

HDFC BANK LTD  
Form 20-F  
July 27, 2012  
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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, 2012**

**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](mailto: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**  
**American Depositary Shares, each representing three**

**Name of each exchange on which registered**  
**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**

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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, 2012** 2,346,688,270

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  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

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  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  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  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  International Financial Reporting Standards as issued  Other

by the International Accounting Standards Board

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

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In this document, all references to we, us, our, HDFC Bank or the Bank shall mean HDFC Bank Limited or where the context requires also 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 \$ or US\$ or dollars or U.S. dollars are to the legal currency of the United States and references to Rs. or rupees or INR 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. US GAAP differs in certain material respects from accounting principles generally accepted in India, the requirements of India's Banking Regulations 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 depository of any cash dividends paid in Indian rupees on the equity shares represented by ADSs.

During fiscal 2008 the rupee appreciated against the USD. Strong capital flows ensured that the rupee moved with an upside bias in the period. However, in fiscal 2009 the trend reversed on account of the sub-prime crisis and global risk aversion that led to a portfolio outflows and ensured that the rupee came under strong selling pressure in the period. The INR managed to recover somewhat in fiscal 2010 in line with the pickup in the domestic economy and improvement in global risk appetite. In fiscal 2011 the rupee was range bound as capital flows just about managed to balance the drag from external debt servicing and import payments. However, in fiscal year 2012 the INR depreciated (the high and low during fiscal 2012 was Rs. 53.71 per US\$ and Rs. 44.00 per US\$ respectively) coming under strain amidst a widening current account deficit, thin capital inflows and rising global uncertainty spurred by lingering financial and economic instability in Europe and the USA.

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:

<b>Fiscal Year</b>	<b>Period End<sup>(1)</sup></b>	<b>Average<sup>(1)(2)</sup></b>	<b>High</b>	<b>Low</b>
2008	40.02	40.13	43.05	38.48
2009	50.87	45.84	51.96	39.73
2010	44.95	47.39	50.48	44.94
2011	44.54	45.49	47.49	43.90
2012	50.89	47.81	53.71	44.00

(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.

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

<b>Month</b>	<b>Period End</b>	<b>Average</b>	<b>High</b>	<b>Low</b>
January 2012	49.54	51.00	53.11	49.39
February 2012	48.99	49.18	49.48	48.65

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March 2012	50.89	50.36	51.38	49.14
April 2012	52.65	51.69	52.65	50.64
May 2012	56.38	54.33	56.38	52.50
June 2012	55.57	55.94	57.13	54.91

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. 50.89 on March 31, 2012. The noon buying rate on July 20, 2012 was Rs. 55.27 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, believe, expect, will continue, anticipate, intend, plan, future, objective, project, should, 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 in India and other jurisdictions on us, 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. Our forward looking statements speak only as of the date on which they are made and we do not undertake any obligation, and we do not intend, to update or revise any forward looking statements to reflect events or circumstances after the date in the statement, even if our expectations or any related events or circumstances change.

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 other countries which have an impact on our business activities or investments caused by any factor including the global financial crisis and problems in the Eurozone countries, 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, 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 .

**Table of Contents****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. 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 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, 2012, we expanded our operations from 684 branches and 1,605 Automated Teller Machines (ATMs) in 320 cities to 2,544 branches and 8,913 ATMs in 1,399 cities. On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs. 1,013.2 billion as of March 31, 2007 to Rs. 3,571.2 billion as of March 31, 2012. Our net income has increased from Rs. 11.0 billion for fiscal 2007 to Rs. 49.8 billion for fiscal 2012.

We acquired Centurion Bank of Punjab Limited (CBoP), a new generation private sector Indian bank that offered retail, small and medium enterprise and corporate banking products and services, similar to ours. Our shareholders approved the acquisition on March 27, 2008, and it became effective May 23, 2008. As consideration for the acquisition, every 29 equity shares of CBoP were exchanged for one of our equity shares. The primary purpose of the acquisition was to realize potential synergies and growth opportunities. We acquired over two million customers, approximately Rs. 266,834.6 million in assets and assumed approximately Rs. 239,003.1 million in liabilities. The fair value of the net assets we acquired was Rs. 27,831.5 million on the date we acquired CBoP, which resulted in goodwill of Rs. 74,937.9 million.

