holders generally are not subject to information reporting or backup withholding. However, such Non-U.S. Holders may be required to provide a certification to establish their non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Holders generally will be allowed a credit of the amount of any backup withholding against their United States federal income tax liability or may obtain a refund of any amounts withheld under the backup withholding rules that exceed such income tax liability by filing a refund claim with the IRS.

*Foreign Account Tax Compliance*

Sections 1471 through 1474 of the Code (provisions commonly known as FATCA or the Foreign Account Tax Compliance Act) impose (a) certain reporting and due diligence requirements on foreign financial institutions and, (b) potentially require such foreign financial institutions to deduct a 30% withholding tax from (i) certain payments from sources within the United States, and (ii) foreign passthru payments (which is not yet defined in current guidance) made to certain non-U.S. financial institutions that do not comply with such reporting and due diligence requirements or certain other payees that do not provide required information. The United States has entered into a number of intergovernmental agreements with other jurisdictions with respect to FATCA (IGAs) which may modify the operation of this withholding. The Bank as well as relevant intermediaries such as custodians and depositary participants are classified as financial institutions for these purposes. Given that India has entered into a Model 1 IGA with the United States for giving effect to FATCA, Indian financial institutions such as the Bank are also being instructed to become fully FATCA compliant, based on the terms of the IGA and relevant rules.

Under current guidance it is not clear whether or to what extent payments on ADSs or equity shares will be considered foreign passthru payments subject to FATCA withholding or the extent to which withholding on foreign passthru payments will be required under the applicable IGA. Investors should consult their own tax advisers on how the FATCA rules may apply to payments they receive in respect of the ADSs or equity shares.

Should any withholding tax in respect of FATCA be deducted or withheld from any payments arising to any investor, neither the Bank nor any other person will pay additional amounts as a result of the deduction or withholding.

## SUPERVISION AND REGULATION

The main legislation governing commercial banks in India is the Banking Regulation Act, 1949 (the Banking Regulation Act). The provisions of the Banking Regulation Act are in addition to and not, save as expressly provided in the Banking Regulation Act, in derogation of the Companies Act, 2013, Companies Act, 1956 and any other law currently in force. Other important laws include the Reserve Bank of India Act, 1934, the Negotiable Instruments Act, 1881, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (the SARFAESI Act) and the Bankers Books Evidence Act, 1891. Additionally, the RBI, from time to time, issues guidelines to be followed by banks. Compliance with all regulatory requirements is evaluated with respect to our financial statements under Indian GAAP.

### RBI Regulations

Commercial banks in India are required under the Banking Regulation Act to obtain a license from the RBI to carry on banking business in India. Before granting the license, the RBI must be satisfied that certain conditions are complied with, including (i) that the bank is or will be in a position to pay its present and future depositors in full as their claims accrue; (ii) that the affairs of the bank will not be or are not likely to be conducted in a manner detrimental to the interests of present or future depositors; (iii) that the general character of the proposed management of the bank will not be prejudicial to the public interest or the interest of its depositors; (iv) that the bank has adequate capital and earnings prospects; (v) that public interest will be served if a license is granted to the bank; (vi) that having regard to the banking facilities available in the proposed principal area of operations of the bank, the potential scope for expansion of banks already in existence in the area and other relevant factors the grant of the license would not be prejudicial to the operation and consolidation of the banking system consistent with monetary stability and economic growth; and (vii) any other condition, the fulfillment of which would, in the opinion of the RBI, be necessary to ensure that the carrying on of banking business in India by the bank will not be prejudicial to the public interest or the interests of the depositors. The RBI can cancel the license if the bank fails to meet the above conditions or if the bank ceases to carry on banking operations in India.

Being licensed by the RBI, we are regulated and supervised by the RBI. It requires us to furnish statements, information and certain details relating to our business. The RBI has issued guidelines for commercial banks on recognition of income, classification of assets, valuation of investments, maintenance of capital adequacy and provisioning for non-performing and restructured assets among others. The RBI has set up a Board for Financial Supervision, under the chairmanship of its Governor, with the primary objective of undertaking consolidated supervision of the financial sector comprised of commercial banks, financial institutions and non-banking finance companies. This Board oversees the functioning of the Department of Banking Supervision, Department of Non-Banking Supervision and Financial Institutions Division of the RBI and gives directions relating to regulatory and supervisory issues. The appointment of the auditors of banks is subject to the approval of the RBI. The RBI can direct a special audit in the interest of the depositors or in the public interest.

### Entry of new banks in the private sector

In February 2013, the RBI released guidelines for licensing of new banks in the private sector. The key items covered under these guidelines are as follows: (i) promoters eligible to apply for banking licenses; (ii) corporate structure; (iii) minimum voting equity capital requirements for new banks; (iv) regulatory framework; (v) foreign shareholding cap; (vi) corporate governance; (vii) prudential norms (viii) exposure norms; and (ix) business plan. The RBI has permitted private sector entities owned and controlled by Indian residents and entities in the public sector in India to apply to the RBI for a license to operate a bank through a wholly owned non-operative financial holding company, subject to compliance with certain specified criteria. Such a non-operative financial holding company is permitted to

be the holding company of the bank as well as any other financial services entity, with the objective that the holding company ring-fences the regulated financial services entities in the group, including the bank, from other activities of the group. The RBI specified July 1, 2013 as the deadline for submission of applications for setting up new banks in the private sector, subsequent to which the RBI reviewed the applications and provided an in-principle approval to two applicants, IDFC Limited and Bandhan Financial Services Private Limited. The guidelines specify that the validity of an in-principle approval issued by RBI will be one year from the date of granting such approval, after which it will lapse automatically. However, the in-principle approval granted to IDFC Limited and Bandhan Financial Services Private Limited is valid for a period of 18 months, during which the applicants are required to comply with the requirements in the guidelines for licensing of new banks in the private sector and fulfill other conditions as may be specified by the RBI. Each of these applicants is expected to commence banking operations in fiscal 2016.

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**Financial Holding Company Structure in India**

The RBI constituted a Working Group in June 2010 to examine the feasibility of introducing a Financial Holding Company (FHC) Structure in India under the chairpersonship of the Deputy Governor. In May 2011, the Working Group submitted its report to recommend a roadmap for the introduction of a holding company structure in the Indian financial sector together with the required regulatory, supervisory and legislative framework. The report served as a guiding document for the introduction of an alternate organizational structure for banks and financial conglomerates in India. Key recommendations of the Working Group were as follows: (i) FHC structure; (ii) regulatory framework; (iii) statutory and taxation related changes; (iv) caps on expansion in non-banking business; (v) capital raising; and (vi) transitioning to the FHC structure. The RBI s guidelines for licensing of new banks in the private sector make it mandatory for applicants to adopt the wholly owned non-operative financial holding company structure.

In August 2013, the RBI issued a discussion paper titled Banking Structure in India The Way Forward. The key recommendations in the paper relate to: (i) adoption of the FHC structure; (ii) differential licensing (allowing banks to be licensed to provide only specified services); (iii) consolidation of large-sized Indian banks; (iv) requiring large foreign banks to operate through subsidiaries in India and the reduction of the Government s ownership of state-owned banks to ease the burden on the state where these banks will have to be capitalized to comply with Basel III requirements.

On April 7, 2014, the RBI introduced a new category of NBFCs called Non-Operative Financial Holding Company ( NOFHC ) and, accordingly, amended the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007. The RBI directions define a NOFHC as a non-deposit taking NBFC which holds the shares of a banking company and the shares of all other financial services companies in its group, whether regulated by RBI or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.

**Regulations Relating to the Opening of Branches**

Section 23 of the Banking Regulation Act provides that banks must obtain the prior permission of the RBI to open new branches. The RBI may cancel a license for violations of the conditions under which it was granted.

The RBI issues instructions and guidelines to banks on branch authorization from time to time. Branches are categorized as Tier 1 to Tier 6 based on population (as per the 2001 census) and classified in the following manner:

Tier 1 100,000 and above;

Tier 2 50,000 to 99,999;

Tier 3 20,000 to 49,999;

Tier 4 10,000 to 19,999;

Tier 5 5,000 to 9,999; and

Tier 6 Less than 5,000.

With the objective of liberalizing and rationalizing the branch licensing process, the RBI, with effect from September 19, 2013, granted general permission to domestic scheduled commercial banks like us to open branches in Tier 1 to Tier 6 centers, subject to reporting to the RBI and prescribed conditions such as (i) at least 25% of the total number of branches opened during the fiscal year must be opened in unbanked rural (Tier 5 and Tier 6) centers, which are defined as centers that do not have a brick and mortar structure of any scheduled commercial bank for customer-based banking transactions; and (ii) the total number of branches opened in Tier 1 centers during a fiscal cannot exceed the total number of branches opened in Tier 2 to Tier 6 centers and all centers in the north eastern states of India and the state of Sikkim. The guidelines also permit banks to open branches in Tier 1 centers over and above the number permitted in accordance with the paragraph above, as an incentive for opening more branches in underbanked districts of underbanked States, subject to specified conditions.

The RBI also permits scheduled commercial banks to install off-site/mobile ATMs at centers/places identified by them, without the need to get permission from the RBI in each case. This, however, is subject to any direction which the RBI may issue, including for closure/shifting of any such off-site/mobile ATMs, wherever the RBI considers it necessary. Banks need to report full details of the off-site ATMs installed by them in terms of the above general permission.

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### Capital Adequacy Requirements

The RBI has issued guidelines for the implementation of the New Capital Adequacy Framework (Basel II). In order to maintain consistency and harmony with international standards, foreign banks in India and Indian banks having operational presence outside India were advised to adopt the Standardized Approach for Credit Risk and Basic Indicator Approach for Operational Risk with effect from March 31, 2008, while other commercial banks were advised to adopt these approaches with effect from March 31, 2009.

Under these guidelines, we were required to maintain a minimum ratio of capital to risk-adjusted assets and off-balance sheet items of 9%, at least 6% of which must be Tier I capital. Until March 31, 2013, we were also required to ensure that our Basel II minimum capital requirement continued to be higher than the prudential floor of 80% of the minimum capital requirement computed as per the Basel I framework for credit and market risks. In May 2013, the RBI withdrew the requirement of parallel run and prudential floor for implementation of Basel II vis-à-vis Basel I.

In May 2012, the RBI released guidelines on implementation of Basel III capital regulations in India with effect from April 1, 2013. The RBI has also issued master circular on Basel III Capital Regulations consolidating all relevant guidelines on Basel III. The key items covered under these guidelines include: (i) improving the quality, consistency and transparency of the capital base; (ii) enhancing risk coverage; (iii) graded enhancement of the total capital requirement; (iv) introduction of capital conservation buffer and countercyclical buffer; and (v) supplementing the risk-based capital requirement with a leverage ratio. One of the major changes in the Basel III capital regulations is that the Tier I capital will predominantly consist of common equity of the banks which includes common shares, reserves and stock surplus. Innovative instruments and perpetual non-cumulative preference share will not be considered a part of Common Equity Tier I capital. Basel III also defines criteria for instruments to be included in Tier II capital to improve their loss absorbency. The guidelines also set out criteria for loss absorption through conversion/write-off of all non-common equity regulatory capital instruments at the point of non-viability. The point of non-viability is defined as a trigger event upon the occurrence of which non-common equity Tier I and Tier II instruments issued by banks in India may be required to be, at the option of the RBI, written off or converted into common equity.

Under the Basel III capital regulations, the capital funds of a bank are classified into Common Equity Tier I (CET-I), Additional Tier I (AT-I) and Tier II capital. Tier I capital, comprised of, among others, CET-I and AT-I, provides the most permanent and readily available support against unexpected losses. CET-I capital is comprised of paid-up equity capital and reserves consisting of any statutory reserves, free reserves and capital reserves. AT-I capital is comprised of, among others, perpetual cumulative preference shares and debt capital instruments eligible for inclusion as AT-I capital. Regulatory adjustments/deductions such as equity investments in financial subsidiaries (in accordance with the directions of the RBI), intangible assets, deferred tax assets, gaps in provisioning and losses in the current period and those brought forward from the previous period are required to be deducted from CET-I capital in a phased manner. The regulatory adjustments would be fully deducted from Common Equity Tier I only by March 31, 2017. During this transition period, the remainder not deducted from Common Equity Tier I capital will continue to be subject to treatments given under Basel II capital adequacy framework.

Tier II capital consists of revaluation reserves at a discount of 55.0%, general provisions and loss reserves (allowed up to a maximum of 1.25% of the total credit risk weighted assets), hybrid debt capital instruments (which combine features of both equity and debt securities) such as perpetual cumulative preference shares, redeemable non-cumulative preference shares / redeemable cumulative preference shares and debt capital instruments (which should be fully paid up, with a fixed maturity of minimum 10 years and should not contain clauses that permit step-ups or other incentives to redeem). Capital instruments which are not Basel III compliant (such as capital debt

instruments with step-ups) are being phased-out in a gradual manner beginning January 1, 2013.

Risk adjusted assets considered for determining the capital adequacy ratios are the aggregation of risk weighted assets of credit risk, market risk and operational risk.

In respect of credit risk, the risk adjusted assets and off-balance sheet items considered for determining the capital adequacy ratio are the risk weighted total of certain funded and non-funded exposures. Degrees of credit risk expressed as percentage weighting have been assigned to various balance sheet asset items and conversion factors to off-balance sheet items. The value of each item is multiplied by the relevant weight and/or conversion factor to arrive at risk-adjusted values of assets and off-balance sheet items. Standby letters of credit and general guarantees are treated similar to funded exposures and are subject to a 100.0% credit conversion factor. The credit conversion factor for certain off-balance sheet items such as performance bonds, bid bonds and standby letters of credit related to particular transactions is 50.0% while that for short-term self-liquidating trade-related contingencies such as documentary credits collateralized by the underlying shipments is 20.0%. The credit conversion factor for other commitments like formal standby facilities and credit lines is either 20.0% or 50.0%, based on the original maturity of the facility. Differential risk weights for credit exposures linked to their external credit rating or asset class have been prescribed.

The RBI, with effect from June 2013, prescribed a risk weight of 50.0% for residential mortgage loans of less than Rs. 2 million with loan-to-value ratios of up to 90.0% and for loans with values of more than Rs. 2 million but less than Rs. 7.5 million with loan-to-value ratios of up to 80.0% and a risk weight of 75.0% for mortgage loans above Rs. 7.5 million with loan-to-value ratios of up to 75.0%. Previously, the risk weight for residential mortgage loans of less than Rs. 3 million with loan-to-value ratios of up to 75.0% was 50.0% and for loans with values of more than Rs. 3 million but less than Rs. 7.5 million with loan-to-value ratios of up to 75.0% was 75.0%, for mortgage loans below Rs. 7.5 million with loan-to-values greater than 75.0% the risk weight was 100.0% and that for residential mortgage loans of Rs.7.5 million and above, irrespective of the loan to value ratio, was 125.0%. Consumer credit and advances that are included in our capital market exposure carry a risk weight of 125.0% or higher corresponding to the rating of the exposure. Exposure to venture capital funds are risk weighted at 150.0%. Other loans/credit exposures are risk weighted based on their ratings or turnover. The RBI has also prescribed detailed guidelines for the capital treatment of securitization exposures.

The RBI requires banks in India to compute the capital requirements for operational risk under the Basic Indicator Approach . Under the Basic Indicator Approach , banks must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income. The Basel Committee on Banking Supervision (BCBS) has set this percentage at 15% which has been followed by the RBI.

Banks are required to maintain a capital charge for market risks on their trading books in respect of securities included under the held-for-trading and available-for-sale categories, open gold position, open foreign exchange position limits, trading positions in derivatives and derivatives entered into for hedging trading book exposures. With effect from fiscal 2015, banks are also required to quantify incurred credit valuation adjustment losses and standard credit valuation adjustment capital charge on their derivatives portfolio.

The Basel III capital regulations require a bank to maintain a minimum CET-I capital ratio of 5.5%, a minimum Tier I capital ratio of 7.0% and a capital conservation buffer of 2.5% of its risk weighted assets with the minimum overall capital adequacy ratio of 9.0% of its risk weighted assets. The transitional arrangements for the implementation of Basel III capital regulations in India began from April 1, 2013 and the guidelines will be fully phased-in and implemented as of March 31, 2019. In view of the gradual phase-in of regulatory adjustments to the common equity component of Tier I capital under Basel III, certain specific prescriptions of the Basel II capital adequacy framework (e.g. rules relating to deductions from regulatory capital, risk weighting of investments in other financial entities etc.) will also continue to apply until March 31, 2017 on the remainder of regulatory adjustments not treated in terms of Basel III rules. In September 2014, the RBI reviewed its guidelines on Basel III capital regulations with a view to facilitate issuance of non-equity regulatory capital instruments by banks under Basel III framework. Accordingly, certain specific eligibility criteria of such instruments were amended. These amendments were also intended to incentivize investors and to increase the investor base.

**Domestic Systemically Important Banks**

In July 2014, the RBI released a framework for dealing with domestic systemically important banks (D-SIBs). Banks identified as systemically important based on their size, inter-connectedness in the financial system, complexity and lack of readily available substitutes or financial infrastructure would be required to maintain additional common equity tier 1 capital ranging from 0.2% to 0.8% of risk-weighted assets. The implementation of this higher capital requirement for D-SIBs would be in a phased manner from April 2016 to April 2019. RBI will disclose the names of banks classified as D-SIBs in the month of August every year with the first such disclosure to be effected from August 2015.

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### Countercyclical Capital Buffer (CCCB)

In February 2015, the RBI released guidelines for implementation of Countercyclical Capital Buffer (CCCB) . The CCCB regime requires banks to build up a buffer of capital in good times which may be used to maintain flow of credit to the real sector in difficult times. It also achieves the broader macro-prudential goal of restricting the banking sector from indiscriminate lending in the periods of excess credit growth that have often been associated with the building up of system-wide risk. While the framework for CCCB has taken effect, the activation of CCCB will take place when notified by the RBI. Some of the key points mentioned in the guidelines are as follows: (i) CCCB may be maintained in the form of CET I capital or other fully loss absorbing capital only, and the amount of the CCCB may vary from 0 to 2.5% of total risk weighted assets of the banks, (ii) the CCCB decision would normally be pre-announced with a lead time of 4 quarters; however, depending on the CCCB indicators, the banks may be advised to build up requisite buffer in a shorter span of time, and (iii) banks will be subject to restrictions on discretionary distributions (including dividend payments, share buybacks and staff bonus payments) if they do not meet the requirement on CCCB.

### Loan Loss Provisions and Non-Performing Assets

The RBI has issued guidelines on income recognition, asset classification, provisioning standards and the valuation of investments applicable to banks, which are revised from time to time. These guidelines are applied for the calculation of impaired assets under Indian GAAP. For our consolidated financial statements prepared in accordance with U.S. GAAP, loan loss provision is made in accordance with ASC 310 and ASC 450 and as described under Management s Discussion and Analysis of Financial Condition and Results of Operations and under note 2i, Allowance for credit losses, to our consolidated financial statements. The principal features of the RBI guidelines are set forth below.

*Non-Performing Assets*

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

The RBI guidelines stipulate the criteria for determining and classifying a non-performing asset (NPA). An NPA is a loan or an advance where;

- interest and/or an installment of principal remain overdue (as defined below) for a period of more than 90 days in respect of a term loan;
- the account remains out-of-order (as defined below) in respect of an overdraft or cash credit for more than 90 days;
- the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted;
- the installment of principal or interest thereon remains overdue for two crop seasons for short duration crops;
- the installment of principal or interest thereon remains overdue for one crop season for long duration crops;

- the amount of a liquidity facility remains outstanding for more than 90 days, in respect of securitization transactions undertaken in accordance with the RBI guidelines on securitization dated February 1, 2006; or

- in respect of derivative transactions, the overdue receivables representing the positive mark-to-market value of a derivative contract, remain unpaid for a period of 90 days from the specified due date for payment.

Banks should classify an account as an NPA only if the interest imposed during any quarter is not fully repaid within ninety days from the end of the relevant quarter.

***Overdue***

Any amount due to the bank under any credit facility is "overdue" if it is not paid on the due date fixed by the bank.

***Out-of-Order Status***

An account should be treated as out-of-order if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In circumstances where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but (i) there are no credits continuously for a period of 90 days as of the date of the balance sheet of the bank or (ii) the credits are not sufficient to cover the interest debited during the same period, these accounts should be treated as out-of-order .

***Asset Classification***

Banks are required to classify NPAs into the following three categories based on the period for which the asset has remained non-performing and the realizability of the dues:

*Sub-standard Assets:* Assets that are non-performing for a period less than or equal to 12 months. Such an asset has well defined credit weaknesses that jeopardize the liquidation of the debt and is characterized by the distinct possibility that the bank will sustain some loss if deficiencies are not corrected.

*Doubtful Assets:* An asset will be classified as doubtful if it remains in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that are classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

*Loss Assets:* Assets on which losses have been identified by the bank or internal or external auditors or on inspection by the RBI, but the amount has not been written off fully. Such an asset is considered uncollectable and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value.

There are separate asset classification guidelines which will apply to projects under implementation before the commencement of their commercial operation.

***Restructured Assets***

The RBI has issued prudential guidelines on the restructuring of advances by banks. The guidelines essentially deal with the norms/conditions, the fulfillment of which is required to maintain the category of the restructured account as a standard asset . A standard asset can be restructured by rescheduling principal repayments and/or the interest element, subject to compliance with certain conditions, but must be separately disclosed as a restructured asset.

The following categories of advances are not eligible for being classified as a standard asset upon restructuring: a) consumer and personal advances; b) advances classified as capital market exposures; and c) advances classified as commercial real estate exposures.

The criteria to be fulfilled for the restructured advance to be treated as a standard asset includes the viability of the business, infusion of promoters contribution, full security coverage and cap on maximum tenor of repayment. The economic loss, if any, arising as a result of a restructuring needs to be provided for in the books of the bank. The provision is computed as the difference between the fair value of the account before and after restructuring.

Similar guidelines apply to sub-standard assets. Sub-standard accounts which have been subjected to restructuring, whether in respect of a principal installment or interest amount, are eligible to be upgraded to the standard category only after the specified period, i.e. a period of one year after the date when the first payment of interest or of principal,

whichever is earlier, falls due, subject to satisfactory performance during the period.

In May 2013, the RBI issued additional guidelines in relation to restructured assets wherein such regulatory forbearance regarding asset classification on restructured accounts will be withdrawn for all restructurings with effect from April 1, 2015, with the exception of provisions related to changes in Date of Commencement of Commercial Operations (DCCO) in respect of infrastructure as well as non-infrastructure project loans. This implies that a standard account would immediately be classified as a sub-standard account upon restructuring. These guidelines are also applicable to non-performing assets, which upon restructuring would continue to have the same asset classification as prior to the restructuring and may be classified into lower categories in accordance with applicable asset classification norms based on the pre-restructuring repayment schedule. However the standard asset classification may be retained, subject to specified conditions, in respect of certain loans granted for infrastructure projects given the importance of the infrastructure sector in national growth and development and the uncertainty involved in obtaining approvals from various authorities.

***Distressed assets in Indian Economy***

In February 2014, the RBI introduced a framework for Revitalizing Distressed Assets in the Economy, that outlines a corrective action plan to incentivize early identification of problem prone customers, timely restructuring of accounts which are considered to be viable, and taking prompt steps by banks for recovery or sale of unviable accounts. These guidelines are applicable to all scheduled commercial banks, term-lending institutions and refinancing institutions (herein after lenders ) and require these institutions to identify standard accounts showing signs of stress. Such accounts are to be categorized into different levels of Special Mention Accounts (SMA) based on the overdue vintage and signs of incipient stress. The RBI shall set up a Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit related information to lenders. Lenders shall be required to report credit information, including the classification of an account as an SMA to the CRILC. Failure to report the SMA status of accounts to CRILC could lead to supervisory actions by the RBI such as accelerated provisioning on non-performing assets. In relation to accounts with a specified SMA category, where lenders collectively have an exposure to that borrower in excess of specified amounts, banks are required to form a Joint Lenders Forum (JLF) in order to explore various options to resolve the stress in the account and set right the irregularities/weaknesses in the account. The JLF may also decide the recovery process from among the various legal options available, subject to the consent of such majority of the lenders as required under the applicable laws.

***Corporate Debt Restructuring Mechanism***

The RBI has devised a corporate debt restructuring system to put in place an institutional mechanism for the restructuring of corporate debt. The objective of this framework is to ensure a timely and transparent mechanism for the restructuring of corporate debts of viable entities facing problems, outside the purview of the Board of Industrial and Financial Rehabilitation, debt recovery tribunals and other legal proceedings. In particular, this framework aims to preserve viable companies that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders through an orderly and coordinated restructuring program. The corporate debt restructuring system is a non-statutory mechanism and a voluntary system based on debtor-creditor and inter-creditor agreements.

***Act Relating to Recovery of NPAs***

As a part of the financial sector reforms, the Government introduced the SARFAESI Act. The SARFAESI Act provides banks and other lenders increased powers in the recovery of the collateral underlying NPAs.

***Provisioning and Write-Offs***

Provisions are based on guidelines specific to the classification of assets. The following guidelines apply to various asset classifications:

*Standard Assets*

Banks are required to make general provisions for standard assets for the funded outstanding on a global portfolio basis. The provisioning requirement for housing loans at teaser rates is 2.00% and will reduce to 0.40% after one year from the date on which the teaser rates are reset at higher rates if the accounts remain standard. In November 2012, the RBI increased the provisioning requirement for restructured standard assets from 2.0% to 2.75%. In May 2013, the RBI increased the provisioning requirement for all types of accounts restructured to 5.0% with effect from June 1, 2013. For the stock of restructured standard accounts as of May 31, 2013, this increase is required to be implemented in a phased manner by March 31, 2016. The provisioning requirements for other loans range from 0.25% to 1.00% on the outstanding loans based on the type of exposure. Derivative exposures, such as credit exposures computed as per the current marked to market value of the contract arising on account of the interest rate and foreign exchange derivative transactions and gold are subject to the same provisioning requirement applicable to the loan assets in the standard category of the concerned counterparties. All conditions applicable for the treatment of the provisions for standard assets would also apply to the aforesaid provisions for derivatives and gold exposures.

In February 2014, the RBI directed banks to form a committee to be called a Joint Lenders Forum ( JLF ) if the aggregate exposure ( AE ) of both fund based and non-fund based facilities taken together of lenders in an account is Rs. 1,000 million and above and the account is reported by any of the lenders to CRILC as special mention account-2 (SMA-2). If the lenders fail to convene the JLF or fail to agree upon a common corrective action plan within the stipulated time frame, the account will be subjected to accelerated provisioning of 5% if the account is classified as a standard asset in the accounts of the lenders. In October 2014, the RBI decided that accelerated provisioning will be applicable only to the lead bank having responsibility to convene JLF and not to all the lenders in the consortium multiple banking arrangement. In case the lead bank fails to convene the JLF, the bank with the second largest aggregate exposure shall convene the JLF.

The RBI has also introduced incremental provisioning requirements with effect from April 1, 2014 for banks exposure to entities with unhedged foreign currency exposure. Banks are required to collect specific information from its customers and assess the extent to which a customer is exposed to unhedged foreign currency on account of volatility in the exchange rate of rupee vis-à-vis foreign currencies and calculate the incremental provisions based on the methodology prescribed by the RBI.

*Sub-Standard Assets*

A general provision of 15.0% on total outstanding loans is required without making any allowance for the Export Credit Guarantee Corporation of India (ECGC) guarantee cover and securities available. The unsecured exposures which are identified as sub-standard are subject to an additional provision of 10.0% i.e. a total of 25.0% on the outstanding balance. However, unsecured loans classified as sub-standard, where certain safeguards such as escrow accounts are available, are subject to an additional provision of only 5.0% (i.e. a total of 20.0% on the outstanding balance).

Unsecured exposure is defined as an exposure where the realizable value of security, as assessed by the bank, approved valuers or the RBI s inspecting officers, is not more than 10.0%, ab-initio, of the outstanding exposure. Exposure includes all funded and non-funded exposures (including underwriting and similar commitments). Security means tangible security properly discharged to the bank and will not include intangible securities such as guarantees and comfort letters.

*Doubtful Assets*

A 100.0% provision is made against the unsecured portion of the doubtful asset. In cases where there is a secured portion of the asset, depending upon the period for which the asset remains doubtful, a 25.0% to 100.0% provision is required to be made against the secured asset as follows:

- Up to one year: 25.0% provision.

- One to three years: 40.0% provision.

- More than three years: 100.0% provision.

*Loss Assets*

The entire asset is required to be written off or 100.0% of the outstanding amount is required to be provided for.

*Floating Provisions*

In June 2006, the RBI issued prudential standards on the creation and utilization of floating provisions (provisions which are not made in respect of specific non-performing assets or are made in excess of regulatory requirements for provisions for standard assets). Floating provisions must be held separately and cannot be reversed by credit to the profit and loss account. The RBI has permitted banks to utilize a prescribed percentage of the floating provisions held by them for making specific loan loss allowances for impaired accounts under extraordinary circumstances. Floating provisions cannot be reversed by credit to the profit and loss account. They can only be utilized for making specific provisions in extraordinary circumstances. Until the utilization of such provisions, they can be netted off from gross non-performing assets to arrive at disclosure of net non-performing assets, or alternatively, can be treated as part of Tier II capital within the overall ceiling of 1.25% of credit risk-weighted assets.

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*Prudential Coverage Ratio*

With a view to ensuring counter-cyclical provisioning in the banking system, the RBI mandated that banks should augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions (to the extent not used at Tier II capital), and ensure that their total Provisioning Coverage Ratio (PCR), including the above floating provisions, is not less than 70.0% as of September 30, 2010. Under the current regime (i) the PCR of 70.0% may be computed with reference to the gross NPA position in the relevant banks as of September 30, 2010; (ii) the surplus of the provision under PCR over the amount required by the guidelines, would be treated as countercyclical provisioning buffer ; and (iii) banks may utilize up to a prescribed percentage of the countercyclical provisioning buffer/ floating provisions held by them for making specific provisions for NPAs during periods of system wide downturn, as per the policy approved by the bank s board of directors. The RBI released a discussion paper on dynamic loan loss provisioning framework in March 30, 2012. The framework proposes to replace the existing standards of general provisioning and recommends that banks make provisions on their loan book based on historical loss experience for different asset classes. Banks can draw down from dynamic provisions during periods of downturn. The RBI has advised that the dynamic provision framework is expected to be in place with improvement in the system.

***Regulations Relating to Sale of Assets to Asset Reconstruction Companies***

The SARFAESI Act provides for the sale of financial assets by banks and financial institutions to asset reconstruction companies. The RBI has also issued guidelines to banks on the process to be followed for the sale of financial assets to asset reconstruction companies. These guidelines provide that a bank may sell financial assets to an asset reconstruction company provided the asset is an NPA. A bank could also sell a standard asset only if (i) the asset is under consortium or multiple banking arrangement; (ii) at least 75.0% by value of the of the asset is classified as non-performing in the books of other banks and financial institutions; and (iii) at least 75.0% by value of the banks and financial institutions in the consortium or multiple banking arrangements agree to the sale of the asset to SC/RC. The banks selling financial assets must ensure that there is no known liability being transferred to them and that they do not assume any operational, legal or any other type of risks relating to the financial assets sold. Further, banks cannot sell financial assets at a contingent price with an agreement to bear a part of the shortfall on ultimate realization. However, banks may sell specific financial assets with an agreement to share any surplus realized by the asset reconstruction company in the future. While each bank is required to make its own assessment of the value offered in the sale before accepting or rejecting an offer for purchase of financial assets by an asset reconstruction company, in consortium or multiple banking arrangements where more than 75.0%, by value of the banks or financial institutions, accept the offer, the remaining banks or financial institutions are obliged to accept the offer. Consideration for the sale may be in the form of cash or bonds/debentures issued by the asset reconstruction company or trusts set up by it to acquire financial assets. Banks can also invest in security receipts or pass-through certificates issued by the asset reconstruction company or trusts set up by it to acquire the financial assets.

***Guidelines on Sale and Purchase of Non-Performing Assets (NPAs) among Banks, Financial Institutions and Non-banking Financial Institutions***

In order to increase the options available to banks for resolving their NPAs and to develop a healthy secondary market for NPAs, in July 2005, the RBI issued guidelines for the purchase/sale of NPAs among banks, financial institutions and non-banking finance companies. In terms of these guidelines, banks boards are required to establish policies covering, among others, a valuation procedure to be followed to ensure that the economic value of financial assets is reasonably estimated based on the assessed cash flows arising out of repayment and recovery prospects. Purchases and sales of NPAs must be without recourse to the seller, on a cash basis, with the entire consideration being paid up-front, and after the sale there should not be any known liability devolving on the seller. An asset must have been classified

as non-performing for at least two years by the seller to be eligible for sale. The purchasing bank must hold the NPA on its books for at least 15 months before it can sell the asset to another bank. The asset cannot be sold back to the original seller.

In February 2014, the RBI issued guidelines wherein the requirement of a minimum holding period of two years by the seller in relation to sale transactions with other banks, financial institutions and non-banking finance companies, was removed. These guidelines reduce the requirement of the holding period by the purchasing bank to 12 months before it can sell the asset to another bank, financial institution or non-banking finance company.

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**Guidelines on Sale of Standard Assets**

The RBI first issued guidelines for the securitization of standard assets in February 2006. The guidelines provide that for a transaction to be treated as a securitization, a two-stage process must be followed. In the first stage there must be a sale of a single asset or pooling and transferring of assets to a bankruptcy remote special purpose vehicle (SPV) in return for immediate cash payment and in the second stage repackaging and selling the security interests representing claims on incoming cash flows from the asset or pool of assets to third party investors should be effected. Further, for enabling the transferred assets to be removed from the balance sheet of the seller in a securitization structure, the isolation of assets or true sale from the seller or originator to the SPV is an essential prerequisite. Also, an arms-length relationship must be maintained between the originator, the seller and the SPV.

Certain regulatory standards for capital adequacy, valuation, profit and loss on sale of assets, income recognition and provisioning, accounting treatment for securitization transactions and disclosure standards have been prescribed. The guidelines are applicable for originators and have prescribed provisions for service providers like: credit enhancers, liquidity support providers and underwriters and investors. Quarterly reporting to the audit sub-committee of the board of directors by originating banks of the securitization transactions has also been prescribed. Apart from banks, these guidelines are also applicable to financial institutions and non-banking financial companies.

In May 2012, the RBI revised the guidelines on transfer of assets through securitization and direct assignment of cash flows. These guidelines govern the securitization of debt obligations of a homogenous pool of obligors as well as the direct sale or transfer of a single standard asset. The roles of both the selling and purchasing banks have been defined more clearly. All on-balance sheet standard assets except those expressly disallowed in the guidelines are eligible for securitization subject to being held by the originating bank for a minimum holding period. The guidelines also prescribe a minimum retention requirement, i.e. the minimum part of the securitized debts that the originator is required to retain during the term of securitization. Overseas branches of Indian banks cannot undertake securitization in other jurisdictions unless there is a minimum retention requirement in that jurisdiction. These requirements have been established to ensure that the originator exercises due diligence with regard to the securitized assets. The guidelines also establish the upper limit on the total retained exposure of the originator, the disclosures to be made by the originators, applicability of capital adequacy and asset classification and provisioning norms to these transactions. The norms also stipulate stress testing and extensive monitoring requirements on the purchased portfolios. Transactions which do not meet the requirements established by the guidelines will be assigned very high risk weights under capital adequacy norms. The guidelines on transfer of assets through securitization and direct assignment of cash flows do not apply to:

- transfer of loan accounts of borrowers by a bank to other bank/financial institutions/non-banking finance companies and vice versa, at the request/instance of borrower;
- inter-bank participations;
- trading in bonds;
- sale of entire portfolio of assets consequent upon a decision to exit the line of business completely (which should have the approval of board of directors of the bank);

consortium and syndication arrangements and arrangement under corporate debt restructuring mechanism; and

any other arrangement/transactions, specifically exempted by the RBI.