Our financial condition and results of operations are affected by general economic conditions prevailing in India. It was a challenging year for the Indian economy with lingering concerns over global growth prospects and financial stability weighing on external demand and international funding. Further, local headwinds such as inflation, rising interest rates and policy impediments exacerbated the impact of a shaky global environment on domestic growth. Aggressive monetary tightening curtailed leveraged spendings pulling private consumption growth lower from 8.1% for fiscal 2011 to 6.5% for fiscal 2012, while policy hurdles such as land acquisition problems and environmental clearances dampened investment momentum, with investment growth lower at 5.8% from 11.1% a year ago. The intensification of the debt crisis in Europe as well as a moderation in emerging markets across the globe reduced export growth sharply in the second half of fiscal 2012 to 6% from close to 25% in the first half of fiscal 2012, weakening a vital support for GDP growth in fiscal 2012. Despite a slowdown in growth over fiscal year 2012, India has continued to outperform the global economy. With world output growth likely to remain relatively feeble at 3.3% in 2012 against 3.8% in 2011, we believe structural supports from a rapidly expanding rural and semi-urban economy, favorable demographics and low product penetration are likely to continue to keep domestic growth higher than world growth.

Notwithstanding our pace of growth, we believe, we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2012, our net non-performing customer assets (which consist of loans and credit substitutes) constituted 0.2% of net customer assets. In addition, our net customer assets represented 81.9% of our customer deposits and customer deposits represented 69.0% of our total liabilities and shareholders equity. The average non-interest bearing current accounts and low-interest bearing savings accounts represented 47.3% of average total deposits for fiscal 2012. These low-cost deposits led to an average cost of funds including equity for fiscal 2012 of 4.9%.

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, and life and other insurance. HDFC Limited and its subsidiaries owned 23.15% of our outstanding equity shares as of March 31, 2012. Our Chairman and Managing Director were nominated by HDFC Limited and appointed with the approval of our shareholders and the Reserve Bank of India (RBI). 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. See also **Principal Shareholders**. We have no agreements with HDFC Limited or any of its group companies that restrict us from competing with them. 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 had a cash outflow of approximately Rs. 6.0 billion, Rs. 5.8 billion and Rs. 7.9 billion in fiscals 2010, 2011 and 2012, 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. 13.7 billion in fiscal 2013. This budgeted amount includes Rs. 2.0 billion to expand our branch and back office network, Rs. 0.9 billion to expand our ATM network, Rs. 0.5 billion to expand our Electronic Data Capture terminal network and Rs. 10.3 billion to upgrade and expand our hardware, data center, network and other systems. Our capital

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expenditure needs may change 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.

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We have two subsidiaries as per local laws: HDFC Securities Limited ( HSL ) and HDB Financial Services Limited ( HDBFS ). HSL is primarily in the business of providing brokerage services through the internet and other channels. HDBFS is a non-deposit taking non-bank finance company ( NBFC ). We have consolidated the financial statements of Atlas Documentary Facilitators Company Private Limited ( 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 2007 ADS offering is Depositary Management Corporation, 570 Lexington Avenue, 44th Floor, New York, NY 10022 and that for the 2001 and 2005 ADS offerings and Patriot Act information gathering is CT Corporation, 111 Eighth Avenue, New York, NY 10011.

## **Our Competitive Strengths**

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

### ***Our use of technology***

Since our inception, we have made and continue to make investments in our technology platform and systems, to build multiple distribution channels, including an electronically linked branch network, automated telephone banking, internet banking and banking through mobile phones, to offer our customers convenient access to various products. During fiscal 2012, we added more capability to our internet banking platform, launched mobile banking for 2G customers and launched applications for various mobile platforms.

We have templated credit underwriting through automated customer data de-duplication and real-time scoring in our loan origination process. Having enhanced our cross selling and up-selling capabilities through data mining and analytical customer relationship management solutions, our technology enables us to have a 360° view of our customers. We employ event detection technology-based customer messaging and have deployed an enterprise wide data warehousing solution as a back bone to our business intelligence system.

We have implemented a risk management engine for internet transactions coupled with various multi-factor authentication, which has reduced phishing attacks. We have also implemented a digital certificate-based security engine for corporate internet banking customers. Credit and debit cards usage of our customers is secured by a proactive risk manager technology solution which uses rules-based SMS alerts as well as prompts customer service representatives to call the customer on detecting abnormal usage behavior. This helps in minimizing probable losses to customers on account of frauds, if the card gets stolen or is not hot listed by the customer.