**Regulations Relating to Making Loans**

The provisions of the Banking Regulation Act govern loans made by banks in India. The RBI issues directions covering the loan activities of banks. Major guidelines include norms for bank lending to priority sectors, non-bank financial companies, guidelines on banks benchmark lending rates, base rates and norms for loans against shares.

In terms of Section 20(1) of the Banking Regulation Act, a bank cannot grant any loans and advances against the security of its own shares. A banking company is prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors has an interest as a partner, manager, employee or guarantor or any other company (not being a subsidiary of the banking company or a company registered under section 8 of the Companies Act, 2013 or a Government company), or the subsidiary or the holding company of such a company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor. There are certain exceptions in this regard which exclude any transaction which the RBI may specify by general or special order as not being a loan or advance for the purpose of such section. The Government may, on the recommendation of the RBI and subject to conditions as it may deem fit to impose, exempt any banking company from the restriction on lending to the subsidiary, holding company or any other company in which any of the directors of the banking company is a director, managing agent, manager, employee, guarantor or in which such person holds substantial interest.

In the context of granting greater functional autonomy to banks, effective October 18, 1994, the RBI decided to remove restrictions on the lending rates of scheduled commercial banks for credit limits of over Rs. 0.2 million. Banks were given the freedom to fix the lending rates for such credit limits subject to the Benchmark Prime Lending Rate (BPLR) and spread guidelines. The BPLR system, however, fell short of its original objective of bringing transparency to lending rates. This was mainly because under the BPLR system, banks could lend below BPLR. Banks consequently were advised by the RBI to switch over to the system of Base Rate with effect from July 1, 2010. The base rate system is aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of the monetary policy. The Base Rate includes all elements of the lending rates that are common across all categories of borrowers. Banks may choose any benchmark to arrive at their Base Rate for a specific tenor that may be disclosed. For loans sanctioned up to June 30, 2010, the BPLR was applicable. However, for loans sanctioned up to June 30, 2010 but renewed from July 1, 2010, the Base Rate is applicable.

**Directed Lending**

***Priority Sector Lending***

The guidelines on lending to the priority sector are set forth in the RBI guidelines on Priority Sector Lending Targets and Classification. The priority sector is broadly comprised of agriculture, micro and small enterprises (MSEs), education and housing, export credit and others subject to certain limits. The guidelines take into account the revised definition of MSEs as per the Micro, Small and Medium Enterprises Development Act, 2006. The RBI made revisions in these guidelines in April 2015. The RBI has by its circular (the April 2015 Circular ) added medium enterprises, social infrastructure and renewable energy to the priority sector, in addition to the existing categories.

The priority sector lending targets are linked to the adjusted net bank credit (ANBC) or the credit equivalent amount of off-balance sheet exposures (CEOBE), whichever is higher, as on the corresponding date of the previous year. Domestic banks are required to achieve total priority sector lending equivalent to 40.0% of their ANBC or CEOBE. Of the total priority sector advances, agricultural advances are required to be 18.0% of ANBC or CEOBE, whichever is higher. Previously, the RBI distinguished between the direct and indirect lending to the agriculture sector for calculating priority sector lending targets and while indirect lending to the agriculture sector in excess of 4.5% of ANBC or CEOBE, whichever is higher, was not taken into consideration for computing performance under the 18.0% target, all agricultural advances under the categories direct and indirect were taken into consideration in computing performance under the overall priority sector target of 40.0%. The RBI has, by its April 2015 Circular, combined the sub-targets for direct and indirect lending to agriculture. Further, the RBI has prescribed a target of 8% of ANBC or CEOBE, whichever is higher, for small and marginal farmers within the agriculture sector, and a 7.5% lending target to micro enterprises to be achieved in a phased manner across fiscal 2016 and fiscal 2017. Advances to weaker sections are required to be 10.0% of ANBC or CEOBE, whichever is higher.

Pursuant to the April 2015 Circular, loans to individuals up to Rs. 2.8 million in metropolitan centres (with population of 1 million and above) and loans up to Rs. 2.0 million in other centres for purchase or construction of a dwelling unit per family (provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed Rs. 3.5 million and Rs. 2.5 million, respectively), excluding loans granted by banks to their own employees, are to be treated as part of priority sector lending. Loans to individual borrowers for educational purposes including vocational courses up to Rs. 1.0 million are also to be treated as part of priority sector lending. Investments by banks in securitized assets and outright purchases of loans representing loans to various categories of priority sector are eligible for classification under the priority sector only if certain criteria are fulfilled.

Bank loans up to a limit of Rs. 50 million per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in certain eligible centres as prescribed by the

RBI are treated as priority sector lending. Further, bank loans up to a limit of Rs. 150 million to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities like street lighting systems, and remote village electrification are also treated as priority sector lending.

Pursuant to the April 2015 Circular, banks are required to ensure compliance to priority sector lending targets on a quarterly basis instead of annual basis. Domestic scheduled commercial banks having a shortfall in lending to priority sector targets, agriculture targets and weaker section targets are allocated amounts for contribution to the Rural Infrastructure Development Fund established with NABARD or funds with other financial institutions, as may be decided by the RBI, as and when funds are required by them. The interest rates on banks contribution to these schemes, and periods of deposits, among other things, is linked to the bank rate published by the RBI from time to time. Additionally, as per RBI guidelines, non-achievement of priority sector targets and sub-targets is taken into account by RBI when granting regulatory clearances/approvals for various purposes. For the financial year 2015-16, the shortfall in achieving priority sector targets will be assessed based on the position as on March 31, 2016. From financial year 2016-17 onwards, the achievement will be arrived at the end of financial year based on the average of priority sector targets achievement as at the end of each quarter. Further, in July 2015, the RBI has directed banks to maintain direct lending to non-corporate farmers at the banking system s average level for the last three years, failing which banks will attract penalties for shortfall. The RBI would notify the banking system s average level at the beginning of each year. The RBI has also directed banks to continue to pursue the target of 13.5% of adjusted net bank credit towards lending to borrowers who constituted the direct agriculture lending category under the earlier guidelines.

Foreign banks having 20 or more branches in India will be brought at par with domestic banks for priority sector targets in a phased manner over a maximum period of five years commencing from April 1, 2013 and will have a priority sector lending target of 40.0% of ANBC. The April 2015 Circular requires foreign banks with less than 20 branches to achieve a total priority sector lending target of 40.0% of ANBC or CEOBE, whichever is higher, on par with other banks by the financial year 2019. Previously, foreign banks having less than 20 branches in India continue to have the overall target of 32.0% of ANBC.

***Export Credit***

The RBI also requires banks to make loans to exporters. We provide export credit for pre-shipment and post-shipment requirements of exporters in rupees as well as foreign currencies. Export credit is not a separate priority sector lending category for domestic banks and foreign banks having 20 or more branches in India. Export credit to eligible activities under agriculture and MSEs will be taken into consideration for computing performance under the respective priority sector lending categories. Export credit extended by foreign banks with less than 20 branches will be taken into consideration in computing performance under the overall priority sector target. Interest rates on export credit in rupees are generally required to be determined in accordance with the base rate system. With effect from May 5, 2012, the RBI has deregulated the interest rates on export credit in foreign currency and has permitted banks to determine their own interest rates in respect thereof.

***Lending to Infrastructure Sector and Affordable Housing Sector***

In order to allow banks to provide long-term funds for project loans to the infrastructure sector and the affordable housing sector, the RBI in July 2014 issued guidelines for issuance of long term bonds by banks for financing infrastructure sector loans and lending to the affordable housing sector. Under these guidelines, banks are permitted to issue long-term fully paid, redeemable and unsecured bonds with a minimum maturity of seven years to enable lending to long term projects in certain specified infrastructure sub-sectors and affordable housing sector as prescribed in the guidelines. To encourage lending to these sectors these long-term bonds are not subject to CRR/SLR requirements. These bonds are also not included in the computation of ANBC for the purposes of priority sector lending targets subject to the guidelines. However, any infrastructure or affordable housing loans acquired from other banks and financial institutions (such as those that could be involved in a business combination with the Bank) will require the prior approval of RBI to avail regulatory incentives.

In July 2014, the RBI also issued clarifications and guidelines to provide for flexible structuring and refinancing of long term project loans to infrastructure and core industries sectors.

***Credit Exposure Limits***

As a prudential measure aimed at better risk management and avoidance of concentration of credit risks, the RBI has advised banks to fix limits on their exposure to specific industries or sectors and has prescribed regulatory limits on banks exposures to individual borrowers and borrower groups. In addition, banks are also required to observe certain statutory and regulatory exposure limits in respect of advances against or investments in shares, convertible debentures or bonds, units of equity-oriented mutual funds and all exposures to venture capital funds (VCFs).

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The RBI limits exposure to individual borrowers to not more than 15.0% of the capital funds of a bank and limits exposure to a borrower group to not more than 40.0% of the capital funds of a bank. The capital funds for this purpose are comprised of Tier I and Tier II capital, as defined under the capital adequacy standards and as per the published accounts as on March 31 of the previous year. Infusion of Tier I or Tier II capital either through domestic or overseas issuance after the published balance sheet date is also eligible for inclusion in the capital funds for determining the exposure ceiling. In the case of infrastructure projects, such as power, telecommunications, road and port projects, an additional exposure of up to 5.0% of capital funds is allowed in respect of individual borrowers and up to 10.0% in respect of group borrowers. Banks may, in exceptional circumstances, with the approval of their boards, consider enhancement of exposure to a borrower or a borrower group by a further 5.0% of capital funds. With effect from May 2008, the RBI revised the prudential limit to 25.0% of capital funds in respect of a bank s exposure to oil companies to whom specified oil bonds have been issued by the Government of India. Banks would need to make appropriate disclosures in their annual financial statements in respect of exposures where they had exceeded the prudential exposure limits during the year.

The exposure (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC or NBFC-asset financing companies (NBFC-AFC) must not exceed 10.0% or 15.0%, respectively, of the bank s capital funds. Banks may however, assume exposures on a single NBFC or NBFC-AFC up to 15.0% or 20.0% of capital funds, respectively, if it is on account of funds on-lent by the NBFC or NBFC-AFC to the infrastructure sector. Exposure of a bank to infrastructure finance companies (IFC) should not exceed 15.0% of its capital funds, with a provision to increase it to 20.0% if the same is on account of funds on-lent by the IFC to the infrastructure sector. Further, all banks may also consider fixing internal limits for their aggregate exposure to all NBFCs put together.

Exposure includes credit exposure (funded and non-funded credit limits) and investment exposure (including underwriting and similar commitments). The sanctioned limits or outstandings, whichever are higher, would be included when arriving at the exposure limit. However, in the case of fully drawn term loans, where there is no scope for re-drawing of any portion of the sanctioned limit, banks may consider the outstanding as the exposure. For the purpose of exposure norms, banks shall compute their credit exposures, arising on account of the interest rate and foreign exchange derivative transactions and gold, using the Current Exposure Method. While computing credit exposures, banks may exclude sold options , provided that the entire premium or fee or any other form of income is received or realized.

Credit exposure comprises the following elements:

- all types of funded and non-funded credit limits; and
- facilities extended by way of equipment leasing, hire purchase finance and factoring services.

Apart from limiting exposures to an individual or a group of borrowers, as indicated above, the RBI guidelines also require banks to consider fixing internal limits for aggregate commitments to specific sectors, so that their exposures are evenly spread across various sectors. These limits are subject to a periodic review by banks.

**Regulations Relating to Capital Market Exposure Limits**

The RBI has issued guidelines on financing to participants in the capital markets. These guidelines place a ceiling on the overall exposure of a bank to the capital markets.

The aggregate exposure that a bank has to the capital markets in all forms (both fund and non-fund based) must not exceed 40.0% of its net worth (both for the stand-alone and the consolidated bank) as of March 31 of the previous year. Within this overall ceiling, the bank s direct investment in shares, convertible bonds/debentures, units of equity-oriented mutual funds and exposure to VCFs must not exceed 20.0% of its net worth (both for the stand-alone and the consolidated bank). Net worth is comprised of the aggregate of paid-up capital, free reserves (including share premium but excluding revaluation reserves), investment fluctuation reserve and credit balance in the profit and loss account, less the debit balance in the profit and loss account, accumulated losses and intangible assets. There are guidelines on loans against equity shares in respect of amount, margin requirement and purpose.

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The following exposures are subject to the ceiling:

- direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds, the fund assets of which are not exclusively invested in corporate debt;

- advances against shares/bonds/debentures or other securities or advances without security to individuals for investment in shares (including in primary offerings and employee stock option plans), convertible bonds, convertible debentures and units of equity-oriented mutual funds;

- advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;

- advances for any other purposes to the extent secured by collateral of shares, convertible bonds, convertible debentures or units of equity oriented mutual funds, i.e., where the primary security other than shares or convertible bonds or convertible debentures or units of equity oriented mutual funds does not fully secure the advances;

- secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;

- loans sanctioned to companies against the security of shares/bonds/debentures or other securities or on a clean basis for meeting a promoter s contribution to the equity of new companies;

- bridge loans to companies against expected equity flows/issues;

- underwriting commitments taken up by banks in respect of primary issues of shares or convertible bonds or convertible debentures or units of equity-oriented mutual funds. Banks are however permitted to exclude their own underwriting commitments, and the underwriting commitments of their subsidiaries, through the book running process for the purpose of arriving at the capital market exposure of the single bank as well as the consolidated bank;

- financing to stockbrokers for margin trading; and

- all exposure to venture capital funds (both registered and unregistered).

**Regulations Relating to Other Loan Exposures**

The RBI requires banks to have put in place a policy for exposure to real estate with the approval of their boards. The policy is required to include exposure limits, collateral to be considered, collateral cover and margins and credit authorization. The RBI has also permitted banks to extend financial assistance to Indian companies for the acquisition of equity in overseas joint ventures or wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investments. Banks are not however permitted to provide companies acquisition finance to acquire companies in India.

**Limits on intra group transactions and exposures**

In February 2014, RBI issued guidelines on the management of intra-group transactions and exposures which have been in effect since October 1, 2014. These guidelines contain both quantitative limits for the financial intra-group transactions and exposures (ITEs) and prudential measures for the non-financial ITEs to ensure that the banks engage in ITEs in a prudent manner in order to contain the concentration and contagion risk arising out of ITEs. These measures are aimed at ensuring an arm s length relationship in dealings with group entities and prescribe minimum requirements with respect to group risk management and group-wide oversight and prudential limits on intra-group exposures. Effective October 2014, a bank s exposure to non-financial or unregulated financial services entity in its group will be capped at 5% of its paid-in capital and reserves and its exposure to regulated financial services company in its group will be capped at 10% of its paid-in capital and reserves. In case, a bank s current intra-group exposure is more than the limits stipulated in the guidelines, it is required to bring the exposure within the limits by not later than March 31, 2016. The exposure beyond permissible limits subsequent to March 31, 2016, if any, would be deducted from CET- 1 capital of the bank.

## Regulations Relating to Investments

### *Exposure Limits*

Credit exposure limits specified by the RBI in respect of a bank s lending to individual borrowers and borrower groups apply in respect of non-convertible debt instruments. Within the overall capital market exposure ceiling, a bank s direct investments in equity securities, convertible bonds and debentures and units of equity-oriented mutual funds should not exceed 20.0% of its net worth as of March 31 of the previous year. A bank s aggregate investment in subordinated bonds eligible for Tier II capital status issued by other banks or financial institutions is restricted to up to 10.0% of the investing bank s capital funds (Tier I plus Tier II capital). Investments in the instruments issued by banks or financial institutions that are eligible for capital status are either risk weighted or deducted from the investee bank s capital, for capital adequacy purposes, depending upon the extent of investment as prescribed by RBI under the Basel III capital regulations.

In order to contain the risks arising out of investment by banks in non-statutory liquidity ratio (non-SLR) securities, and in particular the risks arising out of investment in bonds through private placement, the RBI has issued detailed guidelines on investment by banks in non-SLR securities. Banks have been advised to restrict their new investments in unlisted securities to 10.0% of their total non-SLR investments as of March 31 of the previous year. Banks are permitted to invest in unlisted non-SLR securities within this limit, provided that such securities comply with disclosure requirements for listed companies as prescribed by the SEBI. Banks investments in unlisted non-SLR securities may exceed the limit of 10.0% by an additional 10.0%, provided the investment is on account of investments in securitization papers issued for infrastructure projects and bonds/debentures issued by Securitization Companies (SC)/Reconstruction Companies (RCs) set up under SARFAESI and registered with RBI. Investments in security receipts issued by SCs/RCs registered with RBI, investments in asset-backed securities and mortgage-backed securities, which are rated at or

above the minimum investment grade and investments in unlisted convertible debentures will not be treated as unlisted non-SLR securities for computing compliance with the prudential limits. The guidelines relating to listing and rating requirements of non-SLR securities do not apply to investments in VCFs, commercial paper, certificates of deposit and mutual fund schemes where any part of the corpus can be invested in equity. Banks are not permitted to invest in unrated non-SLR securities except in the case of unrated bonds of companies engaged in infrastructure activities, within the overall ceiling of 10% for unlisted non-SLR securities.

The total investment by banks in liquid/short-term debt schemes (by whatever name called) of mutual funds with a weighted average maturity of the portfolio of not more than one year, will be subject to a prudential cap of 10% of their net worth as on March 31 of the previous year. The weighted average maturity would be calculated as average of the remaining period of maturity of securities weighted by the sums invested.

### *Non-Performing Investments*

The RBI has defined non-performing investments as those where principal or interest is unpaid for more than 90 days including preference shares where a fixed dividend is not paid or declared. The non-availability of the latest balance sheet of a company in whose equity securities a bank has invested will also render those equity shares non-performing investments. If any credit facility availed of by the issuer is an NPA in the books of the bank, investment in any of the securities issued by the same issuer would also be treated as a Non-Performing Investment ( NPI ) and vice versa. However, if only preference shares have been classified as an NPI, the investment in any of the other performing securities issued by the same issuer may not be classified as NPI and any performing credit given to that borrower need not be treated as an NPA.

***Restrictions on Investments in a Single Company***

In terms of Section 19(2) of the Banking Regulation Act, no banking company may hold shares in any company except as provided in sub-section (1) of that Act, whether as pledgee, mortgagee or absolute owner of an amount exceeding 30.0% of the paid-up share capital of that company or 30.0% of its own paid-up share capital and reserves, whichever is lower. Further, in terms of Section 19(3) of the Banking Regulation Act, banks must not hold shares, whether as pledgee, mortgagee or absolute owner, in any company in the management of which the managing director, any other director or manager of the bank is in any manner concerned or interested.

***Limit on Transactions through Individual Brokers***

Guidelines issued by the RBI require banks to empanel brokers for transactions in securities. These guidelines also require that a disproportionate part of the bank s business should not be transacted only through one broker or a few brokers. The RBI specifies that not more than 5.0% of the total transactions through empanelled brokers can be transacted through one broker. If for any reason this limit is breached, the RBI has stipulated that the board of directors of the bank concerned should be informed on a half-year basis of such occurrences. These guidelines are not applicable to banks dealings through Primary Dealers.

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*Valuation of Investments*

The RBI has issued guidelines for the categorization and valuation of banks investments. The salient features of the guidelines are given below.

Banks are required to classify their entire portfolio of approved securities under three categories: held for trading, available for sale and held to maturity. Banks must decide the category of investment at the time of acquisition.

Held to maturity (HTM) investments compulsorily include (i) recapitalization bonds received from the Government, (ii) investments in subsidiaries and joint ventures, and (iii) investment in the long-term bonds (with a minimum residual maturity of seven years) issued by companies engaged in infrastructure activities. The minimum residual maturity of these bonds must be of seven years at the time of investment in these bonds. Once invested, banks may continue to classify these investments under the HTM category even if the residual maturity falls below seven years subsequently. Held to maturity investments also include any other investments identified for inclusion in this category subject to the condition that such investments cannot exceed 25.0% of total investments. Banks are permitted to exceed the limit of 25.0% of investments for the held to maturity category provided the excess is comprised only of investments eligible for statutory liquidity ratio and the aggregate of such investments in the held to maturity category does not exceed a specified percentage of the prescribed demand and time liabilities.

Profit on the sale of investments in the HTM category is appropriated to the capital reserve account after being taken to the profit and loss account. Loss on any sale is recognized in the profit and loss account.

Investments under the held for trading category must be sold within 90 days.

Available for sale and held for trading securities are required to be valued at market or fair value at prescribed intervals. The market price of the security available from the stock exchange, the price of securities in subsidiary general ledger transactions, the RBI price list or prices declared by the Primary Dealers Association of India jointly with the Fixed Income Money Market and Derivatives Association of India serves as the market value for investments in available for sale and held for trading securities.

Profit or loss on the sale of investments in both the held for trading and available for sale categories is recorded in the income statement.

Shifting of investments from or to held to maturity is generally not allowed. However, it is permitted only under exceptional circumstances with the approval of the board of directors once a year, normally at the beginning of the accounting year; shifting of investments from available for sale to held for trading may be done, subject to depreciation, if any, applicable on the date of transfer, with the approval of the board of directors, the asset liability management committee or the investment committee; shifting from held for

trading to available for sale is generally not permitted, save for under exceptional circumstances where banks are not able to sell the security within 90 days due to tight liquidity conditions, or extreme volatility, or the market becoming unidirectional, in which case transfer is permitted only with the approval of the board of directors, the asset liability management committee or the investment committee.

Held to maturity securities are not marked to market and are carried at acquisition cost. Any premium on acquisition of held to maturity securities is amortized.

Depreciation or appreciation for each basket within the available for sale and held for trading categories is aggregated. While net depreciation is provided for, net appreciation in each basket, if any, is not recognized except to the extent of depreciation already provided.

Investments in security receipts or pass through certificates issued by asset reconstruction companies or trusts set up by asset reconstruction companies are valued at the lower of redemption value of the security receipts or the net book value of the underlying financial asset.

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### *Prohibition on Short Selling*

The RBI does not permit short selling of securities by banks, except short selling of central government securities subject to stipulated conditions. The RBI has permitted scheduled commercial banks to undertake short sales of central government securities, subject to the short position being covered within a maximum period of three months, including the day of trade. The short positions must be covered only by an outright purchase of an equivalent amount of the same security or through a long position in the when issued market or allotment in primary auction.

In February 2015, the RBI permitted re-repo of government securities, including state development loans and treasury bills, acquired under reverse repo subject to conditions prescribed by the RBI.

## Regulations Relating to Deposits

The RBI has permitted banks to independently determine rates of interest offered on fixed deposits. However, banks are not permitted to pay interest on current account deposits. From April 1, 2010, payment of interest on a savings account deposit is calculated on a daily product basis against the previous practice of interest being payable on the minimum balance held in the account during the period from the tenth day to the last calendar day of the month. With effect from October 25, 2011, the RBI permitted banks to offer varying rates of interest on savings deposits of resident Indians subject to the following conditions:

- each bank will have to offer a uniform interest rate on savings bank deposits up to Rs. 0.1 million, irrespective of the amount in the account within this limit. While calculating interest on such deposits, banks are required to apply the uniform rate set by them on end-of-day balance up to rupees one lakh; and

- for any end-of-day savings bank deposits over Rs. 0.1 million a bank may provide differential rates of interest, if it so chooses, by ensuring that it does not discriminate in interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

With effect from December 16, 2011, the RBI also permitted banks the flexibility to offer varying rates of interest on Non-Resident (External) (NRE) and Non-Resident (Ordinary) (NRO) deposit accounts. However, banks are not permitted to offer rates of interest on NRE or NRO deposit accounts that are higher than those offered on domestic rupee deposit accounts of the same tenor and maturity.

Previously, banks were required to pay interest of 4.0% per annum on domestic savings deposits, rupee denominated Non-Resident (External) Accounts Scheme and Ordinary Non-Resident Scheme savings deposits. In respect of savings and time deposits accepted from employees, banks are permitted to pay an additional interest of 1.0% over the interest payable on deposits from the public.

The RBI has prescribed minimum and maximum maturity thresholds for certain types of deposits.

The RBI has permitted banks the flexibility to offer varying rates of interest on domestic term deposits of the same maturity based on the size of these deposits, subject to the following conditions:

a single term deposit is of Rs. 10.0 million (increased from Rs. 1.5 million with effect from April 1, 2013) and above; and

interest on deposits is paid in accordance with the schedule of interest rates disclosed in advance by the bank and not pursuant to negotiation between the depositor and the bank.

In April 2015, the RBI has permitted banks to offer differential interest rates based on whether the term deposits are with or without-premature-withdrawal-facility, subject to the following guidelines:

All term deposits of individuals (held singly or jointly) of Rs. 1.5 million and below should, necessarily, have premature withdrawal facility.

For all term deposits other than mentioned above, banks can offer deposits without the option of premature withdrawal as well. However, banks that offer such term deposits should ensure that the customers are given the option to choose between term deposits either with or without premature withdrawal facility.

Banks should disclose in advance the schedule of interest rates payable on deposits i.e. all deposits mobilized by banks should be strictly in conformity with the published schedule.

The banks should have a board approved policy with regard to interest rates on deposits including deposits with differential rates of interest and ensure that the interest rates offered are reasonable, consistent, transparent and available for supervisory review/scrutiny as and when required.

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To achieve greater financial inclusion, banks have been advised by the RBI to offer a basic savings bank deposit account without any requirement of minimum balance and without carrying a charge for the stipulated basic minimum services that would make such accounts available as a normal banking service to all.

***FCNR (B) Deposits***

The RBI has granted general permission to non-resident Indians to open Foreign Currency Non-resident (Bank) ( FCNR(B) ) accounts with authorised Indian banks. These FCNR(B) accounts can be funded by (i) inward remittances received from outside of India through the normal banking channels, (ii) debiting non-resident bank accounts maintained with an authorised dealer in India, (iii) transferring funds from existing non-resident external accounts or (iv) any other funds which are repatriable under the prevailing RBI regulations. The RBI permits FCNR(B) deposit holders to avail credit facilities (both offshore and onshore) and offer their FCNR(B) deposits as collateral for such facilities.

As an accelerated measure to increase foreign currency flows into the country, the RBI had, in September 2013, introduced a US Dollar-Rupee swap window for fresh FCNR (B) dollar funds, mobilised for a minimum tenor of three years and over. Under the swap arrangement, a bank could sell US Dollars in multiples of USD 1 million to RBI and simultaneously agree to buy the same amount of US Dollars at the end of the swap period. The swap was undertaken at a fixed rate of 3.5% per annum. The swap window was open till November 30, 2013.

In August 2013, the RBI exempted the FCNR (B) / NRE deposits raised by banks during a specified period having maturity of three years and above from maintenance of CRR and SLR. The RBI also permitted exclusion of loans made in India against these FCNR (B) / NRE deposits from the ANBC computation for priority sector lending targets. The exemption granted on incremental FCNR (B)/NRE deposits from maintenance of CRR/SLR was withdrawn with effect from fortnight beginning March 8, 2014.

***Deposit Insurance***

Demand and time deposits of up to Rs. 100,000 accepted by scheduled commercial banks in India have to be mandatorily insured with the Deposit Insurance and Credit Guarantee Corporation, a wholly-owned subsidiary of the RBI. Banks are required to pay the insurance premium to the Deposit Insurance and Credit Guarantee Corporation on a semi-annual basis. The cost of the insurance premium cannot be passed on to the customer.

**Regulations Relating to Knowing the Customer and Anti-Money Laundering**

The RBI has issued several guidelines on customer identification and monitoring of transactions. Banks have been advised to put in place systems and procedures to control financial frauds, identify money laundering and suspicious activities, and monitor high value cash transactions. The RBI has also issued guidelines from time to time advising banks to be vigilant while opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds.

Banks have been advised to ensure that a proper policy framework on Know Your Customer (KYC) and Anti-Money Laundering (AML) measures duly approved by the board of directors is formulated and implemented. This framework is required to, *inter alia*, include procedures/process in relation to (a) Customer Acceptance Policy; (b) Customer Identification Procedures; (c) Monitoring of Transactions; and (d) Risk Management.

RBI guidelines require that a profile of the customers should be prepared based on risk categorization. Banks have been advised to apply enhanced due diligence for high-risk customers. The guidelines provide that banks should

undertake customer identification procedures while establishing a banking relationship or carrying out a financial transaction or when the bank has a doubt about the authenticity or the adequacy of the previously obtained customer identification data. Banks must obtain sufficient information necessary to establish the identity of each new customer and the purpose of the intended banking relationship. The guidelines also provide that banks should monitor transactions depending on the account s risk sensitivity. Prevention of Money Laundering Rules, 2005 require every banking company, and financial institution, as the case may be, to identify the beneficial owner and take all reasonable steps to verify his identity. The term beneficial owner has been defined as the natural person who ultimately owns or controls a client and/or the person on whose behalf the transaction is being conducted, including a person who exercises ultimate effective control over a juridical person. The procedure for identification of the beneficial owner has been specified by the Government of India in the Prevention of Money Laundering Rules, 2005.

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The KYC procedures for opening accounts have been simplified for small accounts in order to ensure that the implementation of the KYC guidelines do not result in the denial of the banking services to those who are financially or socially disadvantaged. A small account is defined as a savings account in a banking company where (i) the aggregate of all credits in a financial year does not exceed Rs. 0.1 million; (ii) the aggregate of all withdrawals and transfers in a month does not exceed Rs. 0.01 million; and (iii) the balance at any point of time does not exceed Rs. 0.05 million.

In addition to keeping customer information confidential, banks must ensure that only information relevant to the perceived risk is collected and that the same is not intrusive in nature. Apart from addressing this concern the guidelines set out in detail the framework to be adopted by banks as regards their customer dealings and are directed towards prevention of financial frauds and money laundering transactions.

In a bid to prevent money laundering activities, the Government enacted the Prevention of Money Laundering Act, 2002 (the PML Act) which came into effect from July 1, 2005. The PML Act seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering and for incidental matters or matters connected therewith.

All the instructions/guidelines issued to banks on KYC norms, AML standards and obligations of the banks under the PML Act have been consolidated in the RBI master circular on Know Your Customer norms/Anti-Money Laundering standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PML Act.

The PML Act and the rules made thereunder require that banking companies, financial institutions and intermediaries (together, the Institutions ) to maintain a comprehensive record of all their transactions, including the nature and value of each transaction. Further, it mandates verification of the identity of all their clients and also requires the Institutions to maintain records of their respective clients. These details are to be provided to the authority established by the PML Act, who is empowered to order confiscation of property where the authority is of the opinion that a crime as recognized under the PML Act has been committed. In addition, the applicable exchange control regulations prescribe reporting mechanisms for transactions in foreign exchange and require authorized dealers to report identified suspicious transactions to the RBI.

Banks are advised to develop suitable mechanisms through an appropriate policy framework for enhanced monitoring of accounts suspected of having terrorist links, identification of the transactions carried out in these accounts and suitable reporting to the Director, Financial Intelligence Unit (India) (FIU). Banks are required to report to the FIU:

(a) all cash transactions with a value of more than Rs. 1 million or an equivalent in foreign currency;

(b) all series of cash transactions integrally connected to each other which have been valued below Rs. 1 million or an equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds Rs. 1 million;

(c) all cash transactions where forged or counterfeit currency notes or bank notes have been used and where any forgery of a valuable security or a document has taken place facilitating the transaction; and

(d) all other suspicious transactions whether or not made in cash and by such other ways as mentioned in the Rules.

**Legal Reserve Requirements**

***Cash Reserve Ratio***

Each bank is required to maintain a specific percentage of its demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system. The amendments made to the Reserve Bank of India Act, 1934 and the Banking Regulation Act during fiscal 2007 enhanced the operational flexibility in monetary management of the RBI. The RBI (Amendment) Act, 2006 came into force on April 1, 2007. Section 3 of this Act removed the floor and the ceiling rates on Cash Reserve Ratio ( CRR ) and no interest was payable on the CRR balances of banks with effect from March 31, 2007. Scheduled commercial banks are exempted from maintaining CRR on the following liabilities:

(a) liabilities to the banking system in India as computed under clause (d) of the explanation to section 42(1) of the Reserve Bank of India Act, 1934;

(b) credit balances in Asian Clearing Union (US$) Accounts; and

(c) demand and time liabilities in respect of the banks Offshore Banking Units.

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CRR is required to be maintained on an average basis for a two-week period and should not fall below 70.0% of the required CRR on any particular day. The CRR requirement as of March 31, 2015 was 4.0% of the prescribed net demand and time liabilities of the bank. In order to address the volatility in rupee exchange rates in early 2013, the RBI in July 2013 increased the requirement of minimum daily CRR balance maintenance to 99.0% with effect from the first day of the fortnight beginning July 27, 2013. In September 2013, the RBI reduced the minimum daily maintenance of the CRR from 99.0% of the requirement to 95.0%.

***Statutory Liquidity Ratio***

In order to maintain liquidity in the banking system, in addition to the CRR, each bank is required to maintain a specified percentage of its net demand and time liabilities by way of liquid assets such as cash, gold or approved securities, such as Government of India and State Government Securities. The percentage of this ratio is fixed by the RBI from time to time and was 21.5%, effective from the fortnight beginning February 7, 2015. The RBI master circular on the Statutory Liquidity Ratio specifies certain liabilities which will not be included in the calculation of the Statutory Liquidity Ratio.

**Regulations on Asset Liability Management**

Since 1999, the RBI has issued several guidelines relating to Asset-Liability Management (ALM) in banks in India. The RBI guidelines cover, *inter alia,* the interest rate risk and liquidity risk measurement and reporting framework, including establishing prudential limits. The guidelines require that gap statements for liquidity and interest rate risk are prepared by scheduling all assets and liabilities according to the stated and anticipated re-pricing date or maturity date. The RBI has advised banks to actively monitor the difference in the amount of assets and liabilities maturing or being re-priced in a particular period and place internal prudential limits on the gaps in each time period, as a risk control mechanism. Additionally, the RBI has advised banks to manage their asset-liability liquidity structure within negative gap limits for 1 day, 2-7 days, 8-14 days and 15-28 days set at 5.0%, 10.0%, 15.0% and 20.0% of the cumulative cash outflows in the respective time buckets in order to recognize the cumulative impact on liquidity. In respect of other time periods, the RBI has directed banks to lay down internal standards in respect of liquidity gaps. In order to recognize the cumulative impact on liquidity, banks are also advised to prepare the statement of structural liquidity on a daily basis and also undertake dynamic liquidity management. Banks are required to submit the liquidity statements periodically to RBI, as specified in these guidelines.

RBI s Guidelines on Banks Asset Liability Management Framework Interest Rate Risk issued in November 2010 mandate banks in India to evaluate interest rate risk using both methods i.e. Traditional Gap Analysis (TGA) and Duration Gap Analysis (DGA). Banks are required to submit the TGA and DGA results from time to time to the RBI as mentioned in the guidelines.

Further, RBI guidelines on Stress Testing issued in 2007 has reinforced stress testing as an integral part of a bank s risk management process, and the results are used to evaluate the potential vulnerability to some unlikely but plausible events or movements in financial variables that affect both interest rate risk and liquidity risk in the bank. In December 2013, the RBI specified the minimum level of stress testing to be carried out by all banks.

In November 2012, the RBI issued enhanced guidelines on liquidity risk management by banks. These guidelines consolidate various instructions on liquidity risk management that the RBI had issued from time to time, and where appropriate, harmonize and enhance these instructions in line with the principles for sound liquidity risk management and supervision issued by the Basel Committee on Banking Supervision (BCBS). The RBI s guidelines require banks to establish a sound process for identifying, measuring, monitoring and controlling liquidity risk, including a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over

an appropriate time horizon. The key items covered under these guidelines include: (i) governance of liquidity risk management including liquidity risk management policy, strategies and practices and liquidity risk tolerance; (ii) management of liquidity risk, including identification, measurement and monitoring of liquidity risk; (iii) collateral position management; (iv) intra-day liquidity position management; and (v) stress testing.

In June 2014, the RBI issued guidelines in relation to liquidity coverage ratio (LCR), liquidity risk monitoring tools and LCR disclosure standards pursuant to the publication of the Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools in January 2013 and the Liquidity Coverage Ratio Disclosure Standards in January 2014 by the Basel Committee On Banking Supervision. The objective of the LCR standard is to ensure that a bank maintains an adequate level of unencumbered high quality liquid assets which could be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. The LCR requirement of 100% is being implemented in a phased manner over a period of four years, with a minimum requirement of 60% effective January 1, 2015.

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### Foreign Currency Dealership

The RBI has granted us a full-fledged Authorized Dealers License to deal in foreign exchange through our designated branches. Under this license, we have been granted permission to: engage in foreign exchange transactions in all currencies; open and maintain foreign currency accounts abroad; raise foreign currency and rupee-denominated deposits from non-resident Indians; grant foreign currency loans to on-shore and off-shore corporations; open documentary credits; grant import and export loans; handle collection of bills and funds transfer services; issue foreign currency guarantees; and enter into derivative transactions and risk management activities that are incidental to our normal functions authorized under our organizational documents and as permitted under the provisions of the Banking Regulation Act.

Our foreign exchange operations are subject to the guidelines contained in the Foreign Exchange Management Act, 1999 (Foreign Exchange Management Act). As an authorized dealer, we are, as required, enrolled as a member of the Foreign Exchange Dealers Association of India (FEDAI) which prescribes the rules relating to the foreign exchange business in India.

We are required to determine our limits on open positions and maturity gaps in accordance with RBI guidelines and within limits approved by the RBI. Further, we are permitted to hedge foreign currency loan exposures of Indian corporations in the form of interest rate swaps, currency swaps and forward rate agreements, subject to certain conditions.

### Setting Up Wholly Owned Subsidiaries by Foreign Banks

In November 2013, the RBI released its framework for establishing wholly owned subsidiaries of foreign banks in India, which aims to tighten regulatory control and encourage foreign banks to convert their existing branches into wholly owned subsidiaries.

Key features of the framework include:

- requiring certain foreign banks, including banks with complex structures and banks belonging to jurisdictions which: (i) do not have adequate disclosure requirements; or (ii) have legislation which give preferential treatment to deposits of the home country in a winding up proceeding, to set up a wholly owned subsidiary in order to enter the Indian market;

- permitting foreign banks which do not fall under the above categories to either set up a branch office or a wholly owned subsidiary;

- offering near national treatment to wholly owned subsidiaries of foreign banks, subject to certain conditions;

- requiring newly incorporated wholly owned subsidiaries to have an initial minimum paid-up voting equity capital of 5 billion rupees. In the case of existing branches of foreign banks which wish to convert into a wholly owned subsidiary, it must have a minimum net worth of 5 billion rupees;

- requiring at least 50% of the board of directors of wholly owned subsidiaries to be Indian nationals, non-resident Indians or persons of Indian origin; and

- mandating that wholly owned subsidiaries comply with the priority sector lending requirements applicable to domestic commercial banks.

**Statutes Governing Foreign Exchange and Cross-Border Business Transactions**

Foreign exchange and cross border transactions undertaken by banks are subject to the provisions of the Foreign Exchange Management Act. All banks are required to monitor the transactions in all non-resident accounts to prevent money laundering. These transactions are governed by the provisions of the Foreign Exchange Management Act, and the PML Act.

In terms of the guidelines prescribed by the RBI, overseas foreign currency borrowings by a bank in India (including overdraft balances in nostro accounts not adjusted within five days) should not exceed 100.0% of its unimpaired Tier I capital or US$ 10 million (or its equivalent), whichever is higher. The aforesaid limit applies to the aggregate amount availed of by all the offices and branches in India from all their branches and correspondents abroad and includes overseas borrowings in gold for funding domestic gold loans.

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The following borrowings would continue to be outside the above limit:

1. overseas borrowing by banks for the purpose of financing export credit subject to certain conditions prescribed by the RBI;
2. capital funds raised or augmented by the issue of Innovative Perpetual Debt Instruments and Debt Capital Instruments in foreign currency;
3. subordinated debt placed by head offices of foreign banks with their branches in India as Tier II capital; and
4. any other overseas borrowing with the specific approval of the RBI.

**Special Provisions of the Banking Regulation Act**

***Prohibited Business***

Section 6 of the Banking Regulation Act specifies the business activities in which a bank may engage. Banks are prohibited from engaging in business activities other than the specified activities.

***Reserve Fund***

Any bank incorporated in India is required to create a reserve fund to which it must transfer not less than 25.0% of the profits of each year before any dividend is declared. Banks are required to take prior approval from the RBI before appropriating any amount from the reserve fund or any other free reserves. The Government may, on the recommendation of the RBI, exempt a bank from requirements relating to its reserve fund.

***Restrictions on Payment of Dividends***

The Banking Regulation Act requires that a bank pay dividends on its shares only after all of its capital expenses (including preliminary expenses, organization expenses, share selling commissions, brokerage on public offerings, amounts of losses and any other items of expenditure not represented by tangible assets) have been completely written off. The Government may exempt banks from this provision by issuing a notification on the recommendation of the RBI.

Banks that comply with the following prudential requirements are eligible to declare dividends:

capital adequacy ratio must be at least 9.0% for the preceding two completed years and the accounting year for which the bank proposes to declare a dividend;

net non-performing assets must be less than 7.0% of advances. In the event a bank does not meet the above capital adequacy norm, but has capital adequacy of at least 9.0% for the fiscal year for which it proposes to

declare a dividend it would be eligible to declare a dividend if its net non-performing asset ratio is less than 5%;

the bank has complied with the provisions of Sections 15 and 17 of the Banking Regulation Act;

the bank has complied with the prevailing regulations/guidelines issued by the RBI, including creating adequate provisions for the impairment of assets and staff retirement benefits and the transfer of profits to statutory reserves;

dividends should be payable out of the current year s profits; and

the RBI has not placed any explicit restrictions on the bank for declarations of dividends.

Banks which comply with the above prudential requirements can pay dividends subject to compliance with the following conditions:

the dividend payout ratio (calculated as a percentage of dividends payable in a year (excluding dividend tax) to net profit during the year ) should not exceed 40.0%. The RBI has prescribed a matrix of criteria linked to the capital adequacy ratio and the net non-performing assets ratio in order to ascertain the maximum permissible range of the dividend payout ratio; and

if the financial statements for which the dividend is declared have any audit qualifications which have an adverse bearing on the profits, the same should be adjusted while calculating the dividend payout ratio.

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In case the profit for the relevant periods includes any extra-ordinary profits/income, the payout ratio shall be computed after excluding such extra-ordinary items for compliance with the prudential payout ratio.

***Restriction on Share Capital and Voting Rights***

Banks were earlier permitted to issue only ordinary shares. In January 2013, the Banking Regulation Act was amended to, *inter alia*, permit banks to also issue preference shares. However, guidelines governing the issuance of preference shares are yet to be issued. The amended Banking Regulation Act also permits the RBI to increase the cap on the voting rights of a single shareholder of a private bank from the existing cap of 10.0% to 26.0% in a phased manner.

***Restriction on Transfer of Shares***

RBI approval is required before a bank can register the transfer of shares to an individual or group which acquires 5.0% or more of its total paid-up capital.

***Regulatory Reporting and Examination Procedures***

The RBI is empowered under the Banking Regulation Act to inspect the books of accounts and the other operations of a bank. The RBI monitors prudential parameters at regular intervals. The findings of these inspections are provided to banks, who are required to comply with the actions recommended in order to correct any discrepancies in their operations as contained in the inspection findings within a stipulated time frame. Further, banks are required to keep the inspection report confidential as per the instructions issued by the RBI. To this end and to enable off-site monitoring and surveillance by the RBI, banks are required to report to the RBI on financial and operating measures such as:

- assets, liabilities and off-balance sheet exposures;
- the risk weighting of these exposures, the capital base and the capital adequacy ratio;
- asset quality;
- concentration of exposures;
- connected and related lending and the profile of ownership, control and management; and
- other prudential parameters.

The RBI also conducts periodic on-site inspections of matters relating to the bank s capital, asset quality, management, earnings, liquidity and systems and controls on an annual basis. We have been subjected to on-site inspection by the RBI at yearly intervals. The inspection report, along with the report on actions taken by us, has to be placed before our Board of Directors. On approval by our Board, we are required to submit the report on actions taken by us to the RBI.

The RBI also discusses the findings of the inspection with our management team along with members of the Audit Committee of our Board.

The RBI also conducts on-site supervision of selected branches of banks with respect to their general operations and foreign exchange related transactions.

The existing supervisory framework has been modified towards establishing a risk based supervision framework which envisages continuous monitoring of banks through robust offsite reports to the RBI coupled with need based on-site inspection. We have been subject to supervision under this framework with effect from fiscal 2014.

***Penalties***

The RBI is empowered under the Banking Regulation Act, to impose penalties on banks and their employees in case of infringement of any provision of the Act. The penalty may be a fixed amount or may be related to the amount involved in any contravention of the regulations. The penalty may also include imprisonment.

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In March 2013, there were certain allegations published in the media against us and other banks in the private sector. We investigated, as a matter of priority, if any breach of the KYC and AML guidelines specified by the RBI had occurred. The RBI also conducted a scrutiny of our books of accounts, internal control, compliance systems and processes during March and April 2013. The scrutiny did not reveal any incident of money laundering. However, the RBI discovered certain irregularities and violations, namely, non-observance of certain safeguards in respect of arrangement of at par payment of checks drawn by cooperative banks, exceptions in periodic review of risk profiling of account holders, non-adherence to KYC rules for walk-in customers (non-customers) including for sale of third party products, sale of gold coins for cash in excess of Rs. 50,000 and non-submission of proper information required by the RBI. Based on its assessment, the RBI imposed on us a monetary penalty of Rs. 45 million in June 2013, which we paid. A press release dated July 15, 2013 issued by the RBI states that a similar scrutiny was also conducted at the offices of 29 other banks during April 2013. The RBI levied a penalty of Rs. 495.1 million on 22 of these banks and issued cautionary letters to seven banks.

Further, in this regard, the FIU, in January 2015, levied a fine on us of Rs. 2.6 million relating to our failure in detecting and reporting attempted suspicious transactions. We have filed an appeal against the order before the appellate tribunal stating that there were only roving enquiries made by the reporters of the media and there were no instances of any attempted suspicious transactions. We have been granted a stay on the operation of the order. As per the order passed by the appellate tribunal, the Bank has created a fixed deposit of Rs. 2.6 million in favor of FIU. See *Risk Factors We have previously been subject to penalties imposed by the RBI. Any regulatory investigations, fines, sanctions, and requirements relating to conduct of business and financial crime could negatively affect our business and financial results, or cause serious reputational harm.*

During fiscal 2014, the RBI carried out a scrutiny of a corporate borrower s loan and current accounts maintained with 12 Indian banks, including us. The RBI had issued show cause notices to these banks in March 2014. Based on its assessment, the RBI in its press release dated July 25, 2014, levied penalties totaling Rs. 15 million on the 12 Indian banks. The penalty levied on us, which has been paid, was Rs. 0.5 million on the grounds that we failed to exchange information about the conduct of the corporate borrower s account with other banks at intervals as prescribed in the RBI guidelines on Lending under Consortium Arrangement/Multiple Banking Arrangements .

***Assets to be maintained in India***

Every bank is required to ensure that its assets in India (including import-export bills drawn on/in India and the RBI approved securities, even if the bills and the securities are held outside India) are not less than 75% of its demand and time liabilities in India.

***Secrecy Obligations***

Banks obligations relating to maintaining secrecy arise out of regulatory prescription and also common law principles governing the relationship between them and their customers. Banks cannot disclose any information to third parties except under certain limited and clearly defined circumstances as detailed in the guidelines issued by the RBI.

***Subsidiaries and Other Investments***

Banks require the prior permission of the RBI to incorporate a subsidiary. Banks are required to maintain an arms-length relationship in respect of their subsidiaries and are prohibited from taking actions such as taking undue advantage in borrowing or lending funds, transferring or selling or buying securities at rates other than market rates, giving special consideration for securities transactions, overindulgence in supporting or financing subsidiaries and financing its clients through them when it itself is not able or not permitted to do so. Banks and their subsidiaries have

to observe the prudential standards stipulated by the RBI, from time to time, in respect of their underwriting commitments.

Banks also require the prior specific approval of the RBI to participate in the equity of financial services ventures including stock exchanges and depositories, notwithstanding the fact that such investments may be within the ceiling prescribed under Section 19(2) of the Banking Regulation Act. Further, investment by a bank in its subsidiaries, financial services companies or financial institutions should not exceed 10.0% of its paid-up capital and reserves. Investments by banks in companies which are not its subsidiaries and are not financial services companies would be subject to a limit of 10% of the investee company s paid up share capital or 10% of the bank s paid up share capital and reserves, whichever is less. Any investment above this limit will be subject to the RBI approval except as provided otherwise. Equity investments in any non-financial services company held by (a) a bank; (b) bank s subsidiaries, associates or joint ventures or entities directly or indirectly controlled by the bank; and (c) mutual funds managed by Asset Management Companies (AMCs) controlled by the bank should in the aggregate not exceed 20% of the investee company s paid up share capital. Further, a bank s equity investments in subsidiaries and other entities that are engaged in financial services activities together with equity investments in entities engaged in non-financial services activities should not exceed 20% of the bank s paid-up share capital and reserves.

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### Guidelines for Merger/Amalgamation of Private Sector Banks

The RBI issued detailed guidelines in May 2005 on the merger or amalgamation of private sector banks and for the amalgamation of a non-banking finance company with a banking company. The guidelines lay down the process for a merger proposal, the determination of swap ratios, disclosures, the stages at which the board of directors will get involved in the merger process and norms of buying and selling of shares by the promoters before and during the merger process.

### Appointment and Remuneration of the Chairman, the Managing Director and Other Directors

Banks require the prior approval of the RBI to appoint their Chairman and Managing Director and any other directors and to fix their remuneration. The RBI is empowered to remove the appointee on the grounds of public interest or the interest of depositors or to ensure the proper management of the bank. Further, the RBI may order meetings of the board of directors of banks to discuss any matter in relation to the bank, appoint observers to these meetings and in general may make changes to the management as it may deem necessary and can also order the convening of a general meeting of the company to elect new directors.

In January 2012, the RBI issued revised guidelines relating to salary and other remuneration payable to whole time directors, chief executive officers and other risk takers of new private sector banks. With these guidelines, the RBI aims to achieve effective governance of compensation, alignment of compensation with prudent risk-taking and require banks to make appropriate disclosures in their financial statements. Banks are required to formulate and adopt a comprehensive compensation policy in line with the guidelines covering all their employees and conduct annual review thereof. The policy should cover all aspects of the compensation structure such as fixed pay, perquisites, bonus, variable pay deferrals, guaranteed pay, severance package, stock, pension plan and gratuity. These guidelines became effective from the fiscal year 2012-2013. The guidelines also state that private sector banks would be required to obtain regulatory approval for grant of remuneration to whole time directors/chief executive officers in terms of Section 35B of the Banking Regulation Act, on a case-to-case basis.

### Regulations and Guidelines of the SEBI

The Securities and Exchange Board of India (SEBI) was established in 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992 to protect the interests of public investors in securities and to promote the development of, and to regulate, the Indian securities market including all related matters. We are subject to SEBI regulations in respect of capital issuances as well as some of our activities, including acting as agent for collecting subscriptions to public offerings of securities made by other Indian companies, underwriting, custodial, depositary participant, and investment banking and because our equity shares are listed on Indian stock exchanges. These regulations provide for registering with SEBI the functions, responsibilities and the code of conduct applicable for each of these activities.

### Foreign Ownership Restriction

Aggregate foreign investment from all sources, in a private sector bank is permitted up to 49% of the paid up capital under the automatic route. This limit can be increased up to 74% of the paid up capital with prior approval from the FIPB. Pursuant to a letter dated February 4, 2015, FIPB has approved foreign investment in the Bank up to 74% of its paid up capital. The approval is subject to order of the RBI in the compounding application filed by us in April 2010 for the change of foreign shareholding since April 2010. If we are subject to any unforeseen penalties or an unfavorable ruling by the RBI in connection with our compounding application, it could have an adverse effect on our results of operation and financial condition. As of March 31, 2015, foreign investment in the Bank, including the

shareholdings of HDFC Limited and its subsidiaries, constituted 73.41% of the paid up capital of the Bank.

The aggregate shareholding by foreign private investors/foreign institutional investors under portfolio investment schemes through stock exchanges may not exceed 49.0% of our paid-up equity share capital and individual shareholding of an FPI/FII must be below 10% of our paid-up equity share capital. Further, as per the existing policy of the RBI, any allotment or transfer of shares which will take the aggregate shareholding of an individual or a group to an equivalent of 5.0% or more of our paid-up capital would require the prior acknowledgement of the RBI before we can affect the allotment or transfer of shares. Foreign banks are permitted to have presence in India either by opening branches or through wholly owned subsidiaries but not both.

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### Moratorium, Reconstruction and Amalgamation of Banks

A bank can apply to the high court for the suspension of its business. The high court, after considering the application of the bank, may order a moratorium staying commencement of an action or proceedings against the relevant banking company for a maximum period of six months. During such period of moratorium, if the RBI is satisfied that it is: (a) in the public interest; or (b) in the interest of the depositors; or (c) in order to secure the proper management of the bank; or (d) in the interests of the banking system of the country as a whole, it may prepare a scheme for the reconstruction of the bank or amalgamation of the bank with any other bank. In circumstances entailing reconstruction of the bank or amalgamation of the bank with another bank, the RBI would invite suggestions and objections on the draft scheme prior to placing the scheme before the Government for its sanction. The Government may sanction the scheme with or without modifications. The law does not require consent of the shareholders or creditors of such banks.

### Special Status of Banks in India

The special status of banks is recognized under various statutes including the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (DRT Act) and the SARFAESI Act. As a bank, we are entitled to certain benefits under the DRT Act which provide for the establishment of Debt Recovery Tribunals for expeditious adjudication and recovery of debts due to any bank or Public Financial Institution or to a consortium of banks and Public Financial Institutions. Under the DRT Act, the procedures for recovery of debt have been simplified and indicative time frames been fixed for speedy disposal of cases and no court or other authority can exercise jurisdiction in relation to matters covered by this Act, except the higher courts in India in certain circumstances. The SICA provides for reference of sick industrial companies, to the Board for Industrial and Financial Reconstruction (BIFR). Under the SICA, other than the board of directors of a company, a scheduled bank (where it has an interest in the sick industrial company by any financial assistance or obligation, rendered by it or undertaken by it) may refer the company to the BIFR. The SICA has been repealed by the Sick Industrial Companies (Special Provisions) Repeal Act, 2003 (the SICA Repeal Act). However, pursuant to the SICA Repeal Act, which is due to come into force on a date to be notified by the central Government in the official gazette, the provisions of the Companies Act, 2013 or the Companies Act, 1956 (as applicable) will apply in relation to sick companies, under which the reference must be made to the National Company Law Tribunal, in place of the BIFR.

The SARFAESI Act focuses on improving the rights and simplifying the procedures for enforcement of security interest of banks and financial institutions and other specified secured creditors as well as asset reconstruction companies by providing that such secured creditors can take over management control of a borrower company upon default and/or sell assets without the intervention of courts, in accordance with the provisions of the SARFAESI Act. It also provides the legal framework for the securitization and reconstruction of financial assets.

### Credit Information Bureau

The Parliament of India has enacted the Credit Information Companies (Regulation) Act, 2005, pursuant to which every credit institution, including a bank, has to become a member of a credit information bureau and furnish to it such credit information as may be required of the credit institution by the credit information bureau about persons who enjoy a credit relationship with it. Other credit institutions, credit information bureaus and such other persons as the RBI specifies may access such disclosed credit information.

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**Regulations governing international branches and representative offices**

We have overseas banking branches in Bahrain, Hong Kong and the Dubai International Financial Centre (DIFC). We have one representative office each in Dubai-UAE, Abu Dhabi-UAE and Nairobi-Kenya. Our branch in Bahrain is regulated by the Central Bank of Bahrain, and has been granted a license designating it as a wholesale bank branch. The activities that can be carried out from the Bahrain branch are deposit taking, providing credit, dealing in financial instruments as principal, dealing in financial instruments as agent, managing financial instruments, operating a collective investment undertaking, arranging deals in financial instruments, advising on financial instruments and issuing / administering means of payment. Our branch in Hong Kong is a full service branch and is regulated by the Hong Kong Monetary Authority. The branch is permitted to undertake banking business in that jurisdiction with certain restrictions. In August 2014, we opened a branch in the DIFC to provide financial services covering arrangement of credit or deals in investments, advising on financial products or credit and arranging custodian services. The activities cater to the requirements of non-resident Indians and Indian corporates overseas. The branch is regulated by the Dubai Financial Services Authority.

Our representative offices in Dubai and Abu Dhabi, UAE are regulated by the Central Bank of UAE and our representative office in Nairobi, Kenya is regulated by the Central Bank of Kenya.

## EXCHANGE CONTROLS

### Restrictions on Conversion of Rupees

There are restrictions on the conversion of rupees into dollars. Before February 29, 1992, the RBI determined the official value of the rupee in relation to a weighted basket of currencies of India s major trading partners. In the February 1992 budget, a new dual exchange rate mechanism was introduced by allowing conversion of 60.0% of the foreign exchange received on trade or by current account at a market-determined rate and the remaining 40.0% at the official rate. All importers were, however, required to buy foreign exchange at the market rate, except for certain priority imports. In March 1993, the exchange rate was unified and allowed to float. In February 1994 and again in August 1994, the RBI announced relaxations in payment restrictions in the case of a number of transactions. Since August 1994, the Government of India has substantially complied with its obligations owed to the International Monetary Fund, under which India is committed to refrain from using exchange restrictions on current international transactions as an instrument in managing the balance of payments. Effective July 1995, the process of current account convertibility was advanced by relaxing restrictions on foreign exchange for various purposes, such as foreign travel and medical treatment. The Government has also, since 1999, relaxed restrictions on capital account transactions by resident Indians. For example, the RBI permits persons resident in India to remit monies outside India for any permissible current or capital account transaction or a combination of both. The limit for such remittances varies: it has been increasing from 2000 and was US$ 200,000 per financial year, but was reduced to US$ 75,000 in September 2013 for exchange control purposes. As a result of stability in the foreign exchange market, this limit was enhanced to US$125,000 in June 2014 and, as of June 2015, has been further increased to US$250,000 per person per year.

### Restrictions on Sales of the Equity Shares Underlying the ADSs and Repatriation of Sale Proceeds

Under the laws of India, ADSs issued by Indian companies to non-residents are freely transferable outside of India. Similarly, RBI approval is not required for the sale of equity shares underlying ADSs by a non-resident of India to a person resident in India, subject to reporting requirements and the applicable pricing norms if the shares are not sold on a recognized Indian exchange. However, RBI guidelines relating to the acquisition by purchase or otherwise of the shares of a private bank will apply to both resident and non-resident investors where such acquisition results in any person owning or controlling 5.0% or more of the paid up capital of the private bank.

The Ministry of Finance, Government of India, has granted general permission for the transfer of ADRs outside India and also permitted non-resident holders of ADRs to surrender ADRs in exchange for the underlying shares of the Indian issuer company. Pursuant to the terms of the deposit agreement, an investor who surrenders ADRs and withdraws shares is permitted to redeposit such shares subject to the total issued ADRs and obtain ADRs at a later time, subject to compliance with applicable regulations.

Unlisted companies (private or public) who were previously prohibited from issuing ADSs on non-Indian stock exchanges if they were not already listed on a stock exchange in India were in October 2013 granted a general permission to list on non-Indian stock exchanges without having to be listed in India, subject to certain conditions.

In April 2014, the provisions of the Companies Act, 2013 regulating the issuance of ADSs by Indian companies came into force. In May 2014, the Government of India accepted the recommendations of the M. S. Sahoo Committee, which had drafted a new scheme to regulate ADRs. On October 21, 2014, the Government notified the Depository Receipts Scheme 2014 (DR Scheme), which came into force on December 15, 2014. The relevant provisions of the Companies Act, 2013 and the DR Scheme will only apply to depository receipts (including ADSs) issued after 1 April and the date of the notification of the DR Scheme, respectively.

**Two-Way Fungibility of ADSs**

The RBI permits the re-conversion of shares of Indian companies into ADSs, subject to the following conditions:

- the Indian company has issued ADSs;
- the shares of the Indian company are purchased by a registered stockbroker in India in the name of the depository, on behalf of the non-resident investor who wishes to convert such shares into ADSs;
- shares are purchased on a recognized stock exchange;
- the shares are purchased with the permission of the custodian of the ADSs of the Indian company and are deposited with the custodian;
- the number of shares so purchased does not exceed the ADSs converted into underlying shares, and are in compliance with the sectoral caps applicable under the Foreign Direct Investment regime; and

the non-resident investor, broker, custodian and the overseas depository comply with the provisions of the Depository Receipt Mechanism and the guidelines issued thereunder from time to time.

The RBI requires the domestic custodian to ensure compliance with RBI guidelines and to file reports with the RBI from time to time. The domestic custodian is also required to perform, inter alia, the following functions in the context of the two-way fungibility of ADSs as per Indian laws:

- provide a certificate to the RBI and the SEBI stating that the sectoral caps for foreign investment in the relevant company have not been breached;

- monitor the total number of ADSs that have been converted into underlying shares by non-resident investors;

- liaise with the issuer company to verify that the sectoral caps for foreign direct investment, if any, are not being breached; and

- file a monthly report about the ADS transactions under the two-way fungibility arrangement with the RBI and the SEBI.

An investor who surrenders an ADS and withdraws equity shares may be entitled to redeposit those equity shares in the depositary facility in exchange for ADSs and the depositary may accept deposits of outstanding equity shares purchased by a non-resident on the local stock exchange and issue ADSs representing those equity shares. However, in each case, the aggregate number of equity shares re-deposited or deposited by such persons cannot exceed the number of shares represented by ADSs as have been previously cancelled and not already replaced by further newly issued ADSs. The RBI has issued a notification, inter alia, permitting Indian companies to sponsor ADS issues against shares held by their shareholders at a price to be determined by the lead manager. Investors who seek to sell any equity shares in India withdrawn from the depositary facility and to convert the rupee proceeds from the sale into foreign currency and repatriate the foreign currency from India will, subject to the foregoing, not have to obtain RBI approval for each transaction.

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## RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

The Government of India regulates ownership of Indian companies by non-residents. Foreign investment in Indian securities is generally regulated by the Consolidated Policy on Foreign Direct Investment issued by the Government of India and the Foreign Exchange Management Act, 1999 (Foreign Exchange Management Act). The Foreign Exchange Management Act, when read together with the regulations issued thereunder by the RBI, permits transactions involving the inflow or outflow of foreign exchange and empowers the RBI to prohibit or regulate such transactions.

The Foreign Exchange Management Act has eased restrictions on current account transactions by non-residents. However, the RBI continues to exercise control over capital account transactions (i.e. those that alter the assets or liabilities, including contingent liabilities, of persons). The RBI has issued regulations under the Foreign Exchange Management Act to regulate the various kinds of capital account transactions, including certain aspects of the purchase and issuance of shares of Indian companies. Amendments to the Foreign Exchange Management Act have been issued (FEMA Amendments) as a part of the Finance Act, 2015 (notified on May 14, 2015), which restrict the role of the RBI to regulating capital account transactions relating to debt only. As a result of the amendments, the purchase and issuance of shares of Indian companies will be regulated by the Government of India. The effective date of the FEMA Amendments has not yet been notified. As a result, the Government of India will also have to issue appropriate rules and regulations that will replace the regulations issued by the RBI in relation to the type of capital account transactions that the Government of India will now regulate in accordance with the FEMA Amendments.

Under the current foreign investment rules, the following restrictions are applicable to non-resident ownership:

**Foreign Direct Investment**

The Government of India, pursuant to its liberalization policy, set up the Foreign Investment Promotion Board (FIPB), to regulate all foreign direct investment into India. FIPB approval is required for foreign investment in some sectors, including petroleum, defense, public sector banks and asset reconstruction companies. In addition, the following foreign investments also require the prior permission of the FIPB:

- foreign investments, including a transfer of shares, in excess of specified sectoral caps;
- transfer of control and/or ownership (as a result of a share transfer and/or new share issuance) pursuant to an amalgamation, merger, or acquisition of an Indian company engaged in an activity having limitations on foreign ownership, currently owned or controlled by resident Indian citizens and Indian companies, which are owned or controlled by resident Indian citizens to a non-resident entity;
- foreign investment of more than 24.0% in the equity capital of units manufacturing items reserved for micro and small enterprises;
- foreign investment in a non-operating holding company;

foreign investments by an unincorporated entity; and

foreign investment by swap of shares.

A person residing outside India or any entity incorporated outside India has general permission to purchase shares, convertible debentures or preference shares of an Indian company subject to certain terms and conditions. Further, a citizen of Bangladesh or Pakistan or any entity incorporated in Bangladesh or Pakistan may, with the prior approval of the Government, purchase shares, convertible debentures or preference shares of an Indian company subject to certain prescribed terms and conditions.

Subject to certain exceptions, foreign direct investment (FDI) and investment by non-resident Indians in Indian companies does not require the prior approval of the FIPB or the RBI. The Government has indicated that in all cases where FDI is allowed on an automatic basis without FIPB approval, the RBI would continue to be the primary agency for the purposes of monitoring and regulating foreign investment. In cases where FIPB approval is obtained, no approval of the RBI is required. In both of the above cases, the prescribed applicable norms with respect to determining the price at which the shares may be issued by the Indian company to the non-resident investor would need to be complied with and a declaration in the prescribed form, detailing the foreign investment, must be filed with the RBI once the foreign investment is made in the Indian company. The foregoing description applies only to an issuance of shares by, and not to a transfer of shares of, Indian companies.

The Government has set up the Foreign Investment Implementation Authority (FIIA), in the Ministry of Commerce and Industry. The FIIA has been mandated to (i) translate FDI approvals into implementation, (ii) provide a proactive one-stop after-care service to foreign investors by helping them obtain necessary approvals, (iii) sort out operational problems and (iv) meet with various government agencies to find solutions to foreign investment problems and maximize opportunities through a cooperative approach.

The following restrictions are applicable to foreign ownership in the Bank:

Foreign investors may own up to 74.0 % of the equity shares of a private sector Indian banking company subject to compliance with guidelines issued by the RBI from time to time. FDI up to 49.0% is permitted under the automatic route and FDI above 49.0% and up to 74.0% requires prior approval of the FIPB. It includes FDI, ADSs, Global Depositary Receipts and investments under the portfolio investment scheme by foreign institutional investors (FIIs), investments by foreign portfolio investors (FPIs) under the foreign portfolio investment scheme and also by non-resident Indians. In addition, it encompasses shares acquired by subscription in private placements and public offerings and acquisitions of shares from existing shareholders. Aggregate foreign investment in the Bank from all sources is allowed up to a maximum of 74.0% of the paid-up capital of the Bank. At least 26.0% of the paid-up capital would have to be held by Indian residents.

An FII/FPI may invest in the capital of an Indian company under the portfolio investment scheme which limits the individual holding of an FII/FPI below 10.0% of the capital of the Indian company. The aggregate limit for FII/FPI investment is limited to 24.0% of the capital of the Indian company. This aggregate limit can be increased to the sectoral cap, as applicable, by the Indian company concerned through a resolution by its board of directors followed by a special resolution to that effect by its shareholders and subject to prior intimation to the RBI. Further, in relation to private sector banking companies, FIIs/FPIs may hold in aggregate up to 24.0% of the total paid-up capital of a private sector banking company. Subject to a resolution of the Board of Directors, a special resolution of the shareholders and prior notification to the RBI, this limit may be raised to 49.0% of the total paid-up capital of a private sector banking company. Furthermore, no single FII/FPI may own more than 10.0% of the total paid-up capital of a private sector banking company. No single non-resident Indian may own more than 5.0% of the total paid-up capital of a private sector banking company and the aggregate limit cannot exceed 10.0% of the total paid-up capital. However, non-resident Indians holdings can be allowed up to 24.0% of the total paid-up capital provided the banking company passes a special resolution of the shareholders to that effect and gives prior notification to the RBI. In addition, overseas corporate bodies (i.e. entities in which non-resident Indians hold at least 60%) are not permitted to invest under the portfolio investment scheme though they may continue to hold investments that have already been made under the portfolio investment scheme until such time as these investments are sold on the stock exchange. The existing individual and aggregate investment limits for an FII or sub-account in the Bank is 10.0% and 49.0% of the total paid-up equity share capital of the Bank, respectively.

**FPI Regulations**

The Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014 (FPI Regulations) have replaced the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995 (FII Regulations) and the regime for investments by qualified foreign investors (QFIs). The FPI Regulations were notified on January 7, 2014 and came into effect on June 1, 2014. In terms of the FPI Regulations, an FII who holds a valid certificate of registration from SEBI shall be deemed to be a registered FPI until the expiry of the block of three years for which fees have been paid as per the FII Regulations. An FII shall not be eligible to invest as an FII after registering as an FPI under the FPI Regulations.

Further, a QFI could continue to buy, sell or otherwise deal in securities until May 31, 2015 or until the QFI obtained a certificate of registration as FPI, whichever occurred earlier.

The FPI Regulations specify that the shares purchased by a single FPI or an investor group (which means the same set of ultimate beneficial person(s) investing through multiple entities) must be below 10.0% of the issued capital of a company. All existing investments by FIIs/QFIs/sub-accounts are grandfathered, i.e. if an FPI already holds 10.0% of the issued capital of a company, it is not required to divest its existing holdings to comply with the stipulation to hold below 10.0% .

Under the FPI Regulations, an FPI may issue, subscribe to or otherwise deal in offshore derivative instruments (ODIs) only if such ODIs are issued (i) to persons that are regulated by an appropriate foreign regulatory authority; and (ii) after compliance with applicable know your client norms. However, unregulated broad based funds, which are classified as Category II FPIs by virtue of their investment manager being appropriately regulated cannot issue, subscribe to or otherwise deal in ODIs, directly or indirectly. Further, no Category III FPI can issue, subscribe to or otherwise deal in ODIs, directly or indirectly. Any ODI issued under the FII Regulations before commencement of the FPI Regulations is deemed to have been issued under the FPI Regulations. On November 24, 2014, SEBI issued a circular aligning the applicable eligibility and investment norms between the FPI regime and subscription through the ODI route. It has been clarified that an FPI can issue ODIs only to those subscribers who: (i) meet the eligibility criteria that are applicable to Category I FPI and Category II FPI under the FPI Regulations; and (ii) do not have opaque structures , as defined under the FPI Regulations. It has also been clarified that the investment restrictions applicable to FPIs under the FPI Regulations will apply to subscribers of ODIs as well. Existing ODI positions which are not in accordance with the SEBI circular dated November 24, 2014 may continue until the ODI contract expires.