Sophisticated automated switch-over and switch-back solutions power our Business Continuity and Disaster Recovery management strategy for core banking and other key applications. We conduct drills periodically to upgrade this capability and to improve the availability of our services to our customers.

### ***We deliver high quality service with superior execution***

Through intensive training of our staff and the use of our technology platform, we believe, we deliver efficient service with rapid response time. Our focus on knowledgeable and personalized service, we believe, draws customers to our products and increases existing customer loyalty.

Many of our operational processes are certified under the International Organization for Standardization (ISO) 9001:2008. This certification requires the underlying processes to be robust, effective and efficient. The ISO certification ensures that: a) we have a set of procedures that cover key processes; b) our processes are monitored to ensure effectiveness; c) adequate records are maintained; and d) outputs are monitored for any defects so that appropriate and accurate remedial actions can be undertaken.

Some of our operational achievements, which we believe have enabled us to deliver high quality service, include: i) deposit accounts processed by our operations team with a turnaround time of less than two working days; ii) welcome kits dispatched to customers within two working days of opening a deposit account; and iii) internet banking personal identification numbers (PINs) generated within one working day of a request logged in our systems.

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### ***We offer a range of products to our clients in order to service their banking needs***

Whether in retail or wholesale banking, we consider ourselves a one-stop shop for our customers' banking needs. Our retail banking products range from retail loans to deposit products and other products and services, such as private banking, depository accounts, foreign exchange services, distribution of third party products (such as insurance and mutual funds), bill payments and sale of precious metals (such as gold and silver). In addition we offer our customers broking 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. In addition we 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 issuances of equity shares and bonds to the public by companies. Our wide range of products creates multiple cross-selling opportunities for us and, we believe, improves our customer retention rates.

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

Many of the members of our senior management team have been with us since our inception. They have substantial experience in banking across various countries and share our common vision of excellence in execution. We believe this team is well suited to leverage the competitive strengths we have already developed as well as to create new opportunities for our business. See Management .

## **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. We also aim to increase geographic and market penetration by expanding our branch and ATM networks and increasing our efforts to cross-sell our products.

### ***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 ratio of gross non-performing assets to customer assets was 0.9% as of March 31, 2012 and our net non-performing assets amounted to 0.2% of net customer assets. We have restructured the payment terms of certain loans. As of March 31, 2012, these represented 0.2% of our gross customer assets. 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 on 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. During fiscal 2012, our average cost of funds (including equity) was 4.9%.

### ***Focus on high earnings growth with low volatility***

Our net income has grown at a compounded average rate of 35.2% during the five-year period ended March 31, 2012. We intend to maintain our focus on steady earnings growth through conservative risk management techniques and low-cost funding. In addition, we aim not to rely heavily on volatile streams of income such as those from trading and other big ticket fees (such as those from investment banking) so as to maintain earnings growth.

**Table of Contents****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.

	2010		Year ended March 31, 2011				2012	
	(in millions, except percentages)							
Retail banking	Rs. 84,685.7	80.1%	Rs. 122,321.0	84.0%	Rs. 140,761.6	US\$ 2,766.0	82.2%	
Wholesale banking	14,125.6	13.4%	21,151.9	14.5%	29,098.7	571.8	17.0%	
Treasury operations	6,825.8	6.5%	2,122.9	1.5%	1,289.9	25.3	0.8%	
Net revenue	Rs. 105,637.1	100%	Rs. 145,595.8	100%	Rs. 171,150.2	US\$ 3,363.1	100%	

**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 slightly 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 market our services aggressively 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, 2012, we had 2,544 branches and 8,913 ATMs in 1,399 cities. 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 receiving regulatory 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 66.1% of our gross loans of which 21.1% were unsecured as of March 31, 2012. Apart from our branches, we use our ATM screens 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 analyses of the borrowers and the value of the collateral. 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 the making of payments. However, unsecured personal loans are still a greater credit risk for us than our secured loan portfolio because they are not supported by any collateral. 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* .



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

	Value at March 31, 2012 (in millions)		% of Total Value
<b>Retail Loans:</b>			
Auto loans	Rs. 310,822.5	US\$ 6,107.7	23.0
Personal loans / Credit Cards	219,137.9	4,306.1	16.2
Retail business banking	284,431.5	5,589.1	21.1
Commercial vehicle and construction equipment finance	228,751.1	4,495.0	17.0
Housing loans	142,897.4	2,808.0	10.6
Other Retail Loans	158,926.4	3,123.0	11.8
Total retail loans	1,344,966.8	26,428.9	99.7
Mortgage-backed securities	3,310.9	65.1	0.2
Asset-backed securities	585.3	11.5	0.1
Total retail assets	Rs. 1,348,863.0	US\$ 26,505.5	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.