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Investors in ADSs do not need to seek the specific approval from the Government of India to purchase, hold or dispose of their ADSs. Notwithstanding the foregoing, if a FII, non-resident Indian or overseas corporate body were to withdraw its equity shares from the ADS program, its investment in the equity shares would be subject to the general restrictions on foreign ownership.

***Issue of securities through the depository receipt mechanism***

Issue of securities through the depository receipt mechanism by Indian companies is governed by the Companies Act, 2013 (Companies Act), the Companies (Issue of Global Depository Receipts) Rules, 2014 (Depository Receipts Rules) and the Depository Receipts Scheme, 2014 (DR Scheme).

The Government of India notified the DR Scheme on October 21, 2014, which came into force on December 15, 2014. Consequently, the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 has been repealed except to the extent relating to foreign currency convertible bonds.

Under the DR Scheme, an Indian company, listed or unlisted, private or public, is permitted to issue securities, including equity shares, through the depository receipt mechanism if such company has not been specifically prohibited from accessing capital markets or dealing in securities. Permissible securities that can be issued by an Indian company through the depository receipt mechanism are securities as defined under the Securities Contracts (Regulation) Act, 1956, which includes, *inter alia*, shares, bonds, derivatives and units of mutual funds, and similar instruments issued by private companies, provided that such securities are in dematerialized form.

An Indian company can issue securities to a foreign depository for the purpose of issuing depository receipts through any mode permissible for the issue of such securities to other investors. The foreign depository can issue depository receipts by way of a public offering or private placement or in any other manner prevalent in the permissible jurisdiction. A permissible jurisdiction is defined as a foreign jurisdiction which is a member of the Financial Action Task Force on Money Laundering and whose securities market regulator is a member of the International Organization of Securities Commissions.

In terms of the DR Scheme, securities can be issued through the depository receipt mechanism up to such a limit that the aggregate underlying securities issued to foreign depositories for issuance of depository receipts along with securities already held by persons resident outside India does not exceed the applicable foreign investment limits prescribed by regulations framed under the Foreign Exchange Management Act. The depository receipts and the underlying securities may be converted into each other subject to the applicable foreign investment limit. It should be noted that the RBI guidelines relating to the acquisition by purchase or otherwise of shares of a private bank will apply to both resident and non-resident invetsors where such acquisition results in any person owning or controlling 5.0% or more of the paid up capital of the private bank.

The DR Scheme provides that underlying securities shall not be issued to a foreign depository for issuance of depository receipts at a price which is less than the price applicable to a corresponding mode of issuance to domestic investors.

In terms of the DR Scheme, the foreign depository is entitled to exercise voting rights, if any, associated with the underlying securities whether pursuant to voting instructions from the holder of depository receipts or otherwise. Further, a holder of depository receipts issued against underlying equity shares shall have the same obligations as if it is the holder of the equity shares if it has the right to issue voting instruction.

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## ADDITIONAL INFORMATION

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC s public reference room located at 100 F Street NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and the copy charges. The SEC filings are also available to the public from commercial document retrieval services and at the internet website maintained by the SEC at www.sec.gov.

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## MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of **HDFC Bank Limited**, (the Bank ) is responsible for establishing and maintaining adequate internal control over financial reporting. The Bank s internal control system was designed to provide reasonable assurance to the Bank s management, its Audit Committee and Board of Directors regarding the preparation and fair presentation of published financial statements.

There are inherent limitations to the effectiveness of any internal control or system of control, however well designed, including the possibility of human error and the possible circumvention or overriding of such controls or systems. Moreover, because of changing conditions, the reliability of internal controls may vary over time. As a result, even effective internal controls can provide no more than reasonable assurance with respect to the accuracy and completeness of financial statements and their process of preparation.

The Bank management assessed the effectiveness of the Bank s internal control over financial reporting as of March 31, 2015. In making this assessment, it has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework (1992). Based on those criteria and our assessment we believe that, as of March 31, 2015, the Bank s internal control over financial reporting was effective.

The Bank s independent public accountant, KPMG, has issued an audit report on the Bank s internal control over financial reporting.

**HDFC BANK LIMITED**

**HDFC Bank House,**

**Senapati Bapat Marg,**

**Lower Parel,**

**Mumbai 400 013, India.**

**July 30, 2015**

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**Report of Independent Registered Public Accounting Firm Internal Controls over Financial Reporting**

The Board of Directors and Stockholders

HDFC Bank Limited

We have audited HDFC Bank Limited and subsidiaries (the Company ) internal control over financial reporting as of March 31, 2015, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Form 20-F for the year ended March 31, 2015. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2015, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of March 31, 2015, and the related consolidated statement of income, comprehensive income, shareholders equity, and cash flows for the year ended March 31, 2015, and our report dated July 30, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Mumbai, India

July 30, 2015

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

HDFC Bank Limited

We have audited the accompanying consolidated balance sheet of HDFC Bank Limited and subsidiaries (the Company ) as of March 31, 2015, and the related consolidated statement of income, comprehensive income, shareholders equity, and cash flows for the year ended March 31, 2015. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2015, and the results of its operations and its cash flows for the year ended March 31, 2015, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of March 31, 2015, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 30, 2015 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended March 31, 2015 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, such financial statements expressed in Indian rupee have been translated into United States dollars on the basis set forth in Note 2(y) to the consolidated financial statements.

/s/ KPMG

Mumbai, India

July 30, 2015

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of

HDFC Bank Limited

Mumbai, India

We have audited the accompanying consolidated balance sheet of HDFC Bank Limited and its subsidiaries (the Bank ) as of March 31, 2014, and the related consolidated statements of income, statements of comprehensive income, shareholders equity and cash flows for each of the two years in the period ended March 31, 2014. These consolidated financial statements are the responsibility of the Bank s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of HDFC Bank Limited and its subsidiaries as of March 31, 2014, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte Haskins & Sells LLP

Chartered Accountants

Mumbai, India

July 30, 2014

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | As of | | |
|---|---|---|---|
| | **March 31, 2014** | **March 31, 2015** | **March 31, 2015** |
| | (In millions, except number of shares) | | |
| **ASSETS:** | | | |
| Cash and cash equivalents | Rs. 370,835.2 | Rs. 341,124.3 | US$ 5,474.6 |
| Term placements | 176,481.7 | 169,989.5 | 2,728.1 |
| Investments held for trading, at fair value | 65,077.9 | 61,292.8 | 983.7 |
| Investments available for sale, at fair value [includes restricted investments of Rs. 670,603.5 and Rs. 721,933.3 (US$ 11,586.2), respectively] | 908,824.3 | 1,504,412.8 | 24,144.1 |
| Securities purchased under agreements to resell | 57,322.6 | 1,592.6 | 25.6 |
| Loans [net of allowance of Rs. 42,613.2 and Rs. 47,334.1 (US$ 759.6), respectively] | 3,185,648.1 | 3,896,115.0 | 62,527.9 |
| Accrued interest receivable | 40,388.5 | 45,705.0 | 733.5 |
| Property and equipment, net | 31,369.1 | 33,355.9 | 535.3 |
| Intangible assets, net | 231.0 | 12.0 | 0.2 |
| Goodwill | 74,937.9 | 74,937.9 | 1,202.7 |
| Other assets | 214,291.0 | 130,478.0 | 2,094.0 |
| Total assets | Rs. 5,125,407.3 | Rs. 6,259,015.8 | US$ 100,449.7 |
| **LIABILITIES AND SHAREHOLDERS EQUITY:** | | | |
| **Liabilities:** | | | |
| Interest-bearing deposits | Rs. 3,057,154.5 | Rs. 3,768,678.8 | US$ 60,482.7 |
| Non-interest-bearing deposits | 612,845.6 | 733,032.0 | 11,764.3 |
| Total deposits | 3,670,000.1 | 4,501,710.8 | 72,247.0 |
| Securities sold under repurchase agreements | | 50,000.0 | 802.4 |
| Short-term borrowings | 150,775.5 | 214,191.9 | 3,437.5 |
| Accrued interest payable | 27,734.7 | 32,689.5 | 524.6 |
| Long-term debt | 395,208.6 | 457,934.4 | 7,349.3 |
| Accrued expenses and other liabilities | 348,687.7 | 250,921.6 | 4,027.1 |
| Total liabilities | Rs. 4,592,406.6 | Rs. 5,507,448.2 | US$ 88,387.9 |
| Commitments and contingencies (see note 27) | | | |
| **Shareholders equity:** | | | |
| Equity shares: par value Rs. 2.0 each; authorized | Rs. 4,798.1 | Rs. 5,013.0 | US$ 80.5 |

| | | | |
|---|---|---|---|
| 2,750,000,000 shares; issued and outstanding 2,399,050,435 shares and 2,506,495,317 shares, as of March 31, 2014 and March 31, 2015, respectively | | | |
| Additional paid-in capital | 271,709.6 | 387,486.1 | 6,218.7 |
| Retained earnings | 175,105.9 | 228,804.4 | 3,672.0 |
| Statutory reserve | 91,883.5 | 118,122.2 | 1,895.7 |
| Accumulated other comprehensive income (loss) | (11,590.4) | 10,826.4 | 173.8 |
| Total HDFC Bank Limited shareholders equity | 531,906.7 | 750,252.1 | 12,040.7 |
| Noncontrolling interest in subsidiaries | 1,094.0 | 1,315.5 | 21.1 |
| Total shareholders equity | 533,000.7 | 751,567.6 | 12,061.8 |
| Total liabilities and shareholders equity | Rs. 5,125,407.3 | Rs. 6,259,015.8 | US$ 100,449.7 |

See accompanying notes to consolidated financial statements

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

| | Fiscal years ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 |
| | (In millions, except share and per share amounts) | | | |
| Interest and dividend revenue: | | | | |
| Loans | Rs. 271,730.5 | Rs. 326,755.3 | Rs. 388,264.7 | US$ 6,231.2 |
| Trading securities | 5,780.0 | 5,883.4 | 5,123.4 | 82.2 |
| Available for sale securities | 66,554.2 | 77,497.1 | 94,129.1 | 1,510.7 |
| Other | 9,813.8 | 12,075.5 | 13,270.0 | 213.0 |
| Total interest and dividend revenue | 353,878.5 | 422,211.3 | 500,787.2 | 8,037.1 |
| Interest expense: | | | | |
| Deposits | 163,092.7 | 187,574.7 | 227,321.9 | 3,648.2 |
| Short-term borrowings | 13,888.4 | 18,075.0 | 6,944.6 | 111.5 |
| Long-term debt | 19,556.9 | 23,976.6 | 29,948.0 | 480.6 |
| Other | 264.0 | 12.9 | 396.4 | 6.4 |
| Total interest expense | 196,802.0 | 229,639.2 | 264,610.9 | 4,246.7 |
| Net interest revenue | 157,076.5 | 192,572.1 | 236,176.3 | 3,790.4 |
| Provision for credit losses | 12,688.0 | 17,428.1 | 17,000.2 | 272.8 |
| Net interest revenue after provision for credit losses | 144,388.5 | 175,144.0 | 219,176.1 | 3,517.6 |
| Non-interest revenue, net: | | | | |
| Fees and commissions | 53,989.6 | 60,314.1 | 71,423.6 | 1,146.3 |
| Trading securities gain/(loss), net | 105.0 | (345.1) | 698.1 | 11.2 |
| Realized gain/(loss) on sales of available for sale securities, net | 2,227.8 | 1,755.7 | 5,167.9 | 82.9 |
| Other than temporary impairment losses on available for sale securities | (1,546.3) | (664.7) | (1.8) | |
| Foreign exchange transactions | 9,727.0 | 9,010.5 | 9,358.0 | 150.2 |
| Derivatives gain/(loss), net | 241.9 | 119.5 | (7,393.0) | (118.6) |
| Other, net | 432.4 | 644.5 | 568.7 | 9.1 |
| Total non-interest revenue, net | 65,177.4 | 70,834.5 | 79,821.5 | 1,281.1 |
| Total revenue, net | 209,565.9 | 245,978.5 | 298,997.6 | 4,798.7 |
| Non-interest expense: | | | | |
| Salaries and staff benefits | 53,954.1 | 57,550.3 | 66,909.4 | 1,073.9 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Premises and equipment | | 17,391.4 | | 18,722.8 | | 20,499.2 | | 329.0 |
| Depreciation and amortization | | 6,686.2 | | 6,980.3 | | 6,905.8 | | 110.8 |
| Administrative and other | | 37,254.9 | | 39,436.2 | | 50,439.6 | | 809.6 |
| Amortization of intangible assets | | 2,304.5 | | 1,538.5 | | 219.0 | | 3.5 |
| Total non-interest expense | | 117,591.1 | | 124,228.1 | | 144,973.0 | | 2,326.8 |
| Income before income tax expense | | 91,974.8 | | 121,750.4 | | 154,024.6 | | 2,471.9 |
| Income tax expense | | 29,840.1 | | 42,304.2 | | 54,519.9 | | 875.0 |
| Net income before noncontrolling interest | Rs. | 62,134.7 | Rs. | 79,446.2 | Rs. | 99,504.7 | US$ | 1,596.9 |
| Less: Net income attributable to shareholders of noncontrolling interest | | 315.3 | | 126.5 | | 267.0 | | 4.3 |
| Net income attributable to HDFC Bank Limited | Rs. | 61,819.4 | Rs. | 79,319.7 | Rs. | 99,237.7 | US$ | 1,592.6 |
| Per share information: | | | | | | | | |
| Earnings per equity share basic | Rs. | 26.18 | Rs. | 33.18 | Rs. | 40.94 | US$ | 0.66 |
| Earnings per equity share diluted | Rs. | 25.91 | Rs. | 32.94 | Rs. | 40.55 | US$ | 0.65 |
| Per ADS information (where 1 ADS represents 3 shares): | | | | | | | | |
| Earnings per ADS basic | Rs. | 78.54 | Rs. | 99.54 | Rs. | 122.82 | US$ | 1.98 |
| Earnings per ADS diluted | Rs. | 77.73 | Rs. | 98.82 | Rs. | 121.65 | US$ | 1.95 |
| Dividends declared per equity share | Rs. | 5.50 | Rs | 6.85 | Rs | 8.00 | US$ | 0.13 |

See accompanying notes to consolidated financial statements

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Fiscal years ended March 31, | | | |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** |
| | (In millions) | | | |
| Net income before noncontrolling interest | Rs. 62,134.7 | Rs. 79,446.2 | Rs. 99,504.7 | US$ 1,596.9 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation reserve: | | | | |
| Net unrealized gain (loss) arising during the period [net of tax nil, nil and Rs. 38.7 respectively] | 60.9 | 211.5 | 92.9 | 1.5 |
| Available for sale securities: | | | | |
| Net unrealized gain (loss) arising during the period [net of tax Rs. (3,771.9), Rs. 6,310.3 and Rs. (11,425.5) respectively] | 7,853.4 | (12,267.8) | 22,188.9 | 356.1 |
| Reclassification adjustment for net (gain)/ loss included in net income [net of tax Rs. 103.8, Rs. 10.0 and Rs. (69.5) respectively] | (216.1) | (19.5) | 135.0 | 2.2 |
| Other comprehensive income, net of tax | 7,698.2 | (12,075.8) | 22,416.8 | 359.8 |
| Total comprehensive income | 69,832.9 | 67,370.4 | 121,921.5 | 1,956.7 |
| Less: Comprehensive income attributable to shareholders of noncontrolling interest | 315.3 | 126.5 | 267.0 | 4.3 |
| Comprehensive income attributable to HDFC Bank Limited | Rs. 69,517.6 | Rs. 67,243.9 | Rs. 121,654.5 | US$ 1,952.4 |

See accompanying notes to consolidated financial statements

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Fiscal years ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 |
| | (In millions) | | | |
| **Cash flows from operating activities:** | | | | |
| Net income before noncontrolling interest | Rs. 62,134.7 | Rs. 79,446.2 | Rs. 99,504.7 | US$ 1,596.9 |
| Adjustment to reconcile net income to net cash provided by operating activities | | | | |
| Provision for credit losses | 12,688.0 | 17,428.1 | 17,000.2 | 272.8 |
| Depreciation and amortization | 6,686.2 | 6,980.3 | 6,905.8 | 110.8 |
| Amortization of intangible assets | 2,304.5 | 1,538.5 | 219.0 | 3.5 |
| Amortization of deferred acquisition costs | 3,748.7 | 3,569.3 | 5,232.0 | 84.0 |
| Amortization of premium (discount) on investments | (886.8) | (1,015.2) | (331.3) | (5.3) |
| Other than temporary impairment losses on available for sale securities | 1,546.3 | 664.7 | 1.8 | |
| Provision for deferred income taxes | (4,881.7) | (1,994.6) | (352.1) | (5.7) |
| Share-based compensation expense | 4,533.7 | 5,495.5 | 9,138.8 | 146.7 |
| Net realized (gain) loss on sale of available for sale securities | (2,227.8) | (1,755.7) | (5,167.9) | (82.9) |
| (Gain) loss on disposal of property and equipment, net | 10.2 | (27.1) | (111.5) | (1.8) |
| Exchange (gain) loss | (2,197.9) | (7,585.6) | (3,453.5) | (55.4) |
| Net change in: | | | | |
| Investments held for trading | (11,200.8) | 27,645.6 | 3,785.1 | 60.7 |
| Accrued interest receivable | (7,725.5) | (5,988.2) | (5,211.1) | (83.6) |
| Other assets | 48,090.2 | (75,437.9) | 73,205.1 | 1,174.9 |
| Accrued interest payable | 6,201.2 | (30,460.9) | 4,762.5 | 76.4 |
| Accrued expense and other liabilities | (47,309.7) | 108,648.3 | (95,770.5) | (1,537.0) |
| Net cash provided by operating activities | 71,513.5 | 127,151.3 | 109,357.1 | 1,755.0 |
| **Cash flows from investing activities:** | | | | |
| Net change in term placements | (49,169.2) | 22,784.0 | 6,492.2 | 104.2 |
| Activity in available for sale securities: | | | | |
| Purchases | (743,212.7) | (471,211.3) | (1,383,086.4) | (22,196.9) |
| Proceeds from sales | 72,607.2 | 88,685.7 | 139,646.9 | 2,241.2 |
| Maturities, prepayments and calls | 470,598.0 | 476,119.7 | 687,313.0 | 11,030.5 |
| Net change in repurchase options and reverse repurchase options | 88,868.3 | (195,322.6) | 105,730.0 | 1,696.8 |
| Loans purchased | (51,644.0) | (66,898.7) | (82,492.1) | (1,323.9) |

| | | | | |
|---|---|---|---|---|
| Repayments on loans purchased | 40,596.8 | 48,036.7 | 35,489.4 | 569.6 |
| Increase in loans originated, net of principal collections | (503,662.9) | (669,463.7) | (672,149.0) | (10,787.1) |
| Additions to property and equipment | (9,994.1) | (9,728.5) | (8,913.7) | (143.1) |
| Proceeds from sale or disposal of property and equipment | 43.1 | 127.3 | 329.2 | 5.3 |
| Net cash used in investing activities | (684,969.5) | (776,871.4) | (1,171,640.5) | (18,803.4) |

See accompanying notes to consolidated financial statements

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

| | Fiscal years ended March 31, | | | |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** |
| | (In millions) | | | |
| **Cash flows from financing activities:** | | | | |
| Net increase in deposits | 493,240.6 | 708,925.0 | 824,928.2 | 13,239.0 |
| Net increase (decrease) in short-term borrowings | 33,123.4 | 477.7 | 61,577.6 | 988.2 |
| Purchase of subsidiary shares from noncontrolling interest | | (2,265.8) | (715.7) | (11.5) |
| Proceeds from issue of shares by a subsidiary to noncontrolling interests | 34.6 | 162.4 | 340.8 | 5.5 |
| Proceeds from issuance of long-term debt | 162,705.7 | 146,341.9 | 104,257.6 | 1,673.2 |
| Repayment of long-term debt | (45,875.4) | (51,063.9) | (49,324.0) | (791.6) |
| Proceeds from issuance of equity shares for options exercised | 10,949.5 | 7,232.9 | 9,954.1 | 159.8 |
| Proceeds from issuance of equity shares | | | 97,227.9 | 1,560.4 |
| Proceeds from application for issuance of equity shares for options exercised pending allotment | 221.5 | | | |
| Payment of dividends and dividend tax | (11,787.0) | (15,372.6) | (19,300.5) | (309.7) |
| Net cash provided by financing activities | 642,612.9 | 794,437.6 | 1,028,946.0 | 16,513.3 |
| Effect of exchange rate changes on cash and cash equivalents | 1,540.3 | 7,377.5 | 3,626.5 | 58.2 |
| Net change in cash and cash equivalents | 30,697.2 | 152,095.0 | (29,710.9) | (476.9) |
| Cash and cash equivalents, beginning of year | 188,043.0 | 218,740.2 | 370,835.2 | 5,951.5 |
| **Cash and cash equivalents, end of year** | Rs. 218,740.2 | Rs. 370,835.2 | Rs. 341,124.3 | US$ 5,474.6 |
| **Supplementary cash flow information:** | | | | |
| Interest paid | Rs. 190,602.7 | Rs. 260,039.7 | Rs. 259,656.1 | US$ 4,167.2 |
| Income taxes paid | Rs. 38,348.8 | Rs. 42,107.9 | Rs. 56,480.4 | US$ 906.4 |
| **Non-cash investment activities** | | | | |
| Payable for purchase of property and equipment | Rs. 1,074.4 | Rs. 814.6 | Rs. 1,010.2 | US$ 16.2 |

See accompanying notes to consolidated financial statements

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

| | Equity Share Capital | Additional Paid In Capital | Advance received pending allotment of shares | Retained Earnings | Statutory Reserve* | Accumulated Other Comprehensive Income (loss) | Total HDFC Bank Limited Shareholders Equity | Nonc... in... |
|---|---|---|---|---|---|---|---|---|
| | | | | (In millions, except for equity shares) | | | | |
| **0** | **Rs. 4,693.4** | **Rs. 244,564.7** | **Rs.** | **Rs. 99,761.6** | **Rs. 53,248.3** | **Rs. (7,212.8)** | **Rs. 395,055.2** | **Rs.** |
| 0 | 65.4 | 10,884.1 | | | | | 10,949.5 | |
| | | 4,533.7 | | | | | 4,533.7 | |
| | | | 221.5 | | | | 221.5 | |
| | | | | (11,787.0) | | | (11,787.0) | |
| | | (16.2) | | | | | (16.2) | |
| | | | | | | | | |
| | | | | (17,020.7) | 17,020.7 | | | |
| | | | | 61,819.4 | | | 61,819.4 | |
| | | | | | | 7,698.2 | 7,698.2 | |
| **0** | **Rs.4,758.8** | **Rs.259,966.3** | **Rs.221.5** | **Rs.132,773.3** | **Rs.70,269.0** | **Rs.485.4** | **Rs.468,474.3** | **R** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 5 | 39.3 | 7,415.1 | (221.5) | | | | 7,232.9 | |
| | | 5,495.5 | | | | | 5,495.5 | |
| | | | | (15,372.6) | | | (15,372.6) | |
| | | (1,167.3) | | | | | (1,167.3) | |
| | | | | (21,614.5) | 21,614.5 | | | |
| | | | | 79,319.7 | | | 79,319.7 | |
| | | | | | | (12,075.8) | (12,075.8) | |
| **5** | **Rs. 4,798.1** | **Rs. 271,709.6** | **Rs.** | **Rs. 175,105.9** | **Rs. 91,883.5** | **Rs. (11,590.4)** | **Rs. 531,906.7** | **Rs.** |

See accompanying notes to consolidated financial statements

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Continued)**

| Number of Equity Shares | Equity Share Capital | Additional Paid In Capital | Retained Earnings | Statutory Reserve* | Accumulated Other Comprehensive Income (loss) | Total HDFC Bank Limited Shareholders Equity | Noncontrolling interest |
|---|---|---|---|---|---|---|---|
| | | | (In millions, except for equity shares) | | | | |
| **2,399,050,435** | **Rs. 4,798.1** | **Rs. 271,709.6** | **Rs. 175,105.9** | **Rs. 91,883.5** | **Rs. (11,590.4)** | **Rs. 531,906.7** | **Rs. 1,094.0** |
| 22,700,740 | 45.4 | 9,908.7 | | | | 9,954.1 | |
| 84,744,142 | 169.5 | 97,058.4 | | | | 97,227.9 | |
| | | 9,138.8 | | | | 9,138.8 | |
| | | | (19,300.5) | | | (19,300.5) | |
| | | (329.4) | | | | (329.4) | (386.3) |
| | | | | | | | 340.8 |
| | | | (26,238.7) | 26,238.7 | | | |
| | | | 99,237.7 | | | 99,237.7 | 267.0 |
| | | | | | 22,416.8 | 22,416.8 | |
| **2,506,495,317** | **Rs. 5,013.0** | **Rs. 387,486.1** | **Rs. 228,804.4** | **Rs. 118,122.2** | **Rs. 10,826.4** | **Rs. 750,252.1** | **Rs. 1,315.5** |
| **2,506,495,317** | US$ **80.5** | US$ **6,218.7** | US$ **3,672.0** | US$ **1,895.7** | US$ **173.8** | US$ **12,040.7** | US$ **21.1** |

* In terms of local regulations, the Bank is required to transfer 25% of its profit after tax (Indian GAAP) to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval

See accompanying notes to consolidated financial statements

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## HDFC BANK LIMITED AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Bank overview

HDFC Bank Limited (the Bank ) was incorporated in August 1994 with its registered office in Mumbai, India. The Bank is a banking company governed by India s Banking Regulation Act, 1949. The Bank s shares are listed on the BSE Limited (formerly known as Bombay Stock Exchange Limited) and The National Stock Exchange of India Ltd., its American Depositary Shares (ADS) are listed on the New York Stock Exchange and its Global Depositary Receipts (GDR) are listed on the Luxembourg Stock Exchange.

The Bank s largest shareholder is Housing Development Finance Corporation Limited ( HDFC Limited ), which, along with its subsidiaries, owns 21.7% of the Bank s equity as of March 31, 2015. The remainder of the Bank s equity is widely held by the public and by foreign and Indian institutional investors.

During the current fiscal, the Bank issued 22,000,000 ADS representing 66,000,000 equity shares at a price of US$ 57.76 per ADS. The Bank also allotted 18,744,142 equity shares pursuant to a qualified institutional placement (QIP) offering at a price of Rs. 1,067.0 per equity shares. The total number of shares issued pursuant to exercise of stock options during the period is 22,700,740 shares.

The Bank s principal business activities are retail banking, wholesale banking and treasury services. The Bank s retail banking division provides a variety of deposit products as well as loans, credit cards, debit cards, third-party mutual funds and insurance, investment advisory services, depositary services, trade finance, foreign exchange and derivative services and sale of gold bars. Through its wholesale banking operations, the Bank provides loans, deposit products, documentary credits, guarantees, bullion trading, foreign exchange, and derivative products. It also provides cash management services, clearing and settlement services for stock exchanges, tax and other collections for the government, custody services for mutual funds and correspondent banking services. The Bank s treasury group manages its debt securities and money market operations and its foreign exchange and derivative products.

### 2. Summary of significant accounting policies

*a. Principles of consolidation*

The consolidated financial statements include the accounts of HDFC Bank Limited and its subsidiaries. The Bank consolidates subsidiaries in which, directly or indirectly, it holds more than 50% of the voting rights or has control. Entities where the Bank holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence are accounted for under the equity method. These investments are included in other assets and the Bank s proportionate share of income or loss is included in Non-interest revenue, other. The Bank consolidates Variable Interest Entities (VIEs) where the Bank is determined to be the primary beneficiary under Financial Accounting Standard Board Accounting Standard Codification FASB ASC Topic 810 Consolidations . All significant inter-company accounts and transactions are eliminated on consolidation.

*b. Basis of presentation*

These financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ( US GAAP ). US GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India s Banking Regulation Act 1949 and related regulations issued by

the Reserve Bank of India ( RBI ) (collectively Indian GAAP ), which form the basis of the statutory general purpose financial statements of the Bank in India. Principal differences, insofar as they relate to the Bank, include: determination of the allowance for credit losses, classification and valuation of investments, accounting for deferred income taxes, stock-based compensation, employee benefits, loan origination fees, derivative financial instruments, business combination and the presentation format and disclosures of the financial statements and related notes.

*c. Use of estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Actual results could differ from these estimates. Material estimates included in these financial statements that are susceptible to change include the allowance for credit losses, the valuation of unquoted investments, other than temporary impairment, valuation of derivatives, stock-based compensation, unrecognized tax benefits and impairment assessment of goodwill.

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*d. Cash and cash equivalents*

The Bank considers all highly liquid financial instruments, which are readily convertible into cash and have original maturities of three months or less on the date of purchase, to be cash equivalents.

*e. Customer acquisition costs*

Customer acquisition costs principally consist of commissions paid to third party referral agents who obtain retail loans and such costs are deferred and amortized as a yield adjustment over the life of the loans. Advertising and marketing expenses incurred to solicit new business are expensed as incurred.

*f. Investments in securities*

Investments consist of securities purchased as part of the Bank s treasury operations, such as government securities and other debt and equity securities, and investments purchased as part of the Bank s wholesale banking operations, such as credit substitute securities issued by the Bank s wholesale banking customers.

Credit substitute securities typically consist of commercial paper and short-term debentures issued by the same customers with whom the Bank has a lending relationship in its wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as for loans, and the Bank bears the same customer credit risk as it does for loans extended to those customers. Additionally, the yield and maturity terms are generally directly negotiated by the Bank with the issuer. As the Bank s exposures to such securities are similar to its exposures on its loan portfolio, additional disclosures have been provided on impairment status in Note 8 and on concentrations of credit risk in Note 12.

All other securities including mortgage and asset-backed securities are actively managed as part of the Bank s treasury operations. The issuers of such securities are either government, public financial institutions or private issuers. These investments are typically purchased from the market, and debt securities are generally publicly rated.

Securities that are held principally for resale in the near term are classified as held for trading ( HFT ) and are carried at fair value, with changes in fair value recorded in earnings.

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity ( HTM ) and are carried at amortized cost.

Equity securities with readily determinable fair values and all debt securities that are not classified as HTM or HFT are classified as available for sale ( AFS ) and are carried at fair value. Unrealized gains and losses on such securities, net of applicable taxes, are reported in accumulated other comprehensive income (loss), a separate component of shareholders equity.

Fair values are based on market quotations where a market quotation is available or otherwise based on present values at current interest rates for such investments.

Transfers between categories are recorded at fair value on the date of the transfer.

*g. Impairment of securities*

Declines in the fair values of held to maturity and available for sale securities below their carrying value that are other than temporary are reflected in earnings as realized losses, based on management s best estimate of the fair value of the investment. The Bank identifies other than temporary declines based on an evaluation of all significant factors, including the length of time and extent to which fair value is less than carrying value and the financial condition and economic prospects of the issuer. Estimates of any declines in the fair values of credit substitute securities that are other than temporary are measured on a case-by-case basis together with loans to those customers. The Bank does not recognize an impairment for debt securities if the cause of the decline is related solely to interest rate increase and the Bank does not intend to sell the security and it is not more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis.

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*h. Loans*

The Bank grants retail and wholesale loans to customers.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for an allowance for credit losses.

Interest is accrued on the unpaid principal balance and is included in interest income and are classified as performing. Loans are generally placed on non-accrual status when interest or principal payments are past due for a specified period, at which time no further interest is accrued and overdue interest is written off against interest income. Interest income on loans placed on non-accrual status is recognized when received. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are generally placed on non-accrual status when interest or principal payments are one quarter past due or considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

*i. Allowance for credit losses*

The Bank provides an allowance for credit losses based on management s best estimate of losses inherent in the loan portfolio which includes troubled debt restructuring. The allowance for credit losses consists of allowances for retail loans and wholesale loans.

*Retail*

The Bank s retail loan loss allowance consists of specific and unallocated allowances.

The Bank establishes a specific allowance on the retail loan portfolio based on factors such as the nature of the product, delinquency levels or the number of days the loan is past due and the nature of the security available. Additionally the Bank monitors loan to value ratios for loan against securities. The loans are charged off against allowances typically when the account becomes 150 to 1,083 days past due depending on the type of loan. The defined delinquency levels at which major loan types are charged off are 150 days past due for personal loans and credit card receivables, 180 days past due for auto loans, commercial vehicle and construction equipment finance, 720 days past due for housing loans and on a customer by customer basis in respect of retail business banking when management believes that any future cash flows from these loans are remote including realization of collateral, if applicable, and where any restructuring or any other settlement arrangements are not feasible.

The Bank also records unallocated allowances for its retail loans by product type. The Bank s retail loan portfolio is comprised of groups of large numbers of small value homogeneous loans. The Bank establishes an unallocated allowance for loans in each product group based on its estimate of the overall portfolio quality, asset growth, economic conditions and other risk factors. The Bank estimates its unallocated allowance for retail loans based on an internal credit slippage matrix, which measures the Bank s historic losses for its standard loan portfolio. Subsequent recoveries, if any, against write-off cases, are adjusted to provision for credit losses in the consolidated statement of

income.

*Wholesale*

The allowance for wholesale loans consists of specific and unallocated components. The allowance for such credit losses is evaluated on a regular basis by management and is based upon management s view of the probability of recovery of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, factors affecting the industry which the loan exposure relates to and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans are charged off against the allowance when management believes that the loan balance cannot be recovered. Subsequent recoveries, if any, against write-off cases, are adjusted to provision for credit losses in the consolidated statement of income.

The Bank grades its wholesale loan accounts considering both qualitative and quantitative criteria. Wholesale loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, the financial condition of the borrower, the value of collateral held, and the probability of collecting scheduled principal and interest payments when due.

The Bank establishes specific allowances for each impaired wholesale loan customer in the aggregate for all facilities, including term loans, cash credits, bills discounted and lease finance, based on either the present value of expected future cash flows discounted at the loan s effective interest rate or the net realizable value of the collateral if the loan is collateral dependent.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Wholesale loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired but are placed on a surveillance watch list and closely monitored for deterioration. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, market information, and the amount of the shortfall in relation to the principal and interest owed.

The Bank has also established an unallocated allowance for wholesale standard loans based on the overall portfolio quality, asset growth, economic conditions and other risk factors. The Bank estimates its wholesale unallocated allowance based on an internal credit slippage matrix, which measures the Bank s historic losses for its standard loan portfolio.

*j. Sales/transfer of receivables*

The Bank enters into assignment transactions, which are similar to asset-backed securitization transactions through the SPE route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates. The Bank also sells finance receivables to special purpose entities (SPEs), formerly qualifying special purpose entities (QSPEs) in securitization transactions. Recourse is in the form of the Bank s investment in subordinated securities issued by these SPEs, cash collateral and other credit and liquidity enhancements. The receivables are derecognized in the balance sheet when they are sold and consideration has been received by the Bank. Sales and transfers that do not meet the criteria for surrender of control are accounted for as secured borrowings.

Effective April 1, 2010, upon adoption of ASU 2009-16, the Bank first makes a determination as to whether the securitization entity would be consolidated. Second, it determines whether the transfer of financial assets is considered a sale. Furthermore, former qualifying special purpose entities (QSPEs) are now considered VIEs and are no longer exempt from consolidation. The Bank consolidates VIEs when it has both: (1) power to direct activities of the VIE that most significantly impact the entity s economic performance and (2) an obligation to absorb losses or right to receive benefits from the entity that could potentially be significant to the VIE.

Gains or losses from the sale of receivables are recognized in the income statement in the period the sale occurs based on the relative fair value of the portion sold and the portion allocated to retained interests, and are reported net of the estimated cost of servicing by the Bank.

Fair values are determined based on the present value of expected future cash flows, using best estimates for key assumptions, such as prepayment and discount rates, commensurate with the risk involved.

*k. Property and equipment*

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of fixed assets on a straight-line basis at the following rates:

| Type of Asset | Rate of depreciation |
| --- | --- |
| Premises | 1.63% |
| Software and systems | 20.00% |
| Equipment and furniture | 10.00%-33.33% |

For assets purchased and sold during the year, depreciation is provided on a pro rata basis by the Bank and capital advances are included in other assets.

*l. Impairment or disposal of tangible long-lived assets*

Whenever events or circumstances indicate that the carrying amount of tangible long lived assets may not be recoverable, the Bank subjects such long lived assets to a test of recoverability based on the undiscounted cash flows from use or disposition of the asset. Such events or circumstances would include changes in the market, technology obsolescence, adverse changes in profitability or regulation. If the asset is impaired, the Bank recognizes an impairment loss estimated as the difference between the carrying value and the net realizable value.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*m. Income tax*

Income tax expense/benefit consists of the current tax expenses and the net change in the deferred tax asset or liability in the year.

Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards. Deferred tax assets are reduced by a valuation allowance subject to management s judgment to the amount that is more likely than not to be realised. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of enactment of the change.

Income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position in accordance with this model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit. The Bank s policy is to include interest income, interest expense and penalties on overpayments and underpayment of income taxes within income tax expense in the consolidated statement of income. Interest income on overpayments of income taxes is recognized when the related matter is resolved.

The Bank accounts for dividend distribution tax in equity in the year in which a dividend is declared.

*n. Revenue recognition*

Interest income from loans and from investments is recognized on an accrual basis using effective interest method when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received. Nominal loan application fees are charged which offset the related costs incurred.

Fees and commissions from guarantees issued are amortized over the contractual period of the commitment, provided the amounts are collectible.

Dividends from investments are recognized when declared.

Realized gains and losses on sale of securities are recorded on the trade date and are determined using the weighted average cost method.

Other fees and income are recognized when earned, which is when the service that results in the income has been provided. The Bank amortizes annual fees on credit cards over the contractual period of the fees.

*o. Foreign currency transactions*

The Bank s functional currency is the Indian Rupee, except for the Bank s foreign branches. Foreign currency transactions are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated monetary assets and liabilities are converted into respective functional currency using exchange rates prevailing on the balance sheet dates. Gains and losses arising on conversion of foreign currency denominated monetary assets and liabilities and on foreign currency transactions are included in the determination of net income.

For the foreign branches, the assets, liabilities and operations are translated, for consolidation purposes, from functional currency of the foreign branch to the Indian Rupee reporting currency at period-end rates for assets and liabilities and at average rates for operations. The resulting unrealized gains or losses are reported as a component of accumulated other comprehensive income (OCI).

*p. Stock-based compensation*

The fair value of stock-based compensation is estimated on the date of each grant based on a pricing model. For further information, see note 22.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*q. Debt issuance costs*

Issuance costs of long-term debt are amortized over the tenure of the debt.

*r. Earnings per share*

Basic earnings per equity share have been computed by dividing net income by the weighted average number of equity shares outstanding for the period. Diluted earnings per equity share has been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period, using the treasury stock method, except where the result would be anti-dilutive. The Bank also reports basic and diluted earnings per ADS, where each ADS represents three equity shares. Earnings per ADS have been computed as earnings per equity share multiplied by the number of equity shares per ADS. A reconciliation of the number of shares used in computing earnings per share has been provided in Note 29.

*s. Segment information*

The Bank operates in three reportable segments, namely retail banking, wholesale banking and treasury services. Segment-wise information has been provided in Note 26.

*t. Derivative financial instruments*

The Bank recognizes all derivative instruments, including certain derivative instruments embedded in other contracts, as assets or liabilities in the balance sheet and measures them at fair value. The Bank has not designated any derivatives as hedges. As such, all changes in fair value of derivative instruments are recognized in net income in the period of change.

The Bank enters into forward exchange contracts, currency swaps and currency options with its customers and typically transfers such customer exposures in the inter-bank foreign exchange markets. The Bank also enters into such instruments to cover its own foreign exchange exposures. All such instruments are carried at fair value, determined based on market quotations or market-based inputs.

The Bank enters into interest rate swaps for its own account. The Bank also enters into interest rate currency swaps and cross currency interest rate swaps with its customers and typically transfers these off in the inter-bank market. Such contracts are carried on the balance sheet at fair value, or priced using market determined yield curves.

*u. Business combination*

The Bank accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The application of the purchase method requires certain estimates and assumptions, especially concerning the determination of the fair values of the acquired intangible and tangible assets, as well as the liabilities assumed at the date of the acquisition. The judgments made in the context of the purchase price allocation can materially impact the Bank s future results of

operations. The valuations are based on information available at the acquisition date. Purchase consideration in excess of bank s interest and the acquiree s net fair value of identifiable assets and liabilities is recognized as goodwill.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*v. Goodwill and other intangibles*

Goodwill is tested for impairment in accordance with FASB ASC 350-20 Goodwill . Under applicable accounting guidance, goodwill is reviewed at the reporting unit level for potential impairment at least on an annual basis at the end of the reporting period, or more frequently if events or circumstances indicate a potential impairment. This analysis is a two-step process. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated balance sheet. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

Intangible assets consist of branch network representing contractual and non-contractual customer relationships, customer list, core deposit intangible and favorable leases. These are amortized over their estimated useful lives. Amortization of intangible assets is computed in a manner that best reflects the economic benefits of the intangible assets as follows:

| | Useful lives (years) | Amortization method |
|---|---|---|
| Branch network | 6 | Straight-line |
| Customer lists | 2 | Straight-line |
| Core deposit | 5 | Straight-line |
| Favorable leases | 1 to 15 | Straight-line |

*w. Recently adopted accounting standards*

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ( ASU 2013-11 ). As per the amendment, an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss (NOL) or other tax credit carry forward when settlement in this manner is available under the tax law. The assessment of whether settlement is available under the tax law would not consider future events (e.g., upcoming expiration of related NOL carry forwards). This classification should not affect an entity s analysis of the realization of its deferred tax assets. Gross presentation in the rollforward of unrecognized tax positions in the

notes to the financial statements would still be required. ASU 2013-11 is effective for interim and annual periods beginning on or after December 15, 2013. The adoption of this guidance effective April 1, 2014 did not have a material impact on the Bank s consolidated financial position or results of operations.

*x. Recently issued accounting pronouncements not yet effective*

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) . This update clarifies the principles for revenue recognition in transactions involving contracts with customers. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. The Bank has not yet evaluated what impact, if any, the adoption of this guidance may have on the Bank s financial condition, results of operations, or disclosures.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860) . The amendments in this update change the current accounting outcome by requiring repurchase-to-maturity transactions to be accounted for as secured borrowings and for repurchase financing arrangement the amendments require separate accounting for a transfer of the financial asset executed contemporaneously with a repurchase agreement with same counterparty. The amendments also require new disclosures. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2014 and early adoption is not permitted. The Bank has not yet evaluated what impact, if any, the adoption of this guidance may have on the Bank s financial condition, results of operations, or disclosures.

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In August 2014, the FASB also issued ASU 2014-15, Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. This ASU requires management to perform an assessment of going concern and provides specific guidance on when and how to assess or disclose going concern uncertainties. The new standard also defines terms used in the evaluation of going concern, such as substantial doubt. Following application, the Bank will be required to perform assessments at each annual and interim period, provide an assessment period of one year from the issuance date, and make disclosures in certain circumstances in which substantial doubt is identified. The amendment will be effective for the Bank for the first reporting period ending after December 15, 2016. Earlier application is permitted. The Bank does not expect this ASU to have an impact on its financial position, result of operations, or disclosures.

In January 2015, FASB issued ASU 2015-01 - Income Statement -Extraordinary and Unusual Items (Subtopic 225-20). The Update removes the concept of extraordinary items from GAAP and eliminates the requirement for extraordinary items to be separately presented in the statement of income. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2015 and early adoption is permitted. The Update will not have a material impact on the Bank s consolidated financial statements.

In February 2015, FASB issued ASU 2015-02 - Consolidation (Topic 810). The Update primarily amends the criteria companies use to evaluate whether they should consolidate certain variable interest entities that have fee arrangements and the criteria used to determine whether partnerships and similar entities are variable interest entities. The Update also excludes certain money market funds from the consolidation guidance. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2015 and early adoption is permitted. The Bank has not yet evaluated what impact, if any, the adoption of this guidance may have on the Bank s financial condition, results of operations, or disclosures.

In April 2015, FASB issued ASU 2015-03 - Interest - Imputation of Interest (Subtopic 835-30). The Update changes the balance sheet presentation for debt issuance costs. Under the new guidance, debt issuance costs should be reported as a deduction from debt liabilities rather than as a deferred charge classified as an asset. . The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2015 and early adoption is permitted. The Bank has not yet evaluated what impact, if any, the adoption of this guidance may have on the Bank s financial condition, results of operations, or disclosures.

In May 2015, FASB issued ASU 2015-07 - Fair Value Measurement (Topic 820). The Update eliminates the disclosure requirement to categorize investments within the fair value hierarchy that are measured at fair value using net asset value as a practical expedient. The guidance will be effective for the interim and annual reporting periods beginning after December 15, 2015 and early adoption is permitted. The Update will not affect the Bank s consolidated financial statements as it impacts only the fair value disclosure requirements for certain investments.

*y. Convenience translation*

The accompanying financial statements have been expressed in Indian Rupees ( Rs. ), the Bank s functional currency. For the convenience of the reader, the financial statements as of and for the year ended March 31, 2015 have been translated into U.S. dollars at U.S.$1.00 = Rs. 62.31 as published by the Federal Reserve Board of New York on March 31, 2015. Such translation should not be construed as a representation that the rupee amounts have been or

could be converted into United States dollars at that or any other rate, or at all.

**3. Cash and cash equivalents**

Cash and cash equivalents as of March 31, 2014 and March 31, 2015 include balances of Rs. 214,951.3 million and Rs. 221,889.6 million (US$ 3,561.1 million), respectively, maintained with the RBI to meet the Bank s cash reserve ratio requirement. The Bank is required to maintain a specific percentage of its demand and time liabilities by way of a balance in a current account with the RBI. This is to maintain the solvency of the banking system. The cash reserve ratio has to be maintained on an average basis for a two-week period and should not fall below 95% of the required cash reserve ratio on any particular day.

**4. Term placements**

Term placements consist of placements with banks and financial institutions in the ordinary course of business. These placements have original maturities for periods between 3 months and 15 years. This includes restricted term placements of Rs. 123.7 million and Rs. 134.3 million (US$ 2.2 million) at March 31, 2014 and at March 31, 2015, respectively.

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Investments, held for trading**

The portfolio of trading securities as of March 31, 2014 and March 31, 2015 was as follows:

| | As of March 31, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In millions) | | | |
| Government of India securities | Rs. 56,409.0 | Rs. 3.5 | Rs. 191.1 | Rs. 56,221.4 |
| Other corporate/financial institution securities | 8,874.2 | 11.7 | 55.2 | 8,830.7 |
| Total debt securities | Rs. 65,283.2 | Rs. 15.2 | Rs. 246.3 | Rs. 65,052.1 |
| Equity securities | 25.2 | 0.7 | 0.1 | 25.8 |
| Total | Rs. 65,308.4 | Rs. 15.9 | Rs. 246.4 | Rs. 65,077.9 |

| | As of March 31, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In millions) | | | |
| Government of India securities | Rs. 60,239.5 | Rs. 53.5 | Rs. 0.2 | Rs. 60,292.8 |
| Other corporate/financial institution securities | 1,000.0 | | | 1,000.0 |
| Total debt securities | Rs. 61,239.5 | Rs. 53.5 | Rs. 0.2 | Rs. 61,292.8 |
| Equity securities | | | | |
| Total | Rs. 61,239.5 | Rs. 53.5 | Rs. 0.2 | Rs. 61,292.8 |
| Total | US$ 982.8 | US$ 0.9 | US$ | US$ 983.7 |

**6. Investments, available for sale**

The portfolio of available for sale securities as of March 31, 2014 and March 31, 2015 was as follows:

| | As of March 31, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In millions) | | | |
| Government of India securities | Rs. 839,248.3 | Rs. 919.1 | Rs. 19,762.5 | Rs. 820,404.9 |
| State government securities | 161.8 | | 0.9 | 160.9 |
| Credit substitutes (see note 8) | 65,001.6 | 177.0 | 31.5 | 65,147.1 |
| Other corporate/financial institution bonds | 4,979.2 | 61.8 | 1.3 | 5,039.7 |
| Certificate of Deposit | 921.3 | 6.0 | | 927.3 |
| Debt securities, other than asset and mortgage-backed securities | 910,312.2 | 1,163.9 | 19,796.2 | 891,679.9 |
| Mortgage-backed securities | 1,743.2 | 91.5 | 0.3 | 1,834.4 |
| Asset-backed securities | 14,442.1 | 211.2 | 409.9 | 14,243.4 |
| Other securities (including mutual fund units) | 787.4 | 283.2 | 4.0 | 1,066.6 |
| Total | Rs. 927,284.9 | Rs. 1,749.8 | Rs. 20,210.4 | Rs .908,824.3 |
| Securities with gross unrealized losses | | | | Rs. 699,169.1 |
| Securities with gross unrealized gains | | | | 209,655.2 |
| | | | | Rs. 908,824.3 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | As of March 31, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In millions) | | | |
| Government of India securities | Rs. 1,151,520.7 | Rs. 13,843.3 | Rs. 1,242.7 | Rs. 1,164,121.3 |
| State government securities | 54,134.6 | 2,074.4 | | 56,209.0 |
| Credit substitutes (see note 8) | 194,992.4 | 243.9 | 177.4 | 195,058.9 |
| Other corporate/financial institution bonds | 6,555.1 | 83.3 | 1.5 | 6,636.9 |
| Certificate of Deposit | 56,300.2 | 85.4 | | 56,385.6 |
| Debt securities, other than asset and mortgage-backed securities | 1,463,503.0 | 16,330.3 | 1,421.6 | 1,478,411.7 |
| Mortgage-backed securities | 1,282.0 | 50.1 | | 1,332.1 |
| Asset-backed securities | 23,512.3 | 223.2 | 452.2 | 23,283.3 |
| Other securities (including mutual fund units) | 788.1 | 597.9 | 0.3 | 1,385.7 |
| Total | Rs. 1,489,085.4 | Rs. 17,201.5 | Rs. 1,874.1 | Rs. 1,504,412.8 |
| Total | US$ 23,898.1 | US$ 276.1 | US$ 30.1 | US$ 24,144.1 |
| Securities with gross unrealized losses | | | | Rs. 469,004.0 |
| Securities with gross unrealized gains | | | | 1,035,408.8 |
| | | | | Rs. 1,504,412.8 |
| | | | | US$ 24,144.1 |

AFS investments of Rs. 820,565.8 million and Rs. 1,220,330.3 million (US$ 19,584.8 million) as of March 31, 2014 and March 31, 2015, respectively, are eligible for placement towards the Bank s statutory liquidity ratio requirements. These balances are subject to withdrawal and usage restrictions, but may be freely traded by the Bank within those restrictions. Of these investments, Rs. 670,603.5 million as of March 31, 2014 and Rs. 721,933.3 million (US$ 11,586.2 million) as of March 31, 2015, respectively, were kept as margins for clearing, collateral borrowing and lending obligation (CBLO), real time gross settlement (RTGS), with the Reserve Bank of India and other financial institutions.

The Bank conducts a review each year to identify and evaluate investments that have indications of possible impairment. An investment in an equity or debt security is impaired if its fair value falls below its cost and the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include length of time and extent to which fair value has been below cost, the financial condition and near-term prospects of the issuer and whether the Bank intends to sell or will be required to sell the security until the forecasted recovery. The Bank evaluated the impaired investments and has fully recognized an expense of Rs. 1,546.3 million, Rs. 664.7 million and Rs. 1.8 million as other than temporary impairment in fiscal year 2013, 2014 and 2015, respectively, because the Bank intends to sell the securities before recovery of their amortized cost. The Bank is of the opinion that the other unrealized losses on its investments in equity and debt securities as of March 31, 2015 are temporary in nature. The Bank s review of impairment generally entails:

- identification and evaluation of investments that have indications of possible impairment;
- analysis of individual investments that have fair values of less than 95% of amortized cost, including consideration of the length of time the investment has been in an unrealized loss position;
- analysis of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to have other than temporary impairment; and
- documentation of the results of these analysis, as required under business policies.

As of March 31, 2014 and March 31, 2015, the Bank did not hold any debt securities with credit losses for which a portion of other-than-temporary impairment was recognized in other comprehensive income.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The gross unrealized losses and fair value of available for sale securities at March 31, 2014 was as follows:

| | As of March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Greater | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | (In millions) | | | |
| Government of India securities | Rs. 363,301.9 | Rs. 11,340.9 | Rs. 303,851.6 | Rs. 8,421.6 | Rs. 667,153.5 | Rs. 19,762.5 |
| State government securities | 123.8 | 0.7 | 37.1 | 0.2 | 160.9 | 0.9 |
| Credit substitutes (see note 8) | 18,666.2 | 31.3 | 266.4 | 0.2 | 18,932.6 | 31.5 |
| Other corporate/financial institution bonds | 310.1 | 1.2 | 9.7 | 0.1 | 319.8 | 1.3 |
| Debt securities, other than asset and mortgage-backed securities | 382,402.0 | 11,374.1 | 304,164.8 | 8,422.1 | 686,566.8 | 19,796.2 |
| Mortgage-backed securities | 133.0 | 0.3 | | | 133.0 | 0.3 |
| Asset-backed securities | 12,468.3 | 409.9 | | | 12,468.3 | 409.9 |
| Equity securities | 1.0 | 4.0 | | | 1.0 | 4.0 |
| Total | Rs. 395,004.3 | Rs. 11,788.3 | Rs. 304,164.8 | Rs. 8,422.1 | Rs. 699,169.1 | Rs. 20,210.4 |

The gross unrealized losses and fair value of available for sale securities at March 31, 2015 was as follows:

| | As of March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Greater | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | (In millions) | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Government of India securities | Rs. 10,602.4 | Rs. 37.9 | Rs. 277,465.1 | Rs. 1,204.8 | Rs. 288,067.5 | Rs. 1,242.7 |
| State government securities | | | 7.5 | | 7.5 | |
| Credit substitutes (see note 8) | 158,859.4 | 177.4 | | | 158,859.4 | 177.4 |
| Other corporate/financial institution bonds | 1,339.6 | 1.5 | | | 1,339.6 | 1.5 |
| Debt securities, other than asset and mortgage-backed securities | 170,801.4 | 216.8 | 277,472.6 | 1,204.8 | 448,274.0 | 1,421.6 |
| Mortgage-backed securities | | | | | | |
| Asset-backed securities | 20,727.1 | 452.2 | | | 20,727.1 | 452.2 |
| Equity securities | 2.9 | 0.3 | | | 2.9 | 0.3 |
| Total | Rs. 191,531.4 | Rs. 669.3 | Rs. 277,472.6 | Rs. 1,204.8 | Rs. 469,004.0 | Rs. 1,874.1 |
| Total | US$ 3,073.8 | US$ 10.8 | US$ 4,453.1 | US$ 19.3 | US$ 7,526.9 | US$ 30.1 |

The contractual residual maturity of available for sale debt securities other than asset and mortgage-backed securities as of March 31, 2015 is set out below:

| | As of March 31, 2015 | | |
|---|---|---|---|
| | **Amortized Cost** | **Fair Value** | **Fair Value** |
| | | **(In millions)** | |
| Within one year | Rs. 692,782.4 | Rs. 692,821.7 | US$ 11,118.9 |
| Over one year through five years | 301,137.0 | 302,306.0 | 4,851.6 |
| Over five years through ten years | 367,990.7 | 375,802.6 | 6,031.2 |
| Over ten years | 101,592.9 | 107,481.4 | 1,724.9 |
| Total | Rs. 1,463,503.0 | Rs. 1,478,411.7 | US$ 23,726.6 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The contractual residual maturity of available for sale mortgage-backed and asset-backed securities as of March 31, 2015 is set out below:

| | As of March 31, 2015 | | |
|---|---|---|---|
| | Amortized Cost | Fair Value | Fair Value |
| | (In millions) | | |
| Within one year | Rs. 12,963.8 | Rs. 12,771.8 | US$ 205.0 |
| Over one year through five years | 11,007.0 | 10,797.6 | 173.3 |
| Over five years through ten years | 319.1 | 324.5 | 5.2 |
| Over ten years | 504.4 | 721.5 | 11.6 |
| Total | Rs. 24,794.3 | Rs. 24,615.4 | US$ 395.1 |

Gross realized gains and gross realized losses from sale of available for sale securities and dividends and interest on such securities are set out below:

| | Fiscal year ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 |
| | (In millions) | | | |
| Gross realized gains on sale | Rs. 2,263.6 | Rs. 2,378.8 | Rs. 5,484.3 | US$ 88.0 |
| Gross realized losses on sale | (35.8) | (623.1) | (316.4) | (5.1) |
| Realized gains (losses), net | 2,227.8 | 1,755.7 | 5,167.9 | 82.9 |
| Dividends and interest | 66,554.2 | 77,497.1 | 94,129.1 | 1,510.7 |
| Total | Rs. 68,782.0 | Rs. 79,252.8 | Rs. 99,297.0 | US$ 1,593.6 |

**7. Investments, held to maturity**

There were no HTM securities as of March 31, 2014 and March 31, 2015.

Under Indian GAAP, transfer from an HTM portfolio to an AFS portfolio are permitted by RBI regulations once every year and the Bank has made transfers in accordance with these regulations. However, the Bank has not established an HTM portfolio under US GAAP and therefore the investment classification made under US GAAP and Indian GAAP varies materially.

**8. Credit substitutes**

Credit substitutes consist of securities that the Bank invests in as part of an overall extension of credit to certain customers. Such securities share many of the risk and reward characteristics of loans and are managed by the Bank together with other credit facilities extended to the same customers. The fair values of credit substitutes by type of instrument as of March 31, 2014 and March 31, 2015 were as follows:

| | As of March 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2015 | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In millions) | | | |
| Available for sale credit substitute securities: | | | | |
| Debentures | Rs. 23,024.0 | Rs. 23,115.5 | Rs. 14,631.2 | Rs. 14,860.3 |
| Commercial paper | 41,977.6 | 42,031.6 | 180,361.2 | 180,198.6 |
| Total | Rs. 65,001.6 | Rs. 65,147.1 | Rs. 194,992.4 | Rs. 195,058.9 |
| | | | US$ 3,129.4 | US$ 3,130.5 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The fair values of credit substitutes by credit quality indicators and amounts provided for other than temporary impairments is as follows:

| | As of March 31, | | |
|---|---|---|---|
| | **2014** | **2015** | **2015** |
| | | **(In millions)** | |
| Pass | Rs. 55,867.2 | Rs. 195,058.9 | US$ 3,130.5 |
| Impaired gross balance | 9,944.5 | | |
| Less: amounts provided for other than temporary impairments | 664.6 | | |
| Impaired credit substitutes, net | 9,279.9 | | |
| Total credit substitutes, net | Rs 65,147.1 | Rs 195,058.9 | US$ 3,130.5 |

Impaired credit substitutes

| | As of March 31, | | |
|---|---|---|---|
| | **2014** | **2015** | **2015** |
| | | **(In millions)** | |
| Gross impaired credit substitutes: | | | |
| on accrual status | Rs. 9,944.5 | Rs. | US$ |
| on non-accrual status | | | |
| Total | Rs. 9,944.5 | Rs. | US$ |
| Gross impaired credit substitutes by industry: | | | |
| Construction and Developers (Infrastructure) | Rs. 9,944.5 | Rs. | US$ |
| Others | | | |
| Total | Rs. 9,944.5 | Rs. | US$ |
| Average impaired credit substitutes | Rs. 5,222.3 | Rs. 4,972.3 | US$ 79.8 |

| Interest income recognized on impaired credit substitutes | Rs. | 672.6 | Rs. | | US$ | |
|---|---|---|---|---|---|---|

As of March 31, 2015, the Bank has no additional funds committed to borrowers whose credit substitutes were impaired.

**9. Repurchase and resell agreements**

Securities sold under agreements to repurchase ( repos ) and securities purchased under agreements to resell ( reverse repos ) generally do not constitute a sale for accounting purposes of the underlying securities, and so are treated as collateralized transactions. There were no such transactions accounted for as sales during the years ended March 31, 2013, March 31, 2014 and March 31, 2015. Interest paid or received on all repo and reverse repo transactions is recorded in Interest expense or Interest revenue at the contractually specified rate.

***a. Securities purchased under agreements to resell***

Securities purchased under agreements to resell are classified separately from investments and generally mature within 14 days of the transaction date. Such resell transactions are recorded at the amount of cash advanced on the transaction. Resell transactions outstanding as of March 31, 2014 and March 31, 2015 were Rs. 57,322.6 million and Rs. 1,592.6 million, respectively.

***b. Securities sold under repurchase agreements***

Securities sold under agreements to repurchase are classified separately under liabilities and generally mature within 14 days of the transaction date. Such repurchase transactions are recorded at the amount of cash received on the transaction. Repurchase transactions outstanding as of March 31, 2014 and March 31, 2015 were nil and Rs. 50,000.0 million, respectively.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 10. Loans

Loan balances include Rs. 115,777.3 million and Rs. 192,684.5 million (US$ 3,092.4 million) as of March 31, 2014 and March 31, 2015, respectively, which have been pledged as collateral for borrowings and are therefore restricted.

Loans by facility as of March 31, 2014 and March 31, 2015 were as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | (In millions) | | |
| Retail loans: | | | |
| Auto loans | Rs. 407,811.6 | Rs. 486,251.7 | US$ 7,803.8 |
| Personal loans/Credit cards | 347,393.8 | 449,381.7 | 7,212.0 |
| Retail business banking | 519,472.2 | 660,456.7 | 10,599.5 |
| Commercial vehicle and construction equipment finance | 280,372.2 | 305,995.4 | 4,910.9 |
| Housing loans | 193,180.5 | 241,368.8 | 3,873.7 |
| Other retail loans | 440,107.4 | 577,534.2 | 9,268.6 |
| Subtotal | Rs. 2,188,337.7 | Rs. 2,720,988.5 | US$ 43,668.5 |
| Wholesale loans | Rs. 1,039,923.6 | Rs. 1,222,460.6 | US$ 19,619.0 |
| Gross loans | 3,228,261.3 | 3,943,449.1 | 63,287.5 |
| Less: Allowance for credit losses | 42,613.2 | 47,334.1 | 759.6 |
| Total | Rs. 3,185,648.1 | Rs. 3,896,115.0 | US$ 62,527.9 |

The contractual residual maturity of gross loans as of March 31, 2015 is set out below:

| | As of March 31, 2015 | | |
|---|---|---|---|
| | Wholesale loans | Retail loans | Total |
| | (In millions) | | |
| Maturity profile of loans: | | | |
| Within one year | Rs. 680,287.1 | Rs. 789,973.4 | Rs. 1,470,260.5 |
| Over one year through five years | 442,874.1 | 1,681,275.6 | 2,124,149.7 |
| Over five years | 99,299.4 | 249,739.5 | 349,038.9 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total gross loans | Rs. | 1,222,460.6 | Rs. | 2,720,988.5 | Rs. | 3,943,449.1 |
| Total gross loans | US$ | 19,619.0 | US$ | 43,668.5 | US$ | 63,287.5 |

Gross loans analyzed by performance are as follows:

| | As of | | |
|---|---|---|---|
| | March 31, 2014 | March 31, 2015 | March 31, 2015 |
| | (In millions) | | |
| Performing | Rs. 3,198,574.8 | Rs. 3,904,124.3 | US$ 62,656.4 |
| Impaired | 29,686.5 | 39,324.8 | 631.1 |
| Total gross loans | Rs. 3,228,261.3 | Rs. 3,943,449.1 | US$ 63,287.5 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table provides details of age analysis of loans as of March 31, 2014 and March 31, 2015.

| | As of March 31, 2014 | | | |
|---|---|---|---|---|
| | 31-90 days past due | Impaired / 91 days or more past due | Total current or less than 31 days past due | Total |
| | (in millions) | | | |
| Retail Loans | | | | |
| Auto loans | Rs. 2,326.2 | Rs. 1,845.2 | Rs. 403,640.2 | Rs. 407,811.6 |
| Personal loans/Credit card | 1,940.5 | 1,984.4 | 343,468.9 | 347,393.8 |
| Retail business banking | 3,815.1 | 7,104.6 | 508,552.5 | 519,472.2 |
| Commercial vehicle and construction equipment finance | 7,500.8 | 6,207.8 | 266,663.6 | 280,372.2 |
| Housing loans | 83.2 | 205.8 | 192,891.5 | 193,180.5 |
| Other retail | 3,947.7 | 3,580.5 | 432,579.2 | 440,107.4 |
| Wholesale loans | 1,452.2 | 8,758.2 | 1,029,713.2 | 1,039,923.6 |
| Total | Rs. 21,065.7 | Rs. 29,686.5 | Rs. 3,177,509.1 | Rs. 3,228,261.3 |

| | As of March 31, 2015 | | | |
|---|---|---|---|---|
| | 31-90 days past due | Impaired / 91 days or more past due | Total current or less than 31 days past due | Total |
| | (in millions) | | | |
| Retail Loans | | | | |
| Auto loans | Rs. 2,448.7 | Rs. 2,718.7 | Rs. 481,084.3 | Rs. 486,251.7 |
| Personal loans/Credit card | 2,361.1 | 2,648.4 | 444,372.2 | 449,381.7 |
| Retail business banking | 5,262.5 | 10,012.5 | 645,181.7 | 660,456.7 |
| Commercial vehicle and construction equipment finance | 5,389.7 | 5,559.4 | 295,046.3 | 305,995.4 |
| Housing loans | 68.7 | 242.7 | 241,057.4 | 241,368.8 |
| Other retail | 5,184.2 | 4,653.5 | 567,696.5 | 577,534.2 |
| Wholesale loans | 1,244.7 | 13,489.6 | 1,207,726.3 | 1,222,460.6 |
| Total | Rs. 21,959.6 | Rs. 39,324.8 | Rs. 3,882,164.7 | Rs. 3,943,449.1 |

| Total | US$ | 352.4 | US$ | 631.1 | US$ | 62,304.0 | US$ | 63,287.5 |
|---|---|---|---|---|---|---|---|---|

The Bank has a credit risk mitigating/monitoring mechanism which is comprised of target market definitions, credit approval process, post-disbursement monitoring and remedial management procedures.

For wholesale credit risk in addition to the credit approval process the Bank has an approved framework for the review and approval of credit ratings. Credit Policies and Procedures articulate credit risk strategy and thereby the approach for credit origination, approval and maintenance. The Credit Policies generally address such areas as target markets, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms. These are reviewed in detail at annual or more frequent intervals. To ensure adequate diversification of risk, concentration limits have been set up in terms of borrower/business group, industry and risk grading.

For retail credit the policy and approval processes are designed for the fact that the Bank has high volumes of relatively homogeneous, small value transactions in retail loans. There are product programs for each of these products, which define the target markets, credit philosophy and process, detailed underwriting criteria for evaluating individual credits, exception reporting systems and individual loan exposure caps. The quantitative parameters considered include income, residence stability, the nature of the employment/business, while the qualitative parameters include accessibility, contractibility and profile. The credit policies/product programs are based on a statistical analysis of the Bank s experience and industry data, in combination with the judgment of the Bank s senior officers. The Bank mines data on its borrower account behavior as well as static data regularly to monitor the portfolio performance of each product segment and use these as inputs in revising the Bank s product programs, target market definitions and credit assessment criteria to meet the Bank s twin objectives of combining volume growth and maintenance of asset quality.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As an integral part of the credit process, the Bank has a credit rating model appropriate to its wholesale and retail credit segments (see note 2 i). The Bank monitors credit quality within its segments based on primary credit quality indicators. This internal grading is updated at least annually.