*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 the VISA and MasterCard stable, including gold, silver, corporate, platinum, titanium, signature, infinite, regalia, superia and world credit cards. We had approximately 5.1 million cards outstanding as of March 31, 2011, as against 5.6 million cards outstanding as of March 31, 2012.

*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*



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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*

In fiscal 2003, we entered the home loan business through an arrangement with HDFC Limited. Under this arrangement, we source home loans provided by HDFC Limited, which approves the credit sanctioning and disburses the loans. The loans are kept on the balance sheet of HDFC Limited, and we are paid a sourcing fee. Under the arrangement, HDFC Limited is obligated to offer us up to 70% of the disbursed home loans sourced under the arrangement. We have the option to purchase the loans at the underlying yields less a spread of 1.25% payable towards the administration and servicing of the loans. A part of the home loans may also qualify for our directed lending requirement.

***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.

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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.

### *Mortgage-backed Securities*

We also invest in mortgage-backed securities of other originators. These mortgages are generally in India. Most of these securities also qualify towards our directed lending obligations.

After our acquisition of CBoP, the portfolio of home loans of CBoP was transferred to our loan book.

### *Asset-backed Securities*

We invest in auto loans, two-wheeler loans, commercial vehicle loans and other asset-backed securities, represented by pass-through certificates ( PTCs ). These securities are normally credit-enhanced and may qualify for our directed lending requirements. These assets are generally in India.

### *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. Such loans are included within the categories described above based on underlying exposures.

### *Sale/Transfer of Receivables*

We enter into assignment transactions from time to time, which are similar to asset-backed securitization transactions through special purpose entities ( SPE ), except that such portfolios of receivables are assigned directly to the purchaser and are not represented by pass-through certificates. We also securitize our retail loan receivables through independent SPEs. In respect of these transactions, recourse is in the form of our investment in subordinated securities issued by SPEs, cash collateral and other credit and liquidity enhancements. In fiscals 2011 and 2012 we did not sell any performing loans.

**Table of Contents****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 72% of our total deposits as of March 31, 2012. The following chart shows the number of accounts and value of our retail deposits by our various deposit products:

	At March 31, 2012					
	Value (in millions)		% of total		Number of accounts (in thousands)	
	Rs.		US\$			
Savings	717,675.5	US\$ 14,102.5	40.2	16,159	74.5	
Current	253,295.7	4,977.3	14.2	1,853	8.5	
Time	813,582.3	15,987.1	45.6	3,674	17.0	
Total	Rs. 1,784,553.5	US\$ 35,066.9	100.0	21,686	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, designed primarily for individuals and trusts. From May 2011, the RBI mandated that interest payable on savings deposits be increased to 4% from 3.5%, and in October 2011, the interest rate was de-regulated by RBI; see also *Supervision and Regulation* .

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 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.

**Other Retail Services and Products*****Debit Cards***

We had around 11.5 million debit cards outstanding as of March 31, 2011 as compared to around 14.1 million debit cards outstanding as of March 31, 2012. The cards can be used at ATMs and point-of-sales terminals in India and in other countries across the world.

***Individual Depository Accounts***

We provide depository 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 depository participant. Depository participants, including us, provide services through the major depositories established by the two major stock exchanges. Depository 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***

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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 product, respectively, to our customers. We earn upfront commissions on new premiums collected as well as some trailing income in subsequent years in some cases while the policy is still in force.

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### ***Precious Metals***

We import gold and silver bars for sale to our retail customers through our branch network.

### ***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, 2012, these accounts constituted approximately 53% of our total retail savings accounts by number and approximately 31% of our retail savings deposits by value.

### ***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. 172.2 billion as of March 31, 2012. Effective December 2011, the RBI permitted banks the flexibility to offer varying rates of interests on non-resident deposits.

### ***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, including services offered in partnership with third parties, such as Western Union. 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, 2012, around 14% of our retail deposit customers contributed approximately 69% of our retail deposits. We also target small businesses, trusts and non-profit corporations. 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 in order to preserve and enhance their wealth. 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.