Retail Loans

Credit quality indicator based on payment activity as of March 31, 2014 and as of March 31, 2015 is given below.

| | As of March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Auto loans | Personal loans/ Credit card | Retail business banking | Commercial vehicle and construction equipment finance (In millions) | Housing loans | Other retail | Total |
| rforming | Rs. 405,966.4 | Rs. 345,409.4 | Rs. 512,367.6 | Rs. 274,164.4 | Rs. 192,974.7 | Rs. 436,526.9 | Rs. 2,167,409 |
| paired | 1,845.2 | 1,984.4 | 7,104.6 | 6,207.8 | 205.8 | 3,580.5 | 20,928 |
| tal | Rs. 407,811.6 | Rs. 347,393.8 | Rs. 519,472.2 | Rs. 280,372.2 | Rs. 193,180.5 | Rs. 440,107.4 | Rs. 2,188,337 |

| | As of March 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Auto loans | Personal loans/ Credit card | Retail business banking | Commercial vehicle and construction equipment finance (In millions) | Housing loans | Other retail | Total |
| rforming | Rs. 483,533.0 | Rs. 446,733.3 | Rs. 650,444.2 | Rs. 300,436.0 | Rs. 241,126.1 | Rs. 572,880.7 | Rs. 2,695,153 |
| paired | 2,718.7 | 2,648.4 | 10,012.5 | 5,559.4 | 242.7 | 4,653.5 | 25,835 |
| tal | Rs. 486,251.7 | Rs. 449,381.7 | Rs. 660,456.7 | Rs. 305,995.4 | Rs. 241,368.8 | Rs. 577,534.2 | Rs. 2,720,988 |
| tal | US$ 7,803.8 | US$ 7,212.0 | US$ 10,599.5 | US$ 4,910.9 | US$ 3,873.7 | US$ 9,268.6 | US$ 43,668 |

Wholesale Loans

The Bank has in place a process of grading each borrower according to its financial health and the performance of its business and each borrower is graded as pass/labeled/impaired. Wholesale loans that are not impaired are disclosed as

pass or labeled. Labeled loans are those with evidence of weakness where such exposures indicate deteriorating trends which if not corrected could adversely impact repayment of the obligations. The Bank s model assesses the overall risk over four major categories industry risk, business risk, management risk and financial risk. The inputs in each of the categories are combined to provide an aggregate numerical rating, which is a function of the aggregate weighted scores based on the assessment under each of these four risk categories.

| | As of March 31, | | |
|---|---|---|---|
| | **2014** | **2015** | **2015** |
| | | **(In millions)** | |
| Credit quality indicators-Internally assigned grade and payment activity | | | |
| Pass | Rs. 1,029,884.6 | Rs. 1,205,084.8 | US$ 19,340.2 |
| Labeled | 1,280.8 | 3,886.2 | 62.3 |
| Impaired | 8,758.2 | 13,489.6 | 216.5 |
| Total | Rs. 1,039,923.6 | Rs. 1,222,460.6 | US$ 19,619.0 |

Impaired loans are those for which the Bank believes that it is probable that it will not collect all amounts due according to the original contractual terms of the loans and includes troubled debt restructuring. The following table provides details of impaired loans as of March 31, 2014 and March 31, 2015

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | As of March 31, 2014 (In millions) | | | | |
|---|---|---|---|---|---|
| | Recorded investments | Unpaid principal balance | Related specific allowance | Average recorded investments | Finance receivable on non-accrual status |
| Retail Loans | | | | | |
| Auto loans | Rs. 1,845.2 | Rs. 1,845.2 | Rs. 796.1 | Rs. 1,542.0 | Rs. 1,845.2 |
| Personal loans/ Credit card | 1,984.4 | 1,984.4 | 1,267.3 | 1,767.5 | 1,984.4 |
| Retail business banking | 7,104.6 | 7,104.6 | 5,598.1 | 6,447.4 | 6,978.2 |
| Commercial vehicle and construction equipment finance | 6,207.8 | 6,207.8 | 3,472.9 | 4,932.9 | 6,207.8 |
| Housing loans | 205.8 | 205.8 | 116.7 | 236.9 | 205.8 |
| Other retail | 3,580.5 | 3,580.5 | 2,082.0 | 2,827.2 | 3,580.5 |
| Wholesale loans | 8,758.2 | 8,758.2 | 7,316.1 | 7,655.6 | 8,612.8 |
| Total | Rs. 29,686.5 | Rs. 29,686.5 | Rs. 20,649.2 | Rs. 25,409.5 | Rs. 29,414.7 |

The Bank holds no recorded impaired loans for which there is no related allowance.

| | As of March 31, 2015 (In millions) | | | | |
|---|---|---|---|---|---|
| | Recorded investments | Unpaid principal balance | Related specific allowance | Average recorded investments | Finance receivable on non-accrual status |
| Retail Loans | | | | | |
| Auto loans | Rs. 2,718.7 | Rs. 2,718.7 | Rs. 1,226.0 | Rs. 2,282.0 | Rs. 2,718.7 |
| Personal loans/ Credit card | 2,648.4 | 2,648.4 | 1,634.0 | 2,316.4 | 2,648.4 |
| Retail business banking | 10,012.5 | 10,012.5 | 7,105.6 | 8,558.6 | 9,723.4 |
| Commercial vehicle and construction equipment finance | 5,559.4 | 5,559.4 | 3,630.6 | 5,883.6 | 5,559.4 |
| Housing loans | 242.7 | 242.7 | 127.4 | 224.3 | 242.7 |
| Other retail | 4,653.5 | 4,653.5 | 2,901.6 | 4,117.0 | 4,653.5 |
| Wholesale loans | 13,489.6 | 13,489.6 | 8,083.8 | 11,123.9 | 11,347.5 |
| Total | Rs. 39,324.8 | Rs. 39,324.8 | Rs. 24,709.0 | Rs. 34,505.8 | Rs. 36,893.6 |
| Total | US$ 631.1 | US$ 631.1 | US$ 396.5 | US$ 553.8 | US$ 592.1 |

The Bank holds no recorded impaired loans for which there is no related allowance.

Impaired loans by industry as of March 31, 2014 and March 31, 2015 by facility are as follows:

| | As of March 31, 2014 (In millions) | |
|---|---|---|
| Gross impaired loans by industry: | | |
| Land Transport | Rs. | 2,077.9 |
| Iron & Steel | | 1,811.8 |
| Others (none greater than 5% of impaired loans) | | 25,796.8 |
| Total | Rs. | 29,686.5 |

| | As of March 31, 2015 (In millions) | | | |
|---|---|---|---|---|
| Gross impaired loans by industry: | | | | |
| Activities allied to agriculture | Rs. | 5,369.3 | US$ | 86.2 |
| Iron & Steel | | 4,793.8 | | 76.9 |
| Wholesale Trade | | 3,608.2 | | 57.9 |
| Consumer Loans | | 2,392.3 | | 38.4 |
| Others (none greater than 5% of impaired loans) | | 23,161.2 | | 371.7 |
| Total | Rs. | 39,324.8 | US$ | 631.1 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Summary information relating to impaired loans during the year ended March 31, 2013, March 31, 2014 and March 31, 2015 is as follows:

| | Fiscal Year ended March 31, | | | |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** |
| | (In millions) | | | |
| Average impaired loans, net of allowance | Rs. 4,191.7 | Rs. 6,851.3 | Rs. 11,826.6 | US$ 189.8 |
| Interest income recognized on impaired loans | Rs. 1,647.8 | Rs. 1,664.7 | Rs. 1,898.0 | US$ 30.5 |

Allowance for credit losses as of March 31, 2014 are as follows:

| | As of March 31, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | | | Unallocated | | |
| | Retail | | | | | | | | | |
| | **Auto loans** | **Personal Loans/ Credit card** | **Retail business banking** | **Commercial vehicle and construction equipment finance** | **Housing loans** | **Other retail** | **Wholesale** | **Retail** | **Wholesale** | |
| | (In millions) | | | | | | | | | |
| | Rs. 556.7 | Rs. 1,067.1 | Rs. 5,058.2 | Rs. 2,094.4 | Rs. 185.0 | Rs. 1,751.0 | Rs. 5,754.5 | Rs. 14,731.6 | Rs. 2,495.7 | Rs |
| | (2,150.4) | (5,748.9) | (93.7) | (5,014.1) | (21.3) | (1,166.2) | (714.5) | | | |
| | 2,389.8 | 5,949.1 | 633.6 | 6,392.6 | (47.0) | 1,497.2 | 2,276.1 | 4,493.9 | 242.8 | |
| | Rs. 796.1 | Rs. 1,267.3 | Rs. 5,598.1 | Rs. 3,472.9 | Rs. 116.7 | Rs. 2,082.0 | Rs. 7,316.1 | Rs. 19,225.5 | Rs. 2,738.5 | Rs |

| Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. 7,316.1 | Rs. | Rs. | Rs |
|---|---|---|---|---|---|---|---|---|---|
| 796.1 | 1,267.3 | 5,598.1 | 3,472.9 | 116.7 | 2,082.0 | | 19,225.5 | 2,738.5 | |
| | | | | | | 8,758.2 | | | |
| 1,845.2 | 1,984.4 | 7,104.6 | 6,207.8 | 205.8 | 3,580.5 | | 2,167,409.4 | 1,031,165.4 | |

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 6,400.0 million.

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Allowance for credit losses as of March 31, 2015 are as follows:

| As of March 31, 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Specific | | | | | | | Unallocated | | |
| Retail | | | | | | | | | |
| ns | Personal Loans/ Credit card | Retail business banking | Commercial vehicle and construction equipment finance | Housing loans | Other retail | Wholesale | Retail | Wholesale | Tota |
| (In millions) | | | | | | | | | |
| .1 | Rs. 1,267.3 | Rs. 5,598.1 | Rs. 3,472.9 | Rs. 116.7 | Rs. 2,082.0 | Rs. 7,316.1 | Rs. 19,225.5 | Rs. 2,738.5 | Rs. 42 |
| .9) | (7,418.1) | (380.8) | (4,327.8) | (9.2) | (1,328.8) | (3,480.4) | | | (19 |
| .8 | 7,784.8 | 1,888.3 | 4,485.5 | 19.9 | 2,148.4 | 4,248.1 | 151.2 | 509.9 | 24 |
| .0 | Rs. 1,634.0 | Rs. 7,105.6 | Rs. 3,630.6 | Rs. 127.4 | Rs. 2,901.6 | Rs. 8,083.8 | Rs. 19,376.7 | Rs. 3,248.4 | Rs. 47 |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. 8,083.8 | Rs. | Rs. | Rs. 8 |
| .0 | 1,634.0 | 7,105.6 | 3,630.6 | 127.4 | 2,901.6 | | 19,376.7 | 3,248.4 | 39 |
| | | | | | | 13,489.6 | | | 13 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| .7 | 2,648.4 | 10,012.5 | 5,559.4 | 242.7 | 4,653.5 | 2,695,153.3 | 1,208,971.0 | 3,929 |

* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 7,524.7 million.

The unallocated allowance is assessed at each period end and the increase/(decrease) as the case may be is recorded in the income statement under allowances for credit losses. There is no transfer of amounts to or from the unallocated category to the specific category.

Troubled debt restructuring (TDR)

When the Bank grants concession, for economic or legal reasons related to a borrower s financial difficulties, for other than an insignificant period of time, the related loan is classified as a TDR. Concessions could include a reduction in the interest rate below current market rates, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered TDRs. On restructuring, the loans are re-measured to reflect the impact, if any, on projected cash flows resulting from the modified terms. Modification may have little or no impact on the allowance established for the loan if there was no forgiveness of the principal and the interest was not decreased. A charge off may be recorded at the time of restructuring if a portion of the loan is deemed to be uncollectible.

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HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the Bank s TDR modifications during the year ended March 31, 2014 and March 31, 2015 presented by primary modification type and includes the financial effects of these modifications.

| | Fiscal year ended March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying value | TDRs involving changes in the amount of principal payments (1) | TDRs involving changes in the amount of interest payments (2) | TDRs involving changes in the amount of both principal and interest payments | Balance of principal forgiven | Net P&L impact (3) |
| | (In millions) | | | | | |
| Retail business banking | Rs. 83.9 | Rs. | Rs. 83.9 | Rs. | Rs. | Rs. 7.8 |
| Wholesale loans | 167.0 | | 167.0 | | | 147.0 |
| Total[4] | Rs. 250.9 | Rs. | Rs. 250.9 | Rs. | Rs | Rs. 154.8 |

(1) TDRs involving changes in the amount of principal payment may include principal forgiveness or deferral of periodic and/or final principal payments.
(2) TDRs involving changes in the amount of interest payments may involve a reduction in interest rate.
(3) Balances reflect charge-offs and/or allowance for credit losses and/or income not recognized/deferred
(4) TDR modification during the year ended March 31, 2014 comprised of four cases.

| | Fiscal year ended March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying value | TDRs involving changes in the amount of principal payments (1) | TDRs involving changes in the amount of interest payments (2) | TDRs involving changes in the amount of both principal and interest payments | Balance of principal forgiven | Net P&L impact (3) |
| | (In millions) | | | | | |
| Retail business banking | Rs. 257.5 | Rs. | Rs. 257.5 | Rs. | Rs. | Rs. 9.8 |
| Wholesale loans | 1,937.3 | | 1,937.3 | | | 176.0 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total[4] | Rs. | 2,194.8 | Rs. | | Rs. | 2,194.8 | Rs. | | Rs. | Rs. | 185.8 |
| Total[4] | US$ | 35.2 | US$ | | US$ | 35.2 | US$ | | US$ | US$ | 3.0 |

(1) TDRs involving changes in the amount of principal payment may include principal forgiveness or deferral of periodic and/or final principal payments.
(2) TDRs involving changes in the amount of interest payments may involve a reduction in interest rate.
(3) Balances reflect charge-offs and/or allowance for credit losses and/or income not recognized/deferred
(4) TDR modification during the year ended March 31, 2015 comprised of six cases.

The table below summarizes TDRs that have defaulted in the current period within 12 months of their modification date. The defaulted TDRs are based on a payment default definition of 90 days past due.

| | As of March 31, 2015 recorded investments (In millions) | |
|---|---|---|
| Retail loans: | | |
| Retail business banking | Rs. | 72.2 |
| Wholesale loans | | 79.5 |
| Total | Rs. | 151.7 |
| Total | US$ | 2.4 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Interest on loans by facility are as follows:

| | Fiscal years ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 |
| | (In millions) | | | |
| Wholesale | Rs. 82,159.2 | Rs. 93,448.1 | Rs. 105,465.8 | US$ 1,692.6 |
| Retail loans | 189,571.3 | 233,307.2 | 282,798.9 | 4,538.6 |
| Total | Rs. 271,730.5 | Rs. 326,755.3 | Rs. 388,264.7 | US$ 6,231.2 |

**11. Sales/transfer of receivables**

There were no pre-tax gains on securitizations/other transfers that were completed during the years ended March 31, 2013, March 31, 2014 and March 31, 2015. The following table summarizes the cash flows received from customers and paid to SPEs/transferees for sales of performing loans during the years ended March 31, 2013, March 31, 2014 and March 31, 2015:

| | Fiscal years ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 |
| | (In millions) | | | |
| Cash flow information | | | | |
| Collections against securitized receivables/transfers | Rs. 1,946.0 | Rs. 1,771.9 | Rs. 903.6 | US$ 14.5 |
| Payments made | 1,819.6 | 1,537.7 | 832.5 | 13.4 |
| Cash flows on retained interests | Rs. 128.6 | Rs. 223.1 | Rs. 69.3 | US$ 1.1 |

Other key disclosures are as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | (In millions) | | |
| Transferred receivables with continuing involvement* | Rs. 2,250.7 | Rs. 1,670.3 | US$ 26.8 |
| Delinquencies | 240.4 | 296.0 | 4.8 |
| Credit losses | 173.5 | 220.5 | 3.5 |
| Retained interest in sold receivables | 102.7 | 64.3 | 1.0 |

* Includes less than Rs. 0.1 million held by SPEs as of March 31, 2014 and nil as of March 31, 2015.

The table below outlines the economic assumptions and the sensitivity of the estimated fair value of retained interests in finance receivables as of March 31, 2014 and March 31, 2015 to immediate 10% and 20% changes in those assumptions:

| | As of March 31, | | |
|---|---|---|---|
| | **2014** | **2015** | **2015** |
| | | **(In millions)** | |
| **Fair value of retained interests** | | | |
| Annual prepayment rate: | | | |
| Impact of 10% adverse change | Rs. 9.2 | Rs. 6.7 | US$ 0.1 |
| Impact of 20% adverse change | 17.5 | 12.7 | 0.2 |
| Expected credit losses: | | | |
| Impact of 10% adverse change | 10.0 | 6.6 | 0.1 |
| Impact of 20% adverse change | 20.0 | 13.2 | 0.2 |

The discount rate used for the valuation of retained interests is the rate of return to the transferees of the various pools of securitized receivables and, therefore, is not subject to change. Weighted average life in years of the securitized receivables is also not subject to change, except in the case of a change in the prepayment rate assumption. Consequently, the above sensitivity analysis does not include the impact on the estimated fair values of the retained interests due to an adverse change in the weighted average life in years and the discount rate.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

These sensitivities are hypothetical and should be used with appropriate caution. A 10% change in the assumptions may not result in lineally proportionate changes in the fair values of retained interests. Adverse changes assumed in the above analysis and the resultant change in the fair values of retained interests are calculated independent of each other. In reality, any change in one factor may cause a change in the other factors.

## 12. Concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank s total credit exposure. The Bank manages its credit risk collectively for its loan portfolio and credit substitute securities as these instruments are invested in as part of an overall lending program for corporate customers; accordingly, information on concentrations of credit risk has been provided for these exposures together.

In the case of wholesale loans while the Bank generally lend on a cash-flow basis, it also require collateral which consists of liens on inventory, receivables and other current assets, and in some cases, charges on fixed assets, such as property, movable assets (such as vehicles) and financial assets (such as marketable securities) from a large number of the Bank s borrowers. The Bank s retail loans are generally secured by a charge on the asset financed (vehicle loans, property loans and loans against gold and securities). Retail business banking loans are secured with current assets as well as immovable property and fixed assets in some cases. However, collateral securing each individual loan may not be adequate in relation to the value of the loan. If the customer fails to pay, the Bank would, as applicable, liquidate collateral and/or set off accounts. The maximum estimated loss that would be incurred under severe, hypothetical circumstances, for which the Bank believes the possibility is extremely remote, such as where the value of the Bank s interests and any associated collateral declines to zero, without any consideration of recovery or offset is determined as the carrying values of the instruments as given in the below table.

The Bank s portfolio of loans, credit substitute securities and non-funded exposure (including derivatives) is broadly diversified along industry and product lines, and as of March 31, 2014 and March 31, 2015 the exposures are as set forth below. The Bank does not consider retail loans a specific industry for this purpose. However, retail business banking loans are classified in the appropriate categories below and loans to commercial vehicle operators are included in land transport below. For the purposes of industry-wise classification of retail loans, from fiscal 2015, the end use (i.e. business purpose or personal use) is taken into consideration. Accordingly, exposures to individual and non-individual borrowers, where the credit facilities are for business purpose, are being reported under the industry relating to the activity of the borrower. Where the credit facilities are for personal use, the exposure to the individual borrower is classified under Consumer Loans.

| | As of March 31, 2014 | | | | |
|---|---|---|---|---|---|
| **Category** | **Gross loans** | **Fair Values Of Credit Substitutes** | **Non-funded exposure** | **Total** | **%** |
| | (In millions, except percentages) | | | | |
| Wholesale Trade | Rs. 235,711.9 | Rs. 99.9 | Rs. 26,849.8 | Rs. 262,661.6 | 6.8% |

| | | | | | |
|---|---|---|---|---|---|
| Automobile & Auto Ancillary | 145,886.7 | 5,067.8 | 13,878.2 | 164,832.7 | 4.3 |
| Activities allied to agriculture | 155,559.1 | | 562.2 | 156,121.3 | 4.0 |
| Land Transport | 150,177.4 | | 2,398.4 | 152,575.8 | 3.9 |
| Banks & Financial Institutions | 19,010.7 | | 129,375.0 | 148,385.7 | 3.8 |
| Coal & Petroleum Products | 69,725.4 | | 62,589.9 | 132,315.3 | 3.4 |
| Services | 96,238.8 | 341.8 | 17,496.5 | 114,077.1 | 2.9 |
| Food & Beverage | 99,588.0 | 1,000.6 | 6,182.8 | 106,771.4 | 2.8 |
| Iron & Steel | 82,959.4 | 2,323.8 | 19,958.0 | 105,241.2 | 2.7 |
| Engineering | 57,349.9 | | 38,982.2 | 96,332.1 | 2.5 |
| Retail trade | 90,086.2 | | 3,121.6 | 93,207.8 | 2.4 |
| Power | 70,980.3 | 1,489.4 | 14,572.6 | 87,042.3 | 2.2 |
| NBFC/Financial Intermediaries | 57,796.1 | 23,196.9 | 2,217.1 | 83,210.1 | 2.1 |
| Others (none greater than 2%) | 1,897,191.4 | 31,626.9 | 245,854.3 | 2,174,672.6 | 56.2 |
| Total | Rs. 3,228,261.3 | Rs. 65,147.1 | Rs. 584,038.6 | Rs. 3,877,447.0 | 100.0% |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | As of March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| Category | Gross loans | Fair Values Of Credit Substitutes | Non-funded exposure | Total | Total | % |
| | (In millions, except percentages) | | | | | |
| Consumer Loans | Rs. 479,467.5 | Rs. | Rs. 17.6 | Rs. 479,485.1 | US$ 7,695.2 | 10.1% |
| Activities allied to agriculture | 422,894.4 | | 1,697.6 | 424,592.0 | 6,814.2 | 8.9 |
| Wholesale Trade | 308,806.4 | 5,259.8 | 31,745.5 | 345,811.7 | 5,549.9 | 7.3 |
| Services | 230,040.6 | 445.9 | 15,511.7 | 245,998.2 | 3,948.0 | 5.2 |
| Automobile & Auto Ancillary | 192,017.4 | 23,046.5 | 16,357.7 | 231,421.6 | 3,714.0 | 4.9 |
| Retail trade | 189,593.5 | 841.2 | 4,761.4 | 195,196.1 | 3,132.7 | 4.1 |
| Coal & Petroleum Products | 40,153.4 | 5,984.5 | 111,908.1 | 158,046.0 | 2,536.4 | 3.3 |
| NBFC/Financial Intermediaries | 94,744.7 | 59,985.8 | 1,876.5 | 156,607.0 | 2,513.4 | 3.3 |
| Food & Beverage | 121,172.2 | 7,040.2 | 6,734.9 | 134,947.3 | 2,165.7 | 2.8 |
| Land Transport | 131,240.2 | 522.1 | 2,668.8 | 134,431.1 | 2,157.5 | 2.8 |
| Power | 96,169.7 | 15,846.8 | 18,570.3 | 130,586.8 | 2,095.8 | 2.7 |
| Engineering | 79,747.2 | 1,077.1 | 48,819.8 | 129,644.1 | 2,080.6 | 2.7 |
| Real Estate & Property Services | 88,264.9 | 3,607.0 | 11,179.6 | 103,051.5 | 1,653.9 | 2.2 |
| Iron & Steel | 84,913.9 | 1,475.8 | 15,927.1 | 102,316.8 | 1,642.1 | 2.1 |
| Others (none greater than 2%) | 1,384,223.1 | 69,926.2 | 340,225.7 | 1,794,375.0 | 28,797.5 | 37.6 |
| Total | Rs. 3,943,449.1 | Rs. 195,058.9 | Rs. 628,002.3 | Rs. 4,766,510.3 | US$ 76,496.9 | 100.0% |

The Bank s ten largest exposures as of March 31, 2014 and March 31, 2015, based on the higher of the outstanding balance or the limit on loans, investments (including credit substitutes) and non-funded exposures (including derivatives), are as follows:

| | As of March 31, 2014 | | |
|---|---|---|---|
| | Funded Exposure | Non-Funded Exposure | Total Exposure |
| | (In millions) | | |
| Borrower 1 | Rs. 121,804.1 | Rs. 150.1 | Rs. 121,954.2 |
| Borrower 2 | 39,740.2 | 35,500.0 | 75,240.2 |
| Borrower 3 | 42,582.3 | 22,489.0 | 65,071.3 |

| | | | |
|---|---|---|---|
| Borrower 4 | 26,948.1 | 15,568.4 | 42,516.5 |
| Borrower 5 | 42,500.0 | | 42,500.0 |
| Borrower 6 | 12,469.1 | 23,604.9 | 36,074.0 |
| Borrower 7 | 30,000.0 | | 30,000.0 |
| Borrower 8 | 27,400.0 | 2,239.2 | 29,639.2 |
| Borrower 9 | 26,980.8 | 3.3 | 26,984.1 |
| Borrower 10 | 18,797.6 | 7,967.2 | 26,764.8 |

| | As of March 31, 2015 | | | |
|---|---|---|---|---|
| | **Funded Exposure** | **Non-Funded Exposure** | **Total Exposure** | **Total Exposure** |
| | **(In millions)** | | | |
| Borrower 1 | Rs. 122,505.0 | Rs. 290.5 | Rs. 122,795.5 | US$ 1,970.7 |
| Borrower 2 | 25,516.9 | 55,571.8 | 81,088.7 | 1,301.4 |
| Borrower 3 | 22,117.2 | 50,000.0 | 72,117.2 | 1,157.4 |
| Borrower 4 | 65,000.0 | 16.3 | 65,016.3 | 1,043.4 |
| Borrower 5 | 23,919.4 | 21,789.0 | 45,708.4 | 733.6 |
| Borrower 6 | 38,545.2 | 2,068.5 | 40,613.7 | 651.8 |
| Borrower 7 | 496.1 | 34,598.7 | 35,094.8 | 563.2 |
| Borrower 8 | 35,000.0 | | 35,000.0 | 561.7 |
| Borrower 9 | 15,512.9 | 15,134.6 | 30,647.5 | 491.9 |
| Borrower 10 | 15,338.0 | 15,127.9 | 30,465.9 | 488.9 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### 13. Property and equipment

Property and equipment by asset category is as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | | (In millions) | |
| Land and premises | Rs. 14,659.9 | Rs. 15,339.0 | US$ 246.2 |
| Software and systems | 13,150.2 | 16,123.2 | 258.8 |
| Equipment and furniture | 44,907.5 | 49,270.1 | 790.7 |
| Property and equipment, at cost | 72,717.6 | 80,732.3 | 1,295.7 |
| Less: Accumulated depreciation | 41,348.5 | 47,376.4 | 760.4 |
| Property and equipment, net | Rs. 31,369.1 | Rs. 33,355.9 | US$ 535.3 |

Depreciation and amortization charged for the years ended March 31, 2013, March 31,2014 and March 31, 2015 was Rs. 6,686.2 million, Rs. 6,980.3 million and Rs. 6,905.8 million (US$ 110.8 million), respectively.

### 14. Goodwill and other intangible assets

Goodwill arising from a business combination is tested at least on an annual basis for impairment. There were no changes in the carrying amount of goodwill of Rs. 74,937.9 million for the year ended March 31, 2014 and the year ended March 31, 2015. The entire amount of goodwill was allocated to the retail business. The table below presents the gross carrying amount, accumulated amortization and net carrying amount, in total and by class of intangible assets as of March 31, 2014 and March 31, 2015:

| | As of March 31, 2014 | | | As of March 31, 2015 | | | |
|---|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount | Net carrying amount |
| | | | | (In millions) | | | |
| Branch network | Rs. 8,335.0 | Rs. 8,133.0 | Rs. 202.0 | Rs. 8,335.0 | Rs. 8,335.0 | Rs. | US$ |
| Customer list | 2,710.0 | 2,710.0 | | 2,710.0 | 2,710.0 | | |
| Core deposit | 4,414.0 | 4,414.0 | | 4,414.0 | 4,414.0 | | |
| Favorable leases | 543.0 | 514.0 | 29.0 | 543.0 | 531.0 | 12.0 | 0.2 |

| Total | Rs. 16,002.0 | Rs. 15,771.0 | Rs. 231.0 | Rs. 16,002.0 | Rs. 15,990.0 | Rs. 12.0 | US$ 0.2 |
|---|---|---|---|---|---|---|---|

Branch network intangible represents the benefit that the Bank received through the acquisition of a ready branch network from Centurion Bank of Punjab Limited ( CBoP ) as opposed to having to build a new one. The fair value attributable to the branch network intangible is the difference in the present values of the earnings (net of costs) that the Bank would have generated if the Bank had set up its own branches/ATMs (the Hypothetical New Branch Network Earnings ) and the earnings (net of costs) that were generated because of the acquisition of CBoP (the CBoP Branch Network Earnings ). Similar streams of revenues and operating costs (and therefore profits) from CBoP s existing customer base and loan portfolio (includes net interest income, fees and commission) have been considered in determining the values of the Hypothetical New Branch Network Earnings and the CBoP Branch Network Earnings. Other assets including intangibles such as customer list, core deposits, loans, premises and equipment have been considered as assets of Hypothetical New Branch Network Earnings and the CBoP Branch Network Earnings and the value of these assets have been included in both of the networks. The aforesaid present values to compute the said intangible assets was intended to capture the advantages that the Bank received through the acquisition of a ready branch network from CBoP (as opposed to having to build a new one) in terms of time and of avoiding the administrative process required to obtaining branch licenses from the Reserve Bank of India (RBI). The Bank calculated the value of the customer list intangible through the cost approach by considering the estimated direct unit costs to source these customers multiplied by the number of customers. The Bank used the cost savings approach, i.e. the difference between the estimated cost of funds on deposit (interest cost and net maintenance costs) and the estimated cost of an equal amount of funds from an alternative source to calculate the core deposit intangible. The valuation of favorable leases intangibles was based on the cost saving to the Bank and future economic benefit until the lease expiry.

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The aggregate amortization charged for the years ended March 31, 2013, March 31, 2014 and March 31, 2015 was Rs. 2,304.5 million, Rs. 1,538.5 million and Rs. 219.0 million (US$ 3.5 million), respectively.

The estimated amortization expense for intangible assets for each of the five succeeding twelve months period is given in the table below:

| | As of March 31, | |
|---|---|---|
| | 2015 | 2015 |
| | (In millions) | |
| To be amortized during the twelve months ending March 31: | | |
| 2016 | Rs. 7.0 | US$ 0.1 |
| 2017 | 3.0 | 0.1 |
| 2018 | 1.0 | |
| 2019 | 1.0 | |
| 2020 | | |

## 15. Other assets

Other assets include the following:

| | | As of March 31, | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | | (In millions) | |
| Security deposits for leased property | Rs. 3,728.7 | Rs. 4,232.1 | US$ 67.9 |
| Sundry accounts receivable | 22,455.4 | 12,492.3 | 200.5 |
| Advance tax (net of provision for taxes) | 12,251.3 | 14,703.2 | 236.0 |
| Advances | 1,444.8 | 2,682.1 | 43.0 |
| Prepaid expenses | 1,160.2 | 1,454.2 | 23.3 |
| Restricted cash/ securitization margin for credit enhancement and securitized transactions | 3,677.4 | 3,197.0 | 51.3 |
| Derivatives (refer to note 24) | 142,479.3 | 72,415.7 | 1,162.2 |
| Others | 27,093.9 | 19,301.4 | 309.8 |
| Total | Rs. 214,291.0 | Rs. 130,478.0 | US$ 2,094.0 |

## 16. Deposits

Deposits include demand deposits, which are non-interest-bearing, and savings and time deposits, which are interest-bearing. Deposits as of March 31, 2014 and March 31, 2015 were as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | (In millions) | | |
| Interest-bearing: | | | |
| Savings deposits | Rs. 1,031,326.1 | Rs. 1,249,266.1 | US$ 20,049.2 |
| Time deposits | 2,025,828.4 | 2,519,412.7 | 40,433.5 |
| Total interest-bearing deposits | 3,057,154.5 | 3,768,678.8 | 60,482.7 |
| Non-interest-bearing deposits | 612,845.6 | 733,032.0 | 11,764.3 |
| Total | Rs. 3,670,000.1 | Rs. 4,501,710.8 | US$ 72,247.0 |

As of March 31, 2014 and March 31, 2015, time deposits of Rs. 1,327,554.2 million and Rs. 1,737,103.7 million, respectively, had a residual maturity of less than one year. The remaining deposits mature between one and ten years.

As of March 31, 2014 and March 31, 2015, time deposits in excess of Rs. 0.1 million aggregated Rs. 1,872,806.1 million and Rs. 2,365,836.3 million, respectively.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of March 31, 2015, the scheduled maturities for total time deposits were as follows:

| | As of March 31, 2015 (In millions) | |
|---|---|---|
| Due to mature in the fiscal year ending March 31: | | |
| 2016 | Rs. 1,737,103.7 | US$ 27,878.4 |
| 2017 | 507,781.4 | 8,149.3 |
| 2018 | 122,233.3 | 1,961.7 |
| 2019 | 88,001.3 | 1,412.3 |
| 2020 | 47,145.4 | 756.6 |
| Thereafter | 17,147.6 | 275.2 |
| Total | Rs. 2,519,412.7 | US$ 40,433.5 |

**17. Short-term borrowings**

Short-term borrowings are mainly comprised of money market borrowings which are unsecured and are utilized by the Bank for its treasury operations. Short-term borrowings as of March 31, 2014 and March 31, 2015 were comprised of the following:

| | As of, | | |
|---|---|---|---|
| | March 31, 2014 | March 31, 2015 | March 31, 2015 |
| | (In millions) | | |
| Borrowed in the call market | Rs. 13,937.3 | Rs. 14,851.7 | US$ 238.3 |
| Term borrowings from institutions/banks | 49,550.0 | 80,002.8 | 1,284.0 |
| Foreign currency borrowings | 83,313.8 | 119,337.4 | 1,915.2 |
| Bills rediscounted | 3,974.4 | | |
| Total | Rs. 150,775.5 | Rs. 214,191.9 | US$ 3,437.5 |
| Total borrowings outstanding: | | | |
| Maximum amount outstanding | Rs. 383,190.9 | Rs. 276,731.0 | US$ 4,441.2 |
| Average amount outstanding | Rs. 213,031.8 | Rs. 143,975.8 | US$ 2,310.6 |

| Weighted average interest rate | 3.3% | 3.0% | 3.0% |
|---|---|---|---|

**18. Long-term debt**

Long-term debt as of March 31, 2014 and March 31, 2015 comprised of the following:

| | | As of | |
|---|---|---|---|
| | March 31, 2014 | March 31, 2015 | March 31, 2015 |
| | | (In millions) | |
| Subordinated debt | Rs. 174,730.5 | Rs. 175,849.0 | US$ 2,822.2 |
| Others | 220,478.1 | 282,085.4 | 4,527.1 |
| Total | Rs. 395,208.6 | Rs. 457,934.4 | US$ 7,349.3 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The below table presents the balance of long term debt as of March 31, 2014 and March 31, 2015 and the related contractual rates and maturity dates:

| | Years ended March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | | | 2015 | | | |
| | Maturity / Call dates | Stated interest rates | Total | Maturity / Call dates | Stated interest rates | Total | Total |
| | | | | (In millions) | | | |
| Subordinated debt | | | | | | | |
| Lower Tier II | | | | | | | |
| Fixed rate | 2015 - 2024 | 5.90% to 10.70% | Rs. 132,580.0 | 2016 - 2025 | 6.00% to 10.70% | Rs. 133,440.0 | US$ 2,141.6 |
| Upper Tier II | | | | | | | |
| Fixed rate | 2016 - 2021 | 8.70% to 10.85% | 34,159.0 | 2016 - 2021 | 8.70% to 10.85% | 34,159.0 | 548.2 |
| Variable rate | 2016 - 2017 | LIBOR+1.2 | 5,991.5 | 2016 - 2017 | LIBOR+1.2 | 6,250.0 | 100.3 |
| Perpetual debt | 2016 - 2017 | 9.92% | 2,000.0 | 2016 - 2017 | 9.92% | 2,000.0 | 32.1 |
| Others | | | | | | | |
| Variable rate (1) | 2015 - 2018 | 1.25% to 3.00% | 129,708.4 | 2016 - 2018 | 1.50% to 2.59% | 49,375.0 | 792.3 |
| Variable rate (2) | 2015 - 2018 | 10.25% to 11.35% | 57,299.7 | 2016 - 2019 | 9.95% to 10.55% | 72,737.8 | 1,167.4 |
| Fixed rate (1) | 2015 - 2019 | 8.54% to 10.81% | 33,470.0 | 2016 - 2025 | 8.45% to 10.81% | 83,950.0 | 1,347.3 |
| Fixed rate (2) | | | | 2016 - 2018 | 1.11% to 4.30% | 76,022.6 | 1,220.1 |
| Total | | | Rs. 395,208.6 | | | Rs. 457,934.4 | US$ 7,349.3 |

The scheduled maturities of long-term debt are set out below:

| | As of March 31, 2015 (In millions) | |
|---|---|---|
| Due in the twelve months ending March 31: | | |
| 2016 | Rs. 39,713.0 | US$ 637.3 |
| 2017 | 101,547.4 | 1,629.7 |
| 2018 | 98,097.7 | 1,574.3 |
| 2019 | 39,397.3 | 632.3 |

| | | |
|---|---|---|
| 2020 | 2,500.0 | 40.1 |
| Thereafter (1) | 174,679.0 | 2,803.4 |
| Total | Rs. 455,934.4 | US$ 7,317.1 |

(1) The scheduled maturities of long-term debt do not include perpetual bonds of Rs. 2.0 billion.

During the year ended March 31, 2015 the Bank issued subordinated debt qualifying for Lower Tier II capital, under RBI regulatory guidelines, amounting to Rs. 5,000 million (previous period Rs. 2,300.0 million) and raised other long term debt Rs. 99,257.6 million (previous period Rs. 144,041.9 million).

As of March 31, 2014 and March 31, 2015, other long-term debt includes foreign currency borrowings from other banks aggregating to Rs. 129,708.4 million and Rs. 125,397.6 million, respectively, and functional currency borrowings aggregating to Rs. 90,769.7 million and Rs. 156,687.8 million, respectively.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 19. Accrued expenses and other liabilities

Accrued expenses and other liabilities include the amounts set forth below:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | | (In millions) | |
| Bills payable | Rs. 56,112.0 | Rs. 60,853.2 | US$ 976.6 |
| Remittances in transit | 22,174.7 | 17,791.9 | 285.5 |
| Accrued expenses | 20,591.7 | 20,468.3 | 328.5 |
| New account deposits | 7,073.8 | 12,966.3 | 208.1 |
| Accounts payable | 64,086.3 | 26,785.7 | 429.9 |
| Derivatives (refer to note 24) | 124,176.3 | 71,767.5 | 1,151.8 |
| Others | 54,472.9 | 40,288.7 | 646.7 |
| Total | Rs. 348,687.7 | Rs. 250,921.6 | US$ 4,027.1 |

The Bank amortizes annual fees on credit cards over the contractual period of the fees. The unamortized annual fees as of March 31, 2014 and March 31, 2015 was Rs. 176.3 million and Rs. 285.6 million (US$ 4.6 million), respectively.

## 20. Accumulated other comprehensive income

The below table presents the changes in accumulated other comprehensive income (OCI) after tax for the years ended March 31, 2014 and March 31, 2015.

| | Available for sale securities | Foreign currency translation reserve | Total |
|---|---|---|---|
| | | (In millions) | |
| Balance, March 31, 2013 | Rs. 222.4 | Rs. 263.0 | Rs. 485.4 |
| Net unrealized gain/(loss) arising during the period | (12,267.8) | 211.5 | (12,056.3) |
| Amounts reclassified to income | (19.5) | | (19.5) |
| Balance, March 31, 2014 | Rs. (12,064.9) | Rs. 474.5 | Rs. (11,590.4) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Balance, March 31, 2014 | Rs. | (12,064.9) | Rs. | 474.5 | Rs. | (11,590.4) |
| Net unrealized gain/(loss) arising during the period | | 22,188.9 | | 92.9 | | 22,281.8 |
| Amounts reclassified to income | | 135.0 | | | | 135.0 |
| Balance, March 31, 2015 | Rs. | 10,259.0 | Rs. | 567.4 | Rs. | 10,826.4 |
| Balance, March 31, 2015 | US$ | 164.6 | US$ | 9.2 | US$ | 173.8 |

The below table presents the reclassification out of accumulated other comprehensive income (OCI) by income line item and the related tax effect for period ended March 31, 2014 and March 31, 2015.

| | **As of March 31,** | | |
|---|---|---|---|
| | **2014** | **2015** | **2015** |
| | **(In millions)** | | |
| Available for sale securities: | | | |
| Realized (gain)/loss on sales of available for sale securities, net | Rs. (29.5) | Rs. 202.7 | US$ 3.3 |
| Other than temporary impairment losses on available for sale securities | | 1.8 | |
| Total before tax | Rs. (29.5) | Rs. 204.5 | US$ 3.3 |
| Income tax | 10.0 | (69.5) | (1.1) |
| Net of tax | Rs. (19.5) | Rs. 135.0 | US$ 2.2 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21. Income taxes**

Income tax expense is comprised of the following:

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 |
| | (In millions) | | | |
| Current income tax expense | Rs. 35,848.5 | Rs. 44,324.2 | Rs. 54,954.4 | US$ 882.0 |
| Deferred income tax (benefit) expense* | (4,881.7) | (1,994.6) | (352.1) | (5.7) |
| Interest on income tax refund | (1,126.7) | (25.4) | (82.4) | (1.3) |
| Income tax expense** | Rs. 29,840.1 | Rs. 42,304.2 | Rs. 54,519.9 | US$ 875.0 |

* Includes deferred income tax benefits on the amortization of intangible assets of Rs. 747.7 million, Rs. 495.6 million and Rs. 74.4 million for fiscals March 31, 2013, March 31, 2014 and March 31, 2015, respectively.

** Does not include the deferred tax effects of unrealized gains and losses on available for sale securities that are included in accumulated other comprehensive income of Rs. (3,771.9) million, Rs. 6,310.3 million and Rs. (11,425.5) million for fiscals March 31, 2013, March 31, 2014 and March 31, 2015, respectively. Includes income tax effects on reclassification adjustment on gains and losses on available for sale securities included in net income reclassified from accumulated other comprehensive income of Rs. 103.8 million, Rs. 10.0 million and Rs. (69.5) million for fiscals March 31, 2013, March 31, 2014 and March 31, 2015, respectively. Further, pretax income and income tax expense are substantially from India.

The following is the reconciliation of estimated income taxes at the Indian statutory income tax rate to income tax expense as reported:

| | Years ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 |
| | (In millions) | | | |
| Income before income tax expense | Rs. 91,974.8 | Rs. 121,750.4 | Rs. 154,024.6 | US$ 2,471.9 |
| Statutory income tax rate | 32.45% | 33.99% | 33.99% | 33.99% |
| Expected income tax expense | 29,841.2 | 41,383.0 | 52,353.0 | 840.2 |
| Adjustments to reconcile expected income tax to actual | | | | |

| tax expense | | | | |
|---|---|---|---|---|
| Interest on income tax refund, net of tax effect | (761.1) | (16.8) | (54.4) | (0.9) |
| Nondeductible stock-based compensation | 1,471.0 | 1,867.9 | 3,106.3 | 49.9 |
| Income exempt from taxes | (593.5) | (450.9) | (1,026.6) | (16.5) |
| Effect of change in statutory tax rate | | (606.6) | | |
| Other, net | (117.5) | 127.6 | 141.6 | 2.3 |
| Income tax expense | Rs. 29,840.1 | Rs. 42,304.2 | Rs. 54,519.9 | US$ 875.0 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The tax effects of significant temporary differences are as follows:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | (In millions) | | |
| Tax effect of: | | | |
| Deductible temporary differences: | | | |
| Allowance for loan losses | Rs. 11,221.9 | Rs. 12,576.7 | US$ 201.8 |
| Unrealized loss on securities available for sale | 6,274.7 | | |
| Investments, others | 441.9 | 4.6 | 0.1 |
| Derivatives | 489.7 | 820.9 | 13.2 |
| Employee benefits | 2,048.5 | 1,225.8 | 19.7 |
| Others | 2,935.0 | 3,212.8 | 51.5 |
| Deferred tax asset | 23,411.7 | 17,840.8 | 286.3 |
| Taxable temporary differences: | | | |
| Property and equipment | 783.6 | 891.3 | 14.3 |
| Loan origination cost | 1,577.2 | 1,944.9 | 31.2 |
| Unrealized gain on securities available for sale | | 5,209.8 | 83.6 |
| Intangible assets | 78.5 | 4.1 | 0.1 |
| Deferred tax liability | 2,439.3 | 8,050.1 | 129.2 |
| Net deferred tax asset (liability) | Rs. 20,972.4 | Rs. 9,790.7 | US$ 157.1 |

Management believes that the realization of the recognized deferred tax assets is more likely than not based on expectations as to future pretax income. The total unrecognized tax benefit as on March 31, 2014 and March 31, 2015 is Rs. 648.3 million and Rs. 648.3 million, respectively. The Bank recognised interest income but no interest expense or penalty for the years ended March 31, 2013, March 31, 2014 and March 31, 2015. The major income tax jurisdiction for the Bank is India. The open tax years (first assessment by the tax authorities) is pending from fiscal 2013 onwards. However, appeals filed by the Bank are pending with various local tax authorities in India for earlier tax years.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

| | Year ended March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | | (In millions) | |
| Opening balance | Rs. 648.3 | Rs. 648.3 | US$ 10.4 |
| Increase/(decrease) related to prior year tax positions | | | |
| Closing balance | Rs. 648.3 | Rs. 648.3 | US$ 10.4 |

The Bank s total unrecognized tax benefits, if recognized, would reduce the income tax expense provisions by Rs. 648.3 million as of March 31, 2015 and thereby would affect the Bank s effective tax rate.

Significant changes in the amount of unrecognized tax benefits within the next 12 months cannot be reasonably estimated as the changes would depend upon the progress of tax examinations with various tax authorities.

The Bank s policy is to include interest and penalties related to gross unrecognized tax benefits within income taxes

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**22. Stock-based compensation**

The stock-based compensation plans of the Bank are as follows.

***Employees Stock Option Scheme:***

The shareholders of the Bank approved in January 2000 Plan A , in June 2003 Plan B , in June 2005 Plan C , in June 2007 Plan D and in June 2010 Plan E of the Employees Stock Option Scheme (the Plan ). The Bank reserved 50.0 million equity shares, with an aggregate nominal value of Rs.100.0 million, for issuance under each Plan A , B and C . Under Plan D the Bank reserved 75.0 million equity shares with an aggregate nominal value of Rs.150.0 million and under Plan E the Bank reserved 100.0 million equity shares with an aggregate nominal value of Rs. 200.0 million. The annual general meeting held on June 27, 2013, reserved 100.0 million equity shares with aggregate nominal value of Rs. 200.0 million for grant under the Bank s employee stock option scheme under Plan F . Under the terms of each of these Plans, the Bank may issue stock options to employees and directors of the Bank, each of which is convertible into one equity share.

Plan A provides for the issuance of options at the recommendation of the Compensation Committee of the Board (the Compensation Committee ) at an average of the daily closing prices on the Mumbai Stock Exchange during the 60 days preceding the date of grant of options, which was the minimum prescribed option price under regulations then issued by the Securities and Exchange Board of India ( SEBI ). Presently, there are no stock options issued and outstanding under Plan A.

Plan B, Plan C, Plan D, Plan E and Plan F provide for the issuance of options at the recommendation of the Compensation Committee at the closing price on the working day immediately preceding the date when options are granted on an Indian stock exchange. For Plan B the price is that quoted on an Indian stock exchange with the highest trading volume during the preceding two weeks, while for Plan C, Plan D, Plan E and Plan F, the price is that quoted on an Indian stock exchange with the highest trading volume as of the working day preceding the date of grant. Presently, there are no stock options issued and outstanding under Plan B.

Such options vest at the discretion of the Compensation Committee, generally between 1-3 years. These options are exercisable for a period following vesting at the discretion of the Compensation Committee, subject to a maximum of five years, as set forth at the time of the grant. Modifications, if any, made to the terms and conditions of these Plans as approved by the Compensation Committee are disclosed separately.

On July 20, 2013, the Compensation Committee of the Board approved the grant of a total of 32,926,500 options (Scheme XIX), a total of 7,085,000 (Scheme XX) and a total of 7,017,000 options (Scheme XXI) to the employees of the Bank, respectively. On December 24, 2013, the Compensation Committee of the Board approved the grant of a total of 31,500 options (Scheme XXII) to the employees of the Bank. On July 26, 2014, the Compensation Committee of the Board approved the grant of 574,000 options (Scheme XXIII) and 41,085,000 options (Scheme XXIV) to the employees of the Bank, respectively.

***Modification of employee stock option schemes***

During the period ended March 31, 2013, March 31, 2014 and March 31, 2015, there were no modifications to employee stock option schemes.

***Assumptions used***

The fair value of options has been estimated on the dates of each grant using a binomial option pricing model with the following assumptions:

| | Years ended March 31, | | |
|---|---|---|---|
| | **2013*** | **2014** | **2015** |
| Dividend yield | | 0.81%-0.83% | 0.82% |
| Expected volatility | | 28.57%-41.52% | 24.30%-32.00% |
| Risk-free interest rate | | 8.21%-9.08% | 8.42%-8.63% |
| Expected term (in years) | | 3.81-5.44 | 4.13-5.45 |

* *no options were granted during the period*

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Activity and other details***

Activity in the options available to be granted under the Employee Stock Option Scheme is as follows:

| | Options available to be granted years ending March 31, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Options available to be granted, beginning of period* | 57,116,000 | 58,080,400 | 112,121,300 |
| Equity shares allocated for grant under the plan | | 100,000,000 | |
| Options granted | | (47,060,000) | (41,659,000) |
| Forfeited/ lapsed* | 964,400 | 1,100,900 | 2,385,050 |
| Options available to be granted, end of period | 58,080,400 | 112,121,300 | 72,847,350 |

* Does not include options exchanged on acquisition of CBoP since these options on forfeiture/ lapse are not available for re-issue.

Activity in the options outstanding under the Employee Stock Option Scheme is as follows:

| | Years ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | **2014** | | **2015** | |
| | **Options** | **Weighted average exercise price** | **Options** | **Weighted average exercise price** | **Options** | **Weighted average exercise price** |
| Options outstanding, beginning of period | 99,872,740 | Rs. 389.52 | 65,443,045 | Rs. 417.32 | 92,476,600 | Rs. 556.06 |
| Granted | | | 47,060,000 | 679.99 | 41,659,000 | 835.50 |
| Exercised* | (33,459,050) | 333.87 | (18,903,115) | 382.63 | (22,700,740) | 438.50 |
| Forfeited | (848,800) | 461.85 | (1,017,800) | 618.30 | (2,296,500) | 761.32 |
| Lapsed | (121,845) | 236.79 | (105,530) | 247.18 | (105,360) | 368.42 |
| Options outstanding, end of period | 65,443,045 | Rs. 417.32 | 92,476,600 | Rs. 556.06 | 109,033,000 | Rs. 683.16 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Options exercisable, end of period | 56,752,845 | Rs. 409.46 | 46,137,600 | Rs. 431.59 | 41,871,400 | Rs. 537.99 |
| Weighted average fair value of options granted during the year | | Rs. | | Rs. 258.53 | | Rs. 302.31 |

* *As of March 31, 2013 includes 728,290 options exercised, pending allotment of equity shares. As of March 31, 2014 excludes 728,290 options of equity shares allotted which were exercised in previous year.*

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes information about stock options outstanding as of March 31, 2015:

| | | As of March 31, 2015 | | |
|---|---|---|---|---|
| **Plan** | **Range of exercise price** | **Number Of shares arising out of options** | **Weighted average remaining life (years)** | **Weighted average exercise price** |
| Plan C | Rs.680.00 to Rs.835.50 (or US$ 10.91 to US$ 13.41) | 6,778,000 | 4.32 | Rs. 692.50 |
| Plan D | Rs.680.00 (or US$ 10.91) | 6,402,300 | 4.26 | 680.00 |
| Plan E | Rs.440.16 to Rs.680.00 (or US$ 7.06 to US$ 10.91) | 55,939,700 | 3.05 | 573.70 |
| Plan F | Rs.835.50 (or US$ 13.41) | 39,913,000 | 5.22 | 835.50 |

The intrinsic value, of options exercised during the year ended March 31, 2013, March 31, 2014 and March 31, 2015 at grant date was Rs. 151.5 million, Rs. 129.7 million and Rs. 122.1 million, respectively and at exercise date was Rs. 9,152.2 million, Rs. 5,359.2 million and Rs. 9,662.4 million, respectively. The aggregate intrinsic value as of grant date and as at March 31, 2015 attributable to options which are outstanding as on March 31, 2015 was Rs. 236.5 million (previous year Rs. 359.2 million) and Rs. 37,020.7 million (previous year Rs. 17,823.9 million), respectively. The aggregate intrinsic value as at grant date and as at March 31, 2015 attributable to options exercisable as on March 31, 2015 was Rs. 236.5 million (previous year Rs. 359.2 million) and was Rs. 20,295.7 million (previous year Rs. 14,635.3 million), respectively. Total stock compensation cost (including on modification) recognized under these plans was Rs. 4,533.7 million, Rs. 5,495.5 million and Rs. 9,138.8 million during the years ended March 31, 2013, March 31, 2014 and March 31, 2015, respectively. There is no tax benefit recognized associated with share based compensation expense. As of March 31, 2015, there were 67,161,600 (previous year 46,339,000) unvested options with weighted average exercise price of Rs. 773.7 (previous year Rs. 680.0) and aggregate intrinsic value at grant date and as at March 31, 2015, was nil (previous year nil) and was Rs. 16,725.1 million (previous year Rs. 3,188.6 million), respectively. As at March 31, 2015, the total estimated compensation cost to be recognized in future periods was Rs. 8,515.3 million (previous year Rs. 6,299.7 million). This is expected to be recognized over a weighted average period of 0.7 years.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 23. Retirement benefits

### *Gratuity*

In accordance with Indian law, the Bank provides for gratuity, a defined benefit retirement plan, covering eligible employees. The plan provides for lump sum payments to vested employees at retirement, resignation, death while in employment or on termination of employment in an amount equivalent to 15 days eligible salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by said insurance companies and in respect of certain employees, the Bank makes contributions to a fund set up for the purpose and administered by the board of trustees. The contributions are invested in specific designated instruments as permitted by Indian law. The Bank accounts for the liability for future gratuity benefits using the projected unit cost method based on an actuarial valuation done on March 31 of every year.

The following table sets out the funded status of the gratuity plan and the amounts recognized in the Bank s financial statements as of March 31, 2014 and March 31, 2015:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | (In millions) | | |
| Change in benefit obligations: | | | |
| Projected benefit obligation ( PBO ), beginning of the period | Rs. 2,062.8 | Rs. 2,374.3 | US$ 38.1 |
| Service cost | 388.8 | 504.7 | 8.1 |
| Interest cost | 178.7 | 182.4 | 2.9 |
| Actuarial(gains)/ losses | (101.8) | 204.4 | 3.3 |
| Benefits paid | (154.2) | (159.9) | (2.6) |
| Projected benefit obligation, end of the period | 2,374.3 | 3,105.9 | 49.8 |
| Change in plan assets: | | | |
| Fair value of plan assets, beginning of the period | 1,302.3 | 1,726.0 | 27.7 |
| Expected return on plan assets | 121.1 | 166.2 | 2.7 |
| Actuarial gains/(losses) | 18.6 | 213.5 | 3.4 |
| Actual return on plan assets | 139.7 | 379.7 | 6.1 |
| Employer contributions | 438.2 | 483.0 | 7.8 |

| | | | |
|---|---|---|---|
| Benefits paid | (154.2) | (159.9) | (2.6) |
| Fair value of plan assets, end of the period | 1,726.0 | 2,428.8 | 39.0 |
| Funded Status | Rs. (648.3) | Rs. (677.1) | US$ (10.8) |

The Bank s expected contribution to the gratuity fund for the next fiscal year is estimated at Rs.616.4 million. The accumulated benefit obligation as of March 31, 2014 and March 31, 2015 was Rs. 1,535.7 million and Rs. 1,680.6 million, respectively. The vested accumulated benefit obligation as on March 31, 2014 and March 31, 2015 was Rs. 1,017.3 million and Rs. 1,137.8 million, respectively.

Net gratuity cost for the years ended March 31, 2013, March 31, 2014 and March 31, 2015 was comprised of the following components:

| | **Fiscal years ended March 31,** | | | |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** |
| | **(In millions)** | | | |
| Service cost | Rs. 387.2 | Rs. 388.8 | Rs. 504.7 | US$ 8.1 |
| Interest cost | 130.6 | 178.7 | 182.4 | 2.9 |
| Expected return on plan assets | (88.8) | (121.1) | (166.2) | (2.7) |
| Actuarial (gains)/ losses | (20.4) | (120.4) | (9.1) | (0.1) |
| Net gratuity cost | Rs. 408.6 | Rs. 326.0 | Rs. 511.8 | US$ 8.2 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The assumptions used in accounting for the gratuity plan are set out below:

| | Fiscal years ended March 31, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| | (% per annum) | | |
| Discount rate* | 8.1 | 9.0 | 8.0 |
| Rate of increase in compensation levels of covered employees | 8.5 | 8.5 | 8.0 |
| Rate of return on plan assets | 8.0 | 8.0 | 8.0 |

* Weighted average assumptions used to determine both benefit obligations and net periodic benefit cost.
The rate of return on plan assets is based on historical returns, the current market conditions, anticipated future assets allocation and expected future returns. The rate of return on plan assets represents a long-term average view of the expected return.

The following benefit payments, which includes benefits attributable to expected future service, as appropriate, are expected to be paid.

| Year ending March 31, | Benefit payments (In millions) |
|---|---|
| 2016 | Rs. 175.0 |
| 2017 | 185.2 |
| 2018 | 202.0 |
| 2019 | 291.8 |
| 2020 | 337.3 |
| 2021-2025 | 1,170.2 |

The expected benefit payments are based on the same assumptions used to measure the Bank s benefit obligations as of March 31, 2015.

The gratuity contributions of the Bank which are administered by a trust set up for the purpose are managed by two insurance companies and in respect of certain employees the funds are invested by the trust set up for the said purpose. The overall asset allocation of the gratuity fund by the two insurance companies is structured so as to provide stable earnings while still allowing for potentially higher returns through an investment in equity securities. As at March 31, 2015, the plan assets as a percentage of the total funds were as follows:

**As of March 31, 2015**

| | Funds managed by insurance company (1)* | Funds managed by insurance company (2)* | Funds managed by trust |
|---|---|---|---|
| Government securities | 52.2% | 27.0% | 40.2% |
| Debenture and bonds | 29.9% | 13.6% | 45.1% |
| Equity securities | 5.5% | 53.7% | |
| Other | 12.4% | 5.7% | 14.7% |
| Total | 100.0% | 100.0% | 100.0% |

* *The data pertaining to plan investment assets measured at fair value by level and total at March 31, 2015 are provided separately.*

***Pension***

In respect of pensions payable to certain erstwhile CBoP employees, which are payable pursuant to a defined benefit scheme, the Bank contributes 10% of basic salary to a pension fund set up by the Bank and administered by the board of trustees and the balance amount is provided based on an actuarial valuation at the balance sheet date conducted by an independent actuary. In respect of employees who have moved to a cost to company (CTC) driven compensation structure and have completed services up to 15 years as on the date of movement to CTC driven compensation structure, any contribution made until such date, and any additional one-time contribution made for employees (who have completed more than 10 years but less than 15 years) stand frozen and will be converted into an annuity on separation after a lock-in-period of two years. Hence for this category of employees, liability stands frozen and no additional provision is required except for interest, if any. In respect of employees who accepted the offer and have completed services for more than 15 years, the pension would be paid based on the employee s salary as of the date of movement to CTC driven compensation structure and a provision is made based on an actuarial valuation at the balance sheet date conducted by an independent actuary.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets out the funded status of the pension plan and the amounts recognized in the Bank s financial statements as of March 31, 2014 and March 31, 2015:

| | | As of March 31, | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | | (In millions) | |
| Change in benefit obligations: | | | |
| Projected benefit obligation ( PBO ), beginning of the period | Rs. 581.9 | Rs. 588.9 | US$ 9.5 |
| Service cost | 7.7 | 10.2 | 0.2 |
| Interest cost | 48.4 | 43.7 | 0.7 |
| Actuarial (gains)/losses | 39.7 | 11.0 | 0.2 |
| Benefits paid | (88.8) | (79.4) | (1.3) |
| Projected benefit obligation, end of the period | 588.9 | 574.4 | 9.3 |
| Change in plan assets: | | | |
| Fair value of plan assets, beginning of the period | 488.8 | 479.9 | 7.7 |
| Expected return on plan assets | 38.7 | 36.0 | 0.6 |
| Actuarial gains/(losses) | 34.5 | (23.8) | (0.4) |
| Actual return on plan assets | 73.2 | 12.2 | 0.2 |
| Employer contributions | 6.7 | 6.4 | 0.1 |
| Benefits paid | (88.8) | (79.4) | (1.3) |
| Fair value of plan assets, end of the period | 479.9 | 419.1 | 6.7 |
| Funded Status | Rs. (109.0) | Rs. (155.3) | US$ (2.6) |

The Bank s expected contribution to the pension fund for the next fiscal year is estimated at Rs. 157.0 million. The accumulated benefit obligation as of March 31, 2014 and March 31, 2015 was Rs. 375.8 million and Rs. 339.6 million, respectively. The vested accumulated benefit obligation as of March 31, 2014 and March 31, 2015 was Rs. 264.0 million and Rs. 223.3 million, respectively.

Net pension cost for the year ended March 31, 2013, March 31, 2014 and March 31, 2015 was comprised of the following components:

| | As of March 31, | | | |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 |
| | (in millions) | | | |
| Service cost | Rs. 13.2 | Rs. 7.7 | Rs. 10.2 | US$ 0.2 |
| Interest cost | 41.8 | 48.4 | 43.7 | 0.7 |
| Expected return on plan assets | (40.0) | (38.7) | (36.0) | (0.6) |
| Actuarial (gains)/losses | 85.1 | 5.2 | 34.8 | 0.6 |
| Net pension cost | Rs. 100.1 | Rs. 22.6 | Rs. 52.7 | US$ 0.9 |

The assumptions used in accounting for the pension plan are set out below:

| | Fiscal years ended March 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | (% per annum) | | |
| Discount rate* | 8.1 | 9.0 | 8.0 |
| Rate of increase in compensation levels of covered employees | 8.5 | 8.5 | 8.0 |
| Rate of return on plan assets | 8.0 | 8.0 | 8.0 |

* Weighted average assumptions used to determine both benefit obligations and net periodic benefit cost.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following benefit payments, which include benefits attributable to expected future service, as appropriate, are expected to be paid.

| Year ending March 31, | Benefit payments (In millions) | |
|---|---|---|
| 2016 | Rs. | 79.1 |
| 2017 | | 38.0 |
| 2018 | | 76.7 |
| 2019 | | 88.5 |
| 2020 | | 76.2 |
| 2021-2025 | | 225.7 |

The expected benefits are based on the same assumptions used to measure the Bank s benefit obligations as of March 31, 2015.

The retirement funds of a section of the employees are managed by a trust set up for the purpose. The trust essentially manages the defined retirement benefit plans belonging to certain employees. The funds are mainly invested in government securities and other corporate bonds. The weighted-average asset allocation of the said plan assets for the pension benefits as at March 31, 2015 is as follows:

| Asset category | Funds managed by trust |
|---|---|
| Government securities | 7.0% |
| Debenture and bonds | 78.2% |
| Other | 14.8% |
| Total | 100.0% |

For information on fair value measurements, including descriptions of Levels 1, 2 and 3 of the fair value hierarchy and the valuation methods employed by the Bank, see note 32 Fair value measurements.

Plan investment assets for gratuity funds and the pension fund measured at fair value by level and in total as of March 31, 2014 and March 31, 2015 are summarized in the table below.

| | As of March 31, 2014 | | | As of March 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| | (In millions) | | | | | |
| | Rs. | Rs. | Rs. 404.0 | Rs. | Rs. | Rs. 489.2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Funds managed by insurance company (1) | | | | | | |
| Funds managed by insurance company (2) | | 1,082.3 | | | 1,688.6 | |
| Funds managed by trust | | | | | | |
| Government securities | | 113.6 | | | 130.2 | |
| Debenture and bonds | | 441.3 | | | 440.9 | |
| Others | 164.7 | | | 99.0 | | |
| Total | Rs. 164.7 | Rs. 1,637.2 | Rs. 404.0 | Rs. 99.0 | Rs. 2,259.7 | Rs. 489.2 |
| | | | | US$ 1.6 | US$ 36.3 | US$ 7.8 |

The table below presents a reconciliation of all Plan investment assets measured at fair value using significant unobservable inputs (Level 3) during fiscal 2014 and 2015.

| | **Funds managed by Insurance companies as of March 31,** | | |
|---|---|---|---|
| | **2014** | **2015** | **2015** |
| | | **(In millions)** | |
| Particular | | | |
| Opening balance | Rs. 378.6 | Rs. 404.0 | US$ 6.5 |
| Realized interest credited to fund | 31.5 | | |
| Contribution during the period | 131.5 | 140.8 | 2.2 |
| Amount paid towards claim | (137.6) | (55.6) | (0.9) |
| Closing balance | Rs. 404.0 | Rs. 489.2 | US$ 7.8 |

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Superannuation***

Eligible employees of the Bank are entitled to receive retirement benefits under the Bank s superannuation fund. The superannuation fund is a defined contribution plan under which the Bank annually contributes a sum equivalent to 13% of the employee s eligible annual salary (15% for the Managing Director, Executive Directors and for certain employees of CBoP) to the Life Insurance Corporation of India, which administers the fund. The Bank has no liability for future superannuation fund benefits other than its annual contribution, and recognizes such contributions as an expense in the year incurred. The Bank contributed Rs. 373.3 million, Rs. 432.2 million and Rs. 536.8 million to the superannuation plan for the years ended March 31, 2013, March 31, 2014 and March 31, 2015, respectively.

***Provident fund***

In accordance with Indian law, eligible employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a determined rate (currently 12% of an employee s eligible salary). These contributions are made to a fund set up by the Bank and administered by a board of trustees, except that out of the employer s contribution, an amount equal to 8.33% of the lower of employee s monthly eligible salary or Rs. 0.0065 million, is contributed by the Bank to the Pension Scheme administered by the Regional Provident Fund Commissioner. Employees are credited with interest, which is subject to a government specified minimum rate. The Bank has no liability for future provident fund benefits other than its annual contribution and the shortfall, if any, between the government specified minimum rate and the yield on the fund s assets, and recognizes such contributions as an expense in the year incurred. The Bank contributed Rs. 1,295.4 million, Rs. 1,433.4 million and Rs. 1,600.2 million to the provident fund for the years ended March 31, 2013, March 31, 2014 and March 31, 2015, respectively.

***Compensated absences***

The Bank has provided for unutilized leave balances as on March 31, 2015 standing to the credit of each employee on an actuarial valuation conducted by an independent actuary.

**24. Financial instruments**

***Foreign exchange and derivative contracts***

The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks.

Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees. A forward rate agreement gives the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the

settlement date) when the settlement amount is determined being the difference between the contracted rate and the market rate on the settlement date. Currency options give the buyer the right, but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

The market and credit risk associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Market risk is the exposure created by movements in interest rates and exchange rates during the tenure of the transaction. The extent of market risk affecting such transactions depends on the type and nature of the transaction, the value of the transaction and the extent to which the transaction is uncovered. Credit risk is the exposure to loss in the event of default by counterparties. The extent of loss on account of a counterparty default will depend on the replacement value of the contract at the ongoing market rates.

The Bank uses its pricing models to determine fair values of its derivative financial instruments. The Bank records credit risk valuation adjustments on derivative financial instruments in order to reflect the credit quality of the counterparties and its own credit quality. The Bank calculates valuation adjustments on derivatives based on observable market credit risk spreads.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents the aggregate notional principal amounts of the Bank s outstanding forward exchange and other derivative contracts as of March 31, 2014 and March 31, 2015, together with the fair values on each reporting date.

| | As of March 31, 2014 | | | |
|---|---|---|---|---|
| | Notional | Gross Assets | Gross Liabilities | Net Fair Value |
| | (In millions) | | | |
| Interest rate derivatives | Rs. 1,772,658.7 | Rs. 10,766.4 | Rs. 12,240.7 | Rs. (1,474.3) |
| Currency options | 165,920.4 | 1,329.4 | 1,640.4 | (311.0) |
| Currency swaps | 71,041.3 | 5,055.9 | 3,326.6 | 1,729.3 |
| Forward exchange contracts | 4,753,861.2 | 125,327.6 | 106,968.6 | 18,359.0 |
| **Total** | Rs. 6,763,481.6 | Rs. 142,479.3 | Rs. 124,176.3 | Rs. 18,303.0 |

| | As of March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Notional | Gross Assets | Gross Liabilities | Net Fair Value | Notional | Net Fair Value |
| | (In millions) | | | | | |
| Interest rate derivatives | Rs. 2,210,332.2 | Rs. 6,959.2 | Rs. 7,289.0 | Rs. (329.8) | US$ 35,473.2 | US$ (5.3) |
| Forward rate agreements | 8,098.5 | 2.5 | 2.6 | (0.1) | 130.0 | |
| Currency options | 144,827.2 | 952.5 | 1,062.1 | (109.6) | 2,324.3 | (1.8) |
| Currency swaps | 70,521.8 | 4,225.2 | 3,093.3 | 1,131.9 | 1,131.8 | 18.2 |
| Forward exchange contracts | 6,740,520.9 | 60,276.3 | 60,320.5 | (44.2) | 108,177.2 | (0.7) |
| **Total** | Rs. 9,174,300.6 | Rs. 72,415.7 | Rs. 71,767.5 | Rs. 648.2 | US$ 147,236.5 | US$ 10.4 |

The Bank has not designated the above contracts as accounting hedges and accordingly the contracts are recorded at fair value on the balance sheet with changes in fair value recorded in earnings. The gross assets and the gross liabilities are recorded in other assets and accrued expenses and other liabilities , respectively.

The following table summarizes certain information related to derivative amounts recognized in income:

| | Non-interest revenue, net Derivatives for the years ended March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | | (In millions) | |
| Interest rate derivatives | Rs. (1,768.7) | Rs. (383.4) | US$ (6.2) |
| Forward rate agreements | | 3.0 | |
| Currency options | 250.0 | 303.0 | 4.9 |
| Currency swaps | 662.6 | 151.3 | 2.4 |
| Forward exchange contracts | 975.6 | (7,466.9) | (119.7) |
| **Total gains/(losses)** | Rs. 119.5 | Rs. (7,393.0) | US$ (118.6) |

***Offsetting***

The following table shows the impact of netting arrangements on derivative financial instruments, repurchase and reverse repurchase agreements that are subject to enforceable master netting arrangements or similar agreements, but are not offset in accordance with ASC 210-20-45 and ASC 815-10-45.

The Bank enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements or similar agreements with substantially all of the Bank s foreign exchange and derivative contract counterparties. These master netting agreements, give the Bank, in the event of default by the counterparty, the right to liquidate collaterals held or placed and to offset receivables and payables with the same counterparty. In the table below the Bank has presented the gross derivative assets and liabilities adjusted for the effects of master netting agreements and collaterals received or pledged.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Transactions with counterparties for Securities sold under agreements to repurchase ( repos ) and securities purchased under agreements to resell ( reverse repos ) are settled through the Clearing Corporation of India Limited ( CCIL ), a centralized clearing house. Collaterals received or pledged comprise of highly liquid investments. For undertaking the above transactions, power of attorney is executed by the Bank and the counterparties in favor of CCIL to liquidate the securities pledged in the event of default.

| | As of March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Amounts subject to enforceable netting arrangements | | | | | |
| | Effects of offsetting on balance sheet | | | Related amounts not offset | | |
| | Gross Amounts | Amounts offset | Net amounts reported in the balance sheet | Financial instruments | Financial collateral [1] | Net amount |
| | (In millions) | | | | | |
| **Financial assets** | | | | | | |
| Derivative assets | Rs. 142,479.3 | Rs. | Rs. 142,479.3 | Rs. 101,787.6 | Rs. 9,191.9 | Rs. 31,499.8 |
| Securities purchased under agreements to resell | 57,322.6 | | 57,322.6 | | 57,322.6 | |
| **Financial liabilities** | | | | | | |
| Derivative liabilities | Rs. 124,176.3 | Rs. | Rs. 124,176.3 | Rs. 101,787.6 | Rs. 305.3 | Rs. 22,083.4 |

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/ liability balance, and accordingly, do not include excess collateral received/ pledged.

| | As of March 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amounts subject to enforceable netting arrangements | | | | | | |
| | Effects of offsetting on balance sheet | | | Related amounts not offset | | | |
| | Gross Amounts | Amounts offset | Net amounts reported in the balance sheet | Financial instruments | Financial collateral [1] | Net amount | Net amount |
| | (In millions) | | | | | | |
| **Financial assets** | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Derivative assets | Rs. 72,415.7 | Rs. | Rs. 72,415.7 | Rs. 53,534.5 | Rs. 2,761.7 | Rs. 16,119.5 | US$ 258.7 |
| Securities purchased under agreements to resell | 1,592.6 | | 1,592.6 | | 1,592.6 | | |
| **Financial liabilities** | | | | | | | |
| Derivative liabilities | Rs. 71,767.5 | Rs. | Rs. 71,767.5 | Rs. 53,534.5 | Rs. 390.8 | Rs. 17,842.2 | US$ 286.3 |
| Securities sold under repurchase agreements | 50,000.0 | | 50,000.0 | | 50,000.0 | | |

(1) Comprised of securities and cash collaterals. These amounts are limited to the asset/ liability balance, and accordingly, do not include excess collateral received/ pledged.