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### **Wholesale Banking**

#### ***Overview***

We provide our corporate and institutional clients a range 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 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 companies 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- and medium-term loans which are typically loans of up to five years in duration. More than 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, debentures and preference shares 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.



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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, debentures and preference shares as credit substitutes (which in turn are classified as investments).

	2010	As of March 31, 2011	2012	2012
	(in millions)			
Gross commercial loans	Rs. 587,956.8	Rs. 668,605.7	Rs. 689,314.4	US\$ 13,545.2
Credit substitutes:				
Commercial paper	Rs. 197.1	Rs. 11,906.8	Rs. 7,791.0	US\$ 153.1
Non-convertible debentures	2,279.2	2,584.3	4,009.5	78.8
<b>Total credit substitutes</b>	<b>Rs. 2,476.3</b>	<b>Rs. 14,491.1</b>	<b>Rs. 11,800.5</b>	<b>US\$ 231.9</b>
Gross commercial loans plus credit substitutes	Rs. 590,433.1	Rs. 683,096.8	Rs. 701,114.9	US\$ 13,777.1

While we generally lend on a cash-flow basis, we also require collateral from some of our borrowers. As of March 31, 2012, approximately 70.3% of the aggregate principal amount of our gross wholesale loans was secured by collateral (approximately Rs. 204.9 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 .

We price our loans based on a combination of our own cost of funds, market rates, 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.

The RBI requires banks to lend to specific sectors of the economy. For a detailed discussion of these requirements, see Supervision and Regulation Regulations Relating to Making Loans 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:

	2010	Years ended March 31, 2011	2012	2012
	(in millions)			
Bill collection	Rs. 1,876,968.0	Rs. 1,968,026.5	Rs. 3,466,005.7	US\$ 68,107.8
Documentary credits	319,658.0	429,856.9	653,828.7	12,847.9
Bank guarantees	88,439.1	133,783.9	199,600.1	3,922.2
<b>Total</b>	<b>Rs. 2,285,065.1</b>	<b>Rs. 2,531,667.3</b>	<b>Rs. 4,319,434.5</b>	<b>US\$ 84,877.9</b>

*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.

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*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.

**Table of Contents***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 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 following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative contracts with our customers as of March 31, 2010, 2011 and 2012, together with the fair values on each reporting date:

	2010		2011		2012		2012	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Interest rate swaps and forward rate agreements	Rs. 191,878.3	Rs. (1,462.7)	Rs. 168,279.9	Rs. 500.0	Rs. 399,622.3	Rs. 1,496.4	US\$ 7,852.6	US\$ 29.5
Forward exchange contracts, currency swaps, currency options and interest rate caps and floors	Rs. 420,632.2	Rs. 1,565.9	Rs. 454,323.6	Rs. 1,138.4	Rs. 433,469.2	Rs. 8,346.0	US\$ 8,517.8	US\$ 164.0

As of March 31,  
(In millions)

*Investment Banking*

Our investment banking services currently focus on providing debt and loan syndication as well as private placements for our wholesale banking customers.

*Precious Metals*

We are in the business of importing gold and silver bullion to leverage our distribution and servicing strengths and cater to the domestic bullion trader segment. We generally import bullion on a consignment basis so as to minimize price risk. The imports are typically on a back-to-back basis and are priced to the customer based on the price quoted by the supplier. We earn a fee on such wholesale bullion transactions.

*Wholesale Deposit Products*

As of March 31, 2012, we had wholesale deposits aggregating over Rs. 675 billion, which represented approximately 28% 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. 1.5 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.

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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. Although the public sector banks have extensive branch networks, many of their branches typically are still not electronically linked. The foreign banks are restricted in their ability to expand their branch network.

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.

In 2005, the RBI introduced an inter-bank settlement system called the Real Time Gross Settlement (RTGS) system. The RTGS system facilitates real time settlements primarily between banks and therefore could have an adverse impact on our cash management services. However, we believe our cash management services offer certain advantages not present in RTGS, including the provision of greater information to our clients regarding the source and identity of payments. In addition, through our cash management services our clients receive checks from their customers, which we believe many of our clients prefer because the issuance of a bad check is a criminal offense in India. See *Risk Factors Risks Relating to Our Business 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* .

### ***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 ( National Stock Exchange ) and the Bombay Stock Exchange 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. By contrast, although the public sector banks have extensive branch networks and also provide correspondent banking services, many of them have not yet created electronically connected networks and their branches typically operate independently of one another.



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### *Tax Collections*

We were the first private sector bank to be appointed by the government of India to collect direct taxes. In fiscal 2012, we collected Rs. 1,145 billion 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 2012, we collected over Rs. 370 billion of such indirect taxes for the government of India and relevant state governments. We earn a fee from 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**

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.

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, 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. 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 following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative inter-bank contracts as of March 31, 2010, 2011 and 2012, together with the fair values on each reporting date:

	2010		2011		2012		2012	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	As of March 31, (in millions)							
Interest rate swaps and forward rate agreements	Rs. 1,830,447.4	Rs. (98.0)	Rs. 1,877,858.9	Rs. (2,449.3)	Rs. 1,952,713.1	Rs. (2,114.6)	US\$ 38,371.3	US\$ (41.6)
Forward exchange contracts, currency swaps, currency	Rs. 2,260,135.8	Rs. 2,597.9	Rs. 2,946,160.8	Rs. 2,002.7	Rs. 5,489,502.9	Rs. (2,465.8)	US\$ 107,870.0	US\$ (48.5)

options and  
interest rate  
caps and  
floors



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### ***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, 2012, we had an internal approved limit of Rs. 400 million for secondary market purchases and Rs. 100 million for primary purchases of equity investments for proprietary trading and our exposure as of March 31, 2012 was within the said 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, 2012, we had an aggregate of 2,544 branches covering 1,399 cities. 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 of March 31, 2011, 793 of our branches were in semi-urban or rural areas as compared to 1,159 as of March 31, 2012. As part of its branch licensing conditions, the RBI requires that at least 25% of all incremental branches added during the year, with effect from November 2011, must be located in unbanked rural areas. An unbanked rural area is defined as a center that does not have a brick and mortar structure of any scheduled commercial bank for customer-based banking transactions. The RBI has given a general permission to Scheduled Commercial Banks to open branches in locations having a population lower than 100,000 and in the case of the north eastern states of India, including the state of Sikkim, without having the need to obtain prior approvals.

We have representative offices in the United Arab Emirates and Kenya and have a wholesale banking branch in Bahrain which commenced operations in September 2008. We have a full service banking branch in Hong Kong which commenced its operation in October 2010. Through this branch, 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, 2012, we had a total of 8,913 ATMs, of which 3,823 were located at our branches or extension counters and 5,090 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.

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### ***Telephone Banking***

We provide telephone banking services to our customers in 1,397 cities. 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 Telephone Banking***

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.

### ***Internet Banking***

Through our *net banking* channel, customers can 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 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, including liquidity and interest rate risks 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 market definitions; b) our credit approval process; c) our post-disbursement monitoring; and d) our remedial management procedures.

### ***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 private businesses and public sector enterprises in India, subsidiaries of multinational companies 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 a 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.



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We have 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 based on a rating scale of HDB 1 to HDB 10 (HDB 1 indicating the best and HDB 10 the worst). 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 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.

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.

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, computed as per RBI guidelines. 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*: As part of our constant endeavor at augmenting our risk management systems and in order to bring about a greater degree of risk differentiation of our credit exposures, particularly in the investment scale, to facilitate quality underwriting and better portfolio monitoring, we migrated to a credit risk rating scale of HDB 1 to HDB 10, where HDB 1 to HDB 7 are investment grade ratings while HDB 8 or worse are non-investment grade ratings (the previous rating scale was HDFC 1 to HDFC 10, where HDFC 1 to HDFC 6 were investment grade ratings while HDFC 7 or worse were non-investment grade ratings). Accordingly, we do not assume any incremental exposures on borrowers with an internal risk rating of HDB 8 or worse, except on a highly secured basis or as part of a rehabilitation/restructuring plan. Further, we have set quantitative ceilings on aggregate funded plus non-funded exposure (excluding retail assets) specific to each risk rating category.

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.

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We have a process for regular monitoring of 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 [Supervision and Regulation](#) [Regulations Relating to Making Loans](#) [Directed Lending](#) .

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### ***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 and 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, contactability 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.

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). In most cases we obtain direct debit instructions or post-dated checks from the customer. It is a criminal offence in India to issue a bad check.

### ***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 instrument holdings may include investment in securities and money market instruments, including equities, bonds, 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 limit, equity limit, 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 ongoing balance sheet market risk management 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 and recommends various market risk controls and limits for the treasury portfolio. The treasury mid-office is responsible for monitoring and reporting market risks arising from the treasury desks. 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*

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 and exchange rates 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, comprise of positions in bonds and securities, interest rate swaps and cross currency interest rate swaps.

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 Limit ( SLTL ), Price Value per basis point ( PV01 ) and position limit, which are set in the Treasury Limits Package and Equity Limits Package.

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.

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 the introduction of new products.

Trading risk policy sets the framework for market risk monitoring. The risk on account of semi-liquid or illiquid positions in trading is mitigated through the Non-Standard Product policy. The Non-Standard Product Policy stipulates restrictions and requires 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 our Market Risk Department).

#### *II. Asset Liability Management (ALM)*

Our Board of Directors has approved an ALM policy that covers all balance sheet and off-balance sheet items. The policy seeks to define liquidity and interest rate risk in the banking book, the measurement of these risks and their control. Other risks, namely currency risk, commodity price risk and equity price risk are governed by the market risk policy as approved by the Board.

We have interest rate risk and liquidity risk measurement, monitoring and control functions which are sufficiently independent from position-taking functions. Our ALM risk management process operates in the following hierarchical manner:

- a) The Board of Directors
- b) The Risk Policy & Monitoring Committee (RPMC)
- c) The Asset Liability Committee (ALCO)



d) ALM operational groups

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*A. Interest Rate Risk in the Banking Book (IRRBB)*

IRRBB, or non-trading interest rate risk, arises from the provision of retail and wholesale (non-trading) banking products and services, when the interest rate repricing date for assets is different from the repricing date for liabilities. This includes balance sheet items which do not have a defined maturity date and an interest rate that does not change when the base rate changes.

Interest rate risk in the banking book is measured and controlled using both income metrics (Earnings at Risk) and present value metrics (Economic Value of Equity). Earnings at Risk ( EaR ) measures the sensitivity of net interest income over the next 12 months. It is calculated as the difference between the estimated income using the current yield curve and the lowest estimated income following an increase/decrease in interest rates. Economic Value of Equity ( EVE ) calculates the change in the present value of the banking book following an upward/downward interest rate shock. This calculation is equivalent to EaR except that EVE is a present value sensitivity, while EaR is a measure of income sensitivity. We undertake periodic stress testing for our banking book based on stress scenarios. This provides a measure to assess our financial resilience from extreme but plausible interest rate fluctuations.

*B. Liquidity Risk Management*

We monitor our liquidity positions on a daily basis using the statement of structural liquidity prepared according to RBI's prescribed format. We assess the level and outlook of liquidity risk using early warning indicators derived from our portfolio and market data. Additionally, we conduct stress tests to assess the impact on our liquidity position under plausible stress scenarios.

We consider the full range of legal and regulatory restrictions on the availability of liquidity support. We also take into consideration the circumstances in which we may be obliged to transfer liquidity resources to other entities in our group. Our aim is to ensure that our funding sources are well diversified such that we are not prone to funding liquidity risks in the event of one or more of our funding resources being withdrawn. We maintain diversified and stable sources of funding, such as deposits, money market borrowings and bond issuances.

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### ***Operational Risk***

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

#### *Strategies*

Our operational risk framework has been reviewed by risk and control teams. Key aspects of operational risk management include identification, assessment, review, control and reporting of key operational risks.

#### *Process and measurement*

Some of the key principles of our operational risk management strategy include segregation of functions, clear reporting guidelines, well defined processes, operating manuals and job cards, transactions verification and authorization, distributed processing and staff training and a strong management team with experience in diverse fields. We are in the process of implementing various principles and guidelines laid out in respect of operational risk management by the Basel committee on banking supervision in the Basel II guidelines and by RBI in its circulars and guidance note on operational risk and advance measurement approach guidelines. Our operational risk management committee oversees implementation of sound operational risk management framework. We have a process of reporting operational losses and issues relating to operational risk, wherein the relevant areas are quickly reviewed and any gap suitably addressed. This is further being enhanced with a framework that has integrated capabilities to monitor losses, evaluate operational key risk indicators and qualitatively evaluate risk-control environments among other sound principles and practices.

We have implemented disaster recovery capabilities for our information technology for critical components apart from having integrated Business Continuity Planning ( BCP ) initiatives for business operations. A BCP committee oversees strategy and implementation of our disaster and business continuity framework. We have an information security committee which oversees strategy and implementation of our information security policies and procedures.

#### *Risk reporting*

As a part of our overall operational risk management strategy, there is a clear line of reporting at every function which facilitates reporting and monitoring of operational risk events. Further, measurement and reporting is also achieved through various management information systems attached with each operational process which are generated and monitored regularly.

#### *Mitigation*

We manage our various operational risks by adopting, what we believe are, best practices in business processes through checks and balances, embedding monitoring and control mechanisms as a part of day-to-day operations and having an effective internal audit process. Various operational risk exposures are monitored regularly and reviewed periodically by us to ensure effective implementation. Control and mitigation guidelines are part of our various product, process operation manual and documents. We cover risk on account of natural disasters through appropriate insurance.

#### *Operational risk capital*

Currently we are following the Basic Indicator Approach for operational risk capital assessment as mandated by the RBI.

### **Competition**

We face strong competition in all 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.

### ***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.

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

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### ***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.

### **Employees**

The number of our employees has increased from 55,752 as of March 31, 2011 to 66,076 as of March 31, 2012. Most of our employees are located in India. We consider our relations with our employees to be good. 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 8.25%. We have no liability for future provident fund benefits other than our annual contribution and the shortfall, if any, between the government specified minimum rate and the yield on the fund's assets. 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 other major cities in India.

As of March 31, 2012, we had a network consisting of 2,544 branches and 8,917 ATMs, including 5,090 ATMs at non-branch locations. These facilities are located throughout India with the exception of two branches which are located in Bahrain and Hong Kong.

### **Legal Proceedings**

We are involved in a number of legal proceedings in the ordinary course of our business. However, there are currently no legal proceedings, which if adversely determined, might affect our financial condition or the results of our operations materially.

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**RISK FACTORS**

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

**Risks Relating to our Business**

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

Our asset growth rate has been significantly higher than India's gross domestic product ( GDP ) growth rate as well as the growth rate of the Indian banking industry over the last three fiscal years. For example, our total advances in the three-year period ended March 31, 2011 grew at a compounded annual growth rate of about 31%, as against slightly over 14% for the Indian Banking Industry for fiscal 2011. Our total advances in the three-year period ended March 31, 2012 grew at a compounded annual growth rate of about 26%,

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 and expanding 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, 2008, we had a branch network comprised of 761 branches, which increased to 2,544 as at March 31, 2012. We need to seek permission from the RBI before we can open a branch in a Tier I centers (locations with a population greater than 100,000). This permission, among other factors, is dependent on the number of branches that we have opened in under-banked or un-banked areas of the country as well as in centers with a population below 100,000. Additionally, the RBI considers our performance in the areas of priority sector lending, financial inclusion and customer service. 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.

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 2012, net interest revenue after allowances for credit losses represented 69.3% 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. A decrease in interest rates could result in a decrease in interest revenue relative to interest expense due to

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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, especially since a portion of our deposits are at rates of interest regulated by the RBI.

Interest rates in India continued to rise during fiscal 2012. There is a possibility that they will rise further due to many factors beyond our control, including the monetary policies of central banks such as the RBI, deregulation of the financial sector, domestic and international inflation, economic and political conditions and other factors. Yields on the Indian government's ten-year bonds were 7.9%, 8.0% and 8.6% as of March 31, 2010, 2011 and 2012, respectively. If interest rates increase and demand for loans is negatively affected, we may not be able to achieve our volume growth, which would adversely affect our net income. Any volatility in interest rates could adversely affect our net income. See Selected Statistical Information Analysis of Changes in Interest Revenue and Interest Expense: Volume and Rate and Selected Statistical Information Yields, Spreads and Margins .

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***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 0.9% of our gross customer assets as of March 31, 2012. Our non-performing loans and impaired credit substitutes net of specific loan loss provisions represented 0.2% of our net customer assets portfolio as of March 31, 2012. We have restructured the payment terms of certain loans. As of March 31, 2012 these represented 0.2% 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, 2012, approximately 76% 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 11 Loans in our consolidated financial statements.

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 will 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. Funded exposures include loans and investments (excluding investments in government securities, units of mutual funds, deposit certificates issued by banks and equity shares). As of March 31, 2012, our largest single customer exposure was Rs. 91.2 billion, representing 24.0% of our capital funds valuation, and our ten largest customer exposures totaled Rs. 394.7 billion, representing 104.1% of our capital funds valuation, in each case computed