***Guarantees***

As a part of its commercial banking activities, the Bank has issued guarantees and documentary credits, such as letters of credit, to enhance the credit standing of its customers. These generally represent irrevocable assurances that the Bank will make payments in the event that the customer fails to fulfill his financial or performance obligations. Financial guarantees are obligations to pay a third party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third party beneficiary where a customer fails to perform a non-financial contractual obligation. The tenure of the guarantees issued or renewed by the Bank is normally in line with requirements on case by case basis as may be assessed by the Bank. The remaining tenure of guarantees presently issued by the Bank and outstanding range from 1 day to 17.9 years.

The credit risk associated with these products, as well as the operating risks, is similar to those relating to other types of financial instruments.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In terms of FASB ASC 460-10 the Bank has recognized a liability of Rs. 1,301.7 million and Rs. 1,509.7 million as of March 31, 2014 and March 31, 2015, respectively, in respect of guarantees issued or modified. Based on historical trends, in terms of FASB ASC 450, the Bank has recognized a liability of Rs. 846.0 million and Rs. 973.3 million as of March 31, 2014 and March 31, 2015, respectively.

Details of guarantees and documentary credits outstanding are set out below:

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | | (In millions) | |
| Nominal values: | | | |
| Bank guarantees: | | | |
| Financial guarantees | Rs. 161,259.8 | Rs. 160,779.8 | US$ 2,580.3 |
| Performance guarantees | 88,204.3 | 114,906.3 | 1,844.1 |
| Documentary credits | 192,095.2 | 279,900.5 | 4,492.1 |
| **Total** | Rs. 441,559.3 | Rs. 555,586.6 | US$ 8,916.5 |
| Estimated fair values: | | | |
| Guarantees | Rs. (1,301.7) | Rs. (1,509.7) | US$ (24.2) |
| Documentary credits | (179.0) | (249.0) | (4.0) |
| **Total** | Rs. (1,480.7) | Rs. (1,758.7) | US$ (28.2) |

As part of its risk management activities, the Bank continuously monitors the credit-worthiness of customers as well as guarantee exposures. If a customer fails to perform a specified obligation, a beneficiary may draw upon the guarantee by presenting documents in compliance with the guarantee. In that event, the Bank makes payment on account of the defaulting customer to the beneficiary up to the full notional amount of the guarantee. The customer is obligated to reimburse the Bank for any such payment. If the customer fails to pay, the Bank liquidates any collateral held and sets off accounts; if insufficient collateral is held, the Bank recognizes a loss.

***Loan sanction letters***

The Bank issues sanction letters indicating its intent to provide new loans to certain customers. The aggregate of loans contemplated in these letters that had not yet been disbursed was Rs. 628,087.2 million (US$ 10,080.0 million) as of March 31, 2015. If the Bank were to make such loans, the interest rates would be dependent on the lending rates in effect when the loans were disbursed. The Bank has no commitment to lend under these letters. Among other things, the making of a loan is subject to a review of the credit-worthiness of the customer at the time the customer seeks to

borrow, at which time the Bank has the unilateral right to decline to make the loan.

**25. Estimated fair value of financial instruments**

The Bank s financial instruments include financial assets and liabilities recorded on the balance sheet, including instruments such as foreign exchange and derivative contracts. Management uses its best judgment in estimating the fair value of the Bank s financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of all the amounts the Bank could have realized in a sales transaction as of March 31, 2014 and March 31, 2015. The estimated fair value amounts as of March 31, 2014 and March 31, 2015 have been measured as of the respective year ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

***Financial instruments valued at carrying value***

The respective carrying values of certain on-balance-sheet financial instruments approximated their fair value. These financial instruments include cash and amounts due from banks,non-interest-bearing deposits in banks, securities purchased and sold under resale and repurchase agreements, accrued interest receivable, acceptances, accrued interest payable, and certain other assets and liabilities that are considered financial instruments. Carrying values were assumed to approximate fair values for these financial instruments as they are short-term in nature and their recorded amounts approximate fair values or are receivable or payable on demand.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Trading securities***

Trading securities are carried at fair value based on quoted market prices. If quoted market prices did not exist, fair values were estimated using market yield on balance period to maturity on similar instruments and similar credit risk. For more information on the fair value of these securities, refer to Note 5.

***Available for sale securities***

Available for sale investments principally comprise of debt securities and are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using a market yield on the balance period to maturity on similar instruments and similar credit risks. The fair values of asset-backed and mortgage-backed securities are estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk. A reduction in the estimated cash flows of these instruments will adversely impact the value of these securities. A change in the timing of these estimated cash flows will also impact the value of these securities. For more information on the fair value of these securities, refer to Note 6.

***Loans***

The fair values of consumer installment loans and other consumer loans that do not reprice or mature frequently are estimated using discounted cash flow models. The discount rates are based on internal models which have been changed during the current year from discount rates based on current market price for loans with similar characteristics and risk factors. The Level 3 loans would decrease (increase) in value based upon an increase (decrease) in discount rate. Since substantially all individual lines of credit and other variable rate consumer loans reprice frequently, with interest rates reflecting current market pricing, the carrying values of these loans approximate their fair values.

The fair values of commercial loans that do not reprice or mature within relatively short time frames are estimated using discounted cash flow models. The discount rates are based on internal models which have been changed during the current year from discount rates based on current market price for loans with similar characteristics and risk factors. The Level 3 loans would decrease (increase) in value based upon an increase (decrease) in discount rate. For commercial loans that reprice within relatively short time frames, the carrying values approximate their fair values.

For purposes of these fair value estimates, the fair values of impaired loans were computed by deducting an estimated market discount from their carrying values to reflect the uncertainty of future cash flows.

***Deposits***

The fair value of demand deposits, savings deposits, and money market deposits without defined maturities are the amounts payable on demand. For deposits with defined maturities, the fair values were estimated using discounted cash flow models that apply market interest rates corresponding to similar deposits and timing of maturities.

***Short-term borrowings***

The fair values of the Bank s short-term debt were calculated based on a discounted cash flow model. The discount rates were based on yield curves appropriate for the remaining maturities of the instruments.

***Long-term debt***

The fair values of the Bank s unquoted long-term debt instruments were calculated based on a discounted cash flow model. The discount rates were based on yield curves appropriate for the remaining maturities of the instruments.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Term placements***

The fair values of term placements were estimated using discounted cash flow models. The discount rates were based on current market pricing for placements with similar characteristics and risk factors.

***Derivatives***

See note 24

A comparison of the fair values and carrying values of financial instruments is set out below:

| As of | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| March 31, 2014 | | | | March 31, 2015 | | | | |
| Estimated Fair Value | | | | | Estimated Fair Value | | | |
| | | | | Carrying | | | | |
| Level 1 | Level 2 | Level 3 | Total | Value | Level 1 | Level 2 | Level 3 | To |
| (In millions) | | | | | | | | |
| s. 370,835.2 | Rs. | Rs. | Rs. 370,835.2 | Rs. 341,124.3 | Rs. 341,124.3 | Rs. | Rs. | Rs. 34 |
| | 176,346.4 | | 176,346.4 | 169,989.5 | | 169,990.7 | | 16 |
| 25.9 | 65,052.0 | | 65,077.9 | 61,292.8 | | 61,292.8 | | 6 |
| 341.1 | 907,787.8 | | 908,128.9 | 1,503,708.4 | 105,008.8 | 1,382,450.2 | 16,249.4 | 1,50 |
| | 57,322.6 | | 57,322.6 | 1,592.6 | | 1,592.6 | | |
| | 3,220,631.0 | | 3,220,631.0 | 3,896,115.0 | | 1,190,272.3 | 2,726,798.2 | 3,91 |
| | 40,388.5 | | 40,388.5 | 45,705.0 | | 45,705.0 | | 4 |
| | 184,774.8 | | 184,774.8 | 109,722.4 | | 108,346.3 | | 10 |
| | 3,039,651.4 | | 3,039,651.4 | 3,768,678.8 | | 3,766,754.6 | | 3,76 |
| | 612,845.6 | | 612,845.6 | 733,032.0 | | 733,032.0 | | 73 |

| | | | | |
|---|---|---|---|---|
| | | 50,000.0 | 50,000.0 | 5 |
| 151,062.9 | 151,062.9 | 214,191.9 | 214,448.4 | 21 |
| 27,734.7 | 27,734.7 | 32,689.5 | 32,689.5 | 3 |
| 399,998.8 | 399,998.8 | 457,934.4 | 466,351.5 | 46 |
| 295,116.6 | 295,116.6 | 200,563.5 | 200,563.5 | 20 |

**excluding investments carried at cost Rs. 704.4 million (US$11.3 million) (as at March 31, 2014, Rs.695.4 million)*

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 26. Segment information

The Bank operates in three reportable segments: wholesale banking, retail banking and treasury services. The revenue and related expense recognition policies are set out in Note 2. Substantially all operations and assets are based in India.

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and makes loans, provides credit cards and debit cards, distributes third-party financial products, such as mutual funds and insurance, and provides advisory services to such customers. Revenues of the retail banking segment are derived from interest earned on retail loans, fees for banking and advisory services, profit from foreign exchange and derivative transactions and interest earned from other segments for surplus funds placed with those segments. Expenses of this segment are primarily comprised of interest expense on deposits, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses. The Bank s retail banking loan products also include loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes. Such grouping ensures optimum utilization and deployment of specialized resources in the retail banking business.

The wholesale banking segment provides loans and transaction services to corporate customers. As discussed above, loans to small and medium enterprises for commercial vehicles, construction equipment and other business purposes are included in the retail banking segment. Revenues of the wholesale banking segment consist of interest earned on loans made to corporate customers, investment income from credit substitutes, interest earned on the cash float arising from transaction services, fees from such transaction services and profits from foreign exchange and derivative transactions with wholesale banking customers. The principal expenses of the segment consist of interest expense on funds borrowed from other segments, premises expenses, personnel costs, other direct overheads and allocated expenses.

The treasury services segment undertakes trading operations on the proprietary account (including investments in government securities), foreign exchange operations and derivatives trading both on the proprietary account and customer flows and borrowings. Revenues of the treasury services segment primarily consist of fees and gains and losses from trading operations and of net interest revenue/ expense from investments in government securities and borrowings. Revenues from foreign exchange and derivative operations and customer flows are classified under the retail or wholesale segments depending on the profile of the customer.

Segment income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally developed composite yield curve which broadly tracks market-discovered interest rates.

Directly identifiable overheads are attributed to a segment at actual amounts incurred. Indirect shared costs, principally corporate office expenses, are generally allocated to each segment on the basis of area occupied, number of staff, volume and nature of transactions. Wholesale banking segment includes unallocated tax balances and other items.

Summarized segment information for the years ended March 31, 2013, March 31, 2014 and March 31, 2015:

| | **Fiscal years ended March 31,** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | | | | **2014** | | | |
| | **Retail Banking** | **Wholesale Banking** | **Treasury Services** | **Total** | **Retail Banking** | **Wholesale Banking** | **Treasury Services** | **To** |
| | **(In millions)** | | | | | | | |
| est ) | Rs. 88,384.7 | Rs. 68,846.3 | Rs. (154.5) | Rs. 157,076.5 | Rs. 105,479.2 | Rs. 82,160.1 | Rs. 4,932.8 | Rs. 19 |
| est | 39,908.1 | (41,783.7) | 1,875.6 | | 46,099.3 | (48,923.0) | 2,823.7 | |
| est | 128,292.8 | 27,062.6 | 1,721.1 | 157,076.5 | 151,578.5 | 33,237.1 | 7,756.5 | 19 |
| | 11,107.1 | 1,580.9 | | 12,688.0 | 14,942.4 | 2,485.7 | | 1 |
| est e | 117,185.7 | 25,481.7 | 1,721.1 | 144,388.5 | 136,636.1 | 30,751.4 | 7,756.5 | 17 |
| rest | 56,181.9 | 6,619.0 | 2,376.5 | 65,177.4 | 62,670.8 | 8,551.4 | (387.7) | 7 |
| rest | (105,510.9) | (9,803.3) | (2,276.9) | (117,591.1) | (116,511.1) | (6,354.4) | (1,362.6) | (12 |
| x | Rs. 67,856.7 | Rs. 22,297.4 | Rs. 1,820.7 | Rs. 91,974.8 | Rs. 82,795.8 | Rs. 32,948.4 | Rs. 6,006.2 | Rs. 12 |
| ax | | | | Rs. 29,840.1 | | | | Rs. 4 |
| ts | Rs. 2,301,087.4 | Rs. 1,684,462.0 | Rs. 385,356.7 | Rs. 4,370,906.1 | Rs. 2,838,734.3 | Rs. 1,776,968.9 | Rs. 509,704.1 | Rs. 5,12 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | Fiscal year ended March 31 2015 | | | | |
|---|---|---|---|---|---|
| | Retail Banking | Wholesale Banking | Treasury Services (In millions) | Total | Total |
| Net interest income/(expense) (External) | Rs. 110,165.3 | Rs. 108,033.7 | Rs. 17,977.3 | Rs. 236,176.3 | US$ 3,790.4 |
| Net interest income/(expense) (Internal) | 74,670.9 | (67,529.7) | (7,141.2) | | |
| Net interest revenue | 184,836.2 | 40,504.0 | 10,836.1 | 236,176.3 | 3,790.4 |
| Less: Provision for credit losses | 12,355.4 | 4,644.8 | | 17,000.2 | 272.8 |
| Net interest revenue, after allowance for credit losses | 172,480.8 | 35,859.2 | 10,836.1 | 219,176.1 | 3,517.6 |
| Non-interest revenue | 73,189.9 | 9,557.4 | (2,925.8) | 79,821.5 | 1,281.1 |
| Non-interest expense | (132,305.4) | (11,547.9) | (1,119.7) | (144,973.0) | (2,326.8) |
| Income before income tax | Rs. 113,365.3 | Rs. 33,868.7 | Rs. 6,790.6 | Rs. 154,024.6 | US$ 2,471.9 |
| Income tax expense | | | | Rs. 54,519.9 | US$ 875.0 |
| Segment assets: | | | | | |
| Segment total assets | Rs. 3,528,407.2 | Rs. 2,248,913.1 | Rs. 481,695.5 | Rs. 6,259,015.8 | US$ 100,449.7 |

**27. Commitments and contingencies**

Commitments and contingent liabilities other than for off balance sheet financial instruments (see note 24) are as follows:

***Capital commitments***

The Bank has entered into committed capital contracts, principally for branch expansion and technology upgrades. The estimated amounts of contracts remaining to be executed on the capital account as of March 31, 2014 and March 31, 2015 aggregated Rs. 2,492.2 million and Rs. 3,260.4 million, respectively.

***Contingencies***

The Bank is party to various legal proceedings in the normal course of business. The Bank estimates the provision for these indirect taxes since no precedents exist which could be used as points of reference. The amount of claims against the Bank towards indirect taxes and other claims which are not acknowledged as debts as of March 31, 2015 aggregated to Rs. 3,964.8 million (previous year Rs. 4,090.9). The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank s results of operations, financial condition or cash flows. The Bank intends to vigorously defend these claims. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management, after taking appropriate legal advice, that the likelihood of these claims becoming obligations of the Bank is remote and hence the resolution of these actions will not have a material adverse effect, if any, on the Bank s business, financial condition or results of operations.

***Lease commitments***

The Bank is party to operating leases for certain of its office premises, employee residences and ATMs, with a renewal at the option of the Bank. The Bank has sub-leased certain of its properties taken on lease. The rental expenses and sub-lease income is as follows:

| | As of March 31, | | | |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** |
| | (In millions) | | | |
| The total minimum lease expense during the year recognized in the consolidated statement of income | Rs. 7,006.1 | Rs. 7,655.7 | Rs. 8,974.5 | US$ 144.0 |

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The future minimum lease payments as of March 31, 2015 were as follows:

| Year ending March 31, | Payments (In millions) | |
|---|---|---|
| 2016 | Rs. 8,070.8 | US$ 129.5 |
| 2017 | 7,861.9 | 126.2 |
| 2018 | 7,220.7 | 115.9 |
| 2019 | 6,271.6 | 100.7 |
| 2020 | 5,384.1 | 86.4 |
| Thereafter | 20,219.7 | 324.5 |
| Total | Rs. 55,028.8 | US$ 883.2 |

***Reward points***

The movement in provision for credit card and debit card reward points as of March 31, 2014 and March 31, 2015 is as follows:.

| | As of March 31, | | |
|---|---|---|---|
| | 2014 | 2015 | 2015 |
| | (In millions) | | |
| Opening provision of reward points | Rs. 1,300.7 | Rs. 1,509.1 | US$ 24.2 |
| Provision made during the year | 1,008.9 | 1,066.8 | 17.1 |
| Utilization/write back of provision | (577.2) | (637.6) | (10.2) |
| Effect of change in rate of accrual of reward points | (223.3) | (408.3) | (6.6) |
| Effect of change in cost of reward points | | 470.7 | 7.6 |
| Closing provision of reward points | Rs. 1,509.1 | Rs. 2,000.7 | US$ 32.1 |

**28. Related party transactions**

The Bank s principal related parties consist of HDFC Limited, its principal owner, subsidiaries of HDFC Limited and affiliates of the Bank. Transactions disclosed under others primarily consist of transactions with subsidiaries of HDFC Limited and affiliates of the Bank. The Bank enters into transactions with its related parties, such as providing banking services, sharing costs and service providers, purchasing services, making joint investments, and borrowing

from related parties and subletting premises. The Bank is prohibited from making loans to companies with which it has directors in common. The Bank, being an authorized dealer, deals in foreign exchange and derivative transactions with certain parties which include the principal owner and related companies. The foreign exchange and derivative transactions are undertaken in line with the RBI guidelines. The Bank s related party balances and transactions are summarized as follows:

Balances payable to related parties are as follows:

| | As of March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | | | 2015 | | | |
| | **Principal owner** | **Others** | **Total** | **Principal owner** | **Others** | **Total** | **Total** |
| | | | | **(In millions)** | | | |
| Balances in non-interest-bearing deposits | Rs. 29,348.1 | Rs. 5,541.4 | Rs. 34,889.5 | Rs. 11,333.1 | Rs. 6,902.2 | Rs. 18,235.3 | US$ 292.7 |
| Balances in interest-bearing deposits | 25,600.3 | 1,341.6 | 26,941.9 | 10,701.3 | 1,482.7 | 12,184.0 | 195.5 |
| Accrued expenses and other liabilities | 143.2 | | 143.2 | 192.5 | | 192.5 | 3.1 |
| Total | Rs. 55,091.6 | Rs. 6,883.0 | Rs. 61,974.6 | Rs. 22,226.9 | Rs. 8,384.9 | Rs. 30,611.8 | US$ 491.3 |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Balances receivable from related parties are as follows:

| | As of March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | | | 2015 | | | |
| | Principal owner | Others | Total | Principal owner | Others | Total | Total |
| | (In millions) | | | | | | |
| Loans | Rs. | Rs. 450.9 | Rs. 450.9 | Rs. | Rs. 267.7 | Rs. 267.7 | US$ 4.3 |
| Other assets | 126.4 | 701.6 | 828.0 | 150.4 | 443.3 | 593.7 | 9.5 |
| Total | Rs. 126.4 | Rs. 1,152.5 | Rs. 1,278.9 | Rs. 150.4 | Rs. 711.0 | Rs. 861.4 | US$ 13.8 |

Purchase of property and equipment from related parties for the years ended March 31, 2014 and 2015 were nil. Purchase and sale of investments from Others for the year ended March 31, 2015 were Rs. 9,326.3 million (previous year Rs. 2,365.6 million) and Rs. 3,374.1 million (previous year Rs.4,117.4 million), respectively. Investment of Others in the Bank s tier II bonds for the year ended March 31, 2015 were Rs. 900.0 million (previous year Rs. 900.0 million).

Included in the determination of net income are the following significant transactions with related parties:

| | March 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2014 | | | 2015 | | |
| | Principal owner | Others | Total | Principal owner | Others | Total | Principal owner | Others | Total |
| | (In millions) | | | | | | | | |
| d | Rs. 1,395.9 | Rs. 6,689.5 | Rs. 8,085.4 | Rs. 1,308.1 | Rs. 5,351.6 | Rs. 6,659.7 | Rs. 1,443.7 | Rs. 7,108.8 | Rs. 8,552 |
| idend | | 19.1 | 19.1 | | 110.8 | 110.8 | | 73.4 | 73 |
| ts | (97.9) | (131.8) | (229.7) | (88.3) | (199.6) | (287.9) | (76.0) | (224.8) | (300 |
| strative | (462.4) | (1,110.7) | (1,573.1) | (839.9) | (1,680.0) | (2,519.9) | (1,377.9) | (1,023.0) | (2,400 |
| | (17.0) | (12.6) | (29.6) | (17.2) | (11.7) | (28.9) | (20.4) | (7.2) | (27 |
| es and | | | | | | | | | |

Other transactions with principal owners are as follows:

During the years ended March 31, 2014 and March 31, 2015, the Bank purchased AAA rated home loans aggregating Rs. 55,560.7 million and Rs. 82,492.1 million, respectively. Dividends paid to HDFC Limited during the years ended March 31, 2014 and March 31, 2015 were Rs. 2,162.7 million and Rs. 2,693.5 million, respectively. The Bank also enters into foreign exchange and derivative transactions with HDFC Limited. The notional principal amount and the mark-to-market gains in respect of foreign exchange and derivative contracts outstanding as of March 31, 2015 was Rs. 1,000.0 million (previous year Rs. 2,500.0 million) and Rs. 18.0 million (previous year Rs. 70.8 million), respectively.

During the year ended March 31, 2015, the Bank issued Guarantees on behalf of Principal owner and Others for Rs. 1.1 million (previous year Rs.1.1 million) and for Rs. 13.4 million (previous year Rs. 0.4 million), respectively

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HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**29. Earnings per equity share**

A reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share has been provided below. Potential equity shares in the nature of ESOPs with average outstanding balance of 34.9 million and 30.7 million were excluded from the calculation of diluted earnings per share for the years ended March 31, 2014 and March 31, 2015, respectively, as these were anti-dilutive.

| | As of March 31, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| Weighted average number of equity shares used in computing basic earnings per equity share | 2,360,974,835 | 2,390,295,703 | 2,423,777,245 |
| Effect of potential equity shares for stock options outstanding | 25,132,636 | 17,849,608 | 23,563,558 |
| Weighted average number of equity shares used in computing diluted earnings per equity share | 2,386,107,471 | 2,408,145,311 | 2,447,340,803 |

The following are reconciliations of basic and diluted earnings per equity share and earnings per ADS.

| | Fiscal years ended March 31, | | | |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** |
| Basic earnings per share | Rs. 26.18 | Rs. 33.18 | Rs. 40.94 | US$ 0.66 |
| Effect of potential equity shares for stock options outstanding | 0.27 | 0.24 | 0.39 | 0.01 |
| Diluted earnings per share | Rs. 25.91 | Rs. 32.94 | Rs. 40.55 | US$ 0.65 |
| Basic earnings per ADS | Rs. 78.54 | Rs. 99.54 | Rs. 122.82 | US$ 1.98 |
| Effect of potential equity shares for stock options outstanding | 0.81 | 0.72 | 1.17 | 0.03 |
| Diluted earnings per ADS | Rs. 77.73 | Rs. 98.82 | Rs. 121.65 | US$ 1.95 |

***Dividends***

Any dividends declared by the Bank are based on the profit available for distribution as reported in the statutory financial statements of the Bank prepared in accordance with Indian GAAP. Additionally, the Banking Regulation Act and related regulations require the Bank to transfer 25% of its Indian GAAP profit after tax to a non-distributable statutory reserve and to meet certain other conditions in order to pay dividends without prior RBI approval. As per the RBI guidelines, the dividend payout (excluding dividend tax) for March 31, 2015 cannot exceed 35% of net income of Rs. 102,159.2 million as calculated under Indian GAAP. Accordingly, the net income reported in these financial statements may not be fully distributable in that year. Dividends declared for the years ended March 31, 2013, March 31, 2014 and March 31, 2015 were Rs. 5.50, Rs. 6.85 and Rs. 8.00 per equity share, respectively.

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HDFC BANK LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**30. Subsidiaries**

HDB Financial Services Limited ( HDBFSL ) is a non-deposit taking non-bank finance company and a subsidiary of the Bank. As at March 31, 2015, the stake-holding of the Bank in HDBFSL was 97.4%. The financial statements of HDBFSL are consolidated.

HDFC Securities Ltd. ( HSL ) offers trading facilities in a range of equity, fixed income and derivative products to its clients. As at March 31, 2015 the Bank holds a 97.9% effective equity interest. The financial statements of HSL are consolidated.

Atlas Documentary Facilitators Company Private Ltd ( ADFC ) specializes in back-office processing. The Bank regularly transacts business with ADFC. As on March 31, 2015, HDFC Bank Ltd. and its subsidiaries effectively hold 59.0% of the equity interests of ADFC. Members of the Bank s management team as well as other employees also hold a stake in the equity share capital. The financial statements of ADFC are consolidated.

HBL Global Private Ltd ( HBL ) is a subsidiary of ADFC which holds 98.0% of its equity. HBL provides direct sales support for certain products of the Bank. The financial statements of HBL are consolidated.

**31. Investments in Affiliates**

The Bank frequently partners with other HDFC group companies when making investments. The Bank currently has two strategic investments in which HDFC group companies are co-investors. Without the prior approval of the RBI, the Bank cannot hold more than a 30% equity stake in another company. The following is a list of investments in affiliates as at March 31, 2015:

| Company | Type of Business | HDFC Bank Ltd. and Subsidiaries Investment (in millions) | | HDFC Bank Ltd. and Subsidiaries Ownership | Total HDFC Group Ownership |
|---|---|---|---|---|---|
| Computer Age Management Services Private Limited ( CAMS ) | Unit capital accounting and transfer agency services | Rs. | 9.8 | 12.1% | 23.2% |
| Softcell Technologies Limited ( Softcell ) | Business-to-business software services | Rs. | 30.3 | 14.0% | 26.0% |
| International Asset Reconstruction Company Private | Business of securitization and asset reconstruction | Rs. | 311.7 | 29.4% | 29.4% |

Limited

The holdings in the above-mentioned companies are accounted for under the equity method of accounting. The increase/ (decrease) in the carrying value in these companies was Rs. 27.5 million in fiscal March 31, 2015 (previous year Rs. 53.3 million). This is included under non-interest revenue other, net.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### 32. Fair value measurement

FASB Accounting Standards Codification ASC 820 (Topic 820) Fair Value Measures and Disclosures, defines fair value, establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

| Level of input | Definition |
|---|---|
| Level 1 | Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities. |
| Level 2 | Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | Inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity). |

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. These valuation methodologies were applied to all of the Bank s financial assets and financial liabilities carried at fair value. For Level 1 instruments the valuation is based upon the unadjusted quoted prices of identical instruments traded in active markets. For Level 2 instruments, where such quoted market prices are not available, the valuation is based upon the quoted prices for similar instruments in active markets, the quoted prices for identical or similar instruments in markets that are not active, prices quoted by market participants and prices derived from standard valuation methodologies or internally developed models that primarily use, as inputs, such as interest rates, yield curves, volatilities and credit spreads, which are available from public sources such as Reuters, Bloomberg and the Fixed Income Money Markets and Derivatives Association of India. The valuation methodology primarily includes discounted cash flow techniques. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The valuation of Level 3 instruments is based on valuation techniques or models which use significant market unobservable inputs or assumptions.

The Bank uses its quantitative pricing models to determine the fair value of its derivative instruments. These models use multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors to value the position that are observable directly or indirectly. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Bank s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Financial assets and financial liabilities measured at fair value on a recurring basis:

Available for sale securities: Available for sale investments are principally comprised of debt securities and are carried at fair value. Such fair values were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using the market yield on the balance period to maturity on similar instruments and similar credit risks. The fair values of asset-backed and mortgage-backed securities is estimated based on revised estimated cash flows at each balance sheet date, discounted at current market pricing for transactions with similar risk. A reduction in the estimated cash flows of these instruments will adversely impact the value of these securities. A change in the timing of these estimated cash flows will also impact the value of these securities.

Trading securities: Trading securities are carried at fair value based on quoted market prices or market observable inputs.

Held to maturity securities: There were no HTM securities as of March 31, 2014 and March 31, 2015.

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes investments measured at fair value excluding investments carried at cost of Rs. 695.4 million on a recurring basis as of March 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| Particulars | Total | Fair Value Measurements Using<br>Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| | | (In millions) | | |
| Trading account securities | Rs. 65,077.9 | Rs. 25.9 | Rs. 65,052.0 | Rs. |
| Securities Available-for-Sale | 908,128.9 | 341.1 | 907,787.8 | |
| Total | Rs. 973,206.8 | Rs. 367.0 | Rs. 972,839.8 | Rs. |

The following table summarizes investments measured at fair value excluding investments carried at cost of Rs. 704.4 million (US$ 11.3 million) on a recurring basis as of March 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| Particulars | Total | Fair Value Measurements Using<br>Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| | | (In millions) | | |
| Trading account securities | Rs. 61,292.8 | Rs. | Rs. 61,292.8 | Rs. |
| Securities Available-for-Sale | 1,503,708.4 | 105,008.8 | 1,382,450.2 | 16,249.4 |
| Total | Rs. 1,565,001.2 | Rs. 105,008.8 | Rs. 1,443,743.0 | Rs. 16,249.4 |
| Total | US$ 25,116.5 | US$ 1,685.4 | US$ 23,170.3 | US$ 260.8 |

There have been no transfers between level 1, 2 and 3 for the year ended March 31, 2014 and March 31, 2015.

The following table summarizes, certain additional information about changes in the fair value of Level 3 assets pertaining to asset-backed securities for the year ended March 31, 2015:

| **Particulars** | | **As of March 31, 2015 (in millions)** |
|---|---|---|
| **Beginning balance at April 1, 2014** | Rs. | |
| Total gains or losses (realized/unrealized) | | |
| -Included in earnings | | |
| -Included in other comprehensive income | | (315.0) |
| Purchases/additions | | 16,564.4 |
| Sales | | |
| Issuances | | |
| Settlements | | |
| Transfers in Level 3 | | |
| Transfers out of Level 3 | | |
| Foreign currency translation adjustment | | |
| **Ending balance at March 31, 2015** | Rs. | 16,249.4 |
| Total amount of gains or (losses) included in earnings attributable to change in unrealized gains or (losses) relating to assets still held at reporting date | Rs | |

**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Derivatives: The Bank enters into forward exchange contracts, currency options, forward rate agreements, currency swaps and rupee interest rate swaps with inter-bank participants on its own account and for customers. These transactions enable customers to transfer, modify or reduce their foreign exchange and interest rate risks. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest in one currency against another currency and exchange of principal amount at maturity based on predetermined rates. Rupee interest rate swaps are commitments to exchange fixed and floating rate cash flows in rupees.

The Bank uses its pricing models to determine the fair value of its derivative instruments. These models use market inputs that are observable directly or indirectly.

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| Particulars | Total | Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| | (In millions) | | | |
| Derivative assets | Rs. 142,479.3 | Rs. | Rs. 142,479.3 | Rs. |
| Derivative liabilities | Rs. 124,176.3 | Rs. | Rs. 124,176.3 | Rs. |

The following table summarizes derivative instruments measured at fair value on a recurring basis as of March 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| Particulars | Total | Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| | (In millions) | | | |
| Derivative assets | Rs. 72,415.7 | Rs. | Rs. 72,415.7 | Rs. |
| Derivative liabilities | Rs. 71,767.5 | Rs. | Rs. 71,767.5 | Rs. |

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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### 33. Subsequent events

In the meeting of Board of Directors of the Bank held on April 23, 2015, the Board recommended a dividend of Rs. 8.00 per share, which has been subsequently approved by the shareholders in their Annual General Meeting, held on July 21, 2015. The total amount of dividend of Rs. 24,016.9 million including tax on distributed profits was paid subsequent to July 21, 2015.

The Bank has evaluated subsequent events from the balance sheet date through July 30, 2015 and determined that there are no other items to disclose.

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## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

HDFC Bank Limited

/s/ Sashidhar Jagdishan
Name: Sashidhar Jagdishan
Title: **Chief Financial Officer**
Date: July 30, 2015

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## EXHIBIT INDEX

| Exhibit No. | Description of Document |
|---|---|
| 1.1 | HDFC Bank Memorandum of Association, as amended (incorporated by reference to HDFC Bank Limited s Registration Statement on Form F-1 filed on July 12, 2001 (Registration No. 333-13718)) |
| 1.2 | HDFC Bank Articles of Association, as amended (incorporated by reference to HDFC Bank Limited s Registration Statement on Form F-1 filed on July 12, 2001 (Registration No. 333-13718)) |
| 1.3 | Amendment to Memorandum and Articles of Association (incorporated herein by reference to HDFC Bank Limited s Annual Report on Form 20-F filed on September 29, 2008) |
| 1.4 | Amendment to Memorandum and Articles of Association (incorporated herein by reference to HDFC Bank Limited s Annual Report on Form 20-F filed on September 30, 2011) |
| 2.1 | Deposit Agreement among HDFC Bank, JPMorgan Chase Bank, N.A. and the holders from time to time of American Depositary Receipts issued thereunder (including as an exhibit, the form of American Depositary Receipt) (incorporated herein by reference to HDFC Bank Limited s Registration Statement on Form F-1 filed on July 12, 2001 (Registration No. 333-13718)) |
| 2.2 | HDFC Bank s Specimen Certificate for Equity Shares (incorporated herein by reference to HDFC Bank Limited s Registration Statement on Form F-1 filed on July 12, 2001 (Registration No. 333-13718)) |
| 2.3 | Amendment number 1, to the Deposit Agreement among HDFC Bank Limited, JPMorgan Chase Bank, N.A. and all holders from time to time of American Depositary Receipts issued thereunder (incorporated herein by reference to F-6 filed on July 13, 2011 (Registration No. 333-13718)) |
| 12.1 | Certification of the Managing Director pursuant to Rule 13a-14(b) |
| 12.2 | Certification of the Chief Financial Officer of HDFC Bank pursuant to Rule 13a-14(b) |
| 13 | Certifications by the Managing Director and Chief Financial Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code |
| 23.1 | Consent of Independent Registered Public Accounting Firm KPMG |
| 23.2 | Consent of Independent Registered Public Accounting Firm Deloitte Haskins & Sells LLP |
| 101 | The following financial information from HDFC Bank Ltd. Annual Report on Form 20-F for the year ended March 31, 2015 is formatted in XBRL: (i) Consolidated Statements of Income, (ii) Consolidated statements of comprehensive income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Shareholders Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements. |

HDFC Bank Limited agrees to furnish to the Securities and Exchange Commission, upon its request, the instruments relating to the long-term debt for securities authorized thereunder that do not exceed 10% of HDFC Bank Limited s total assets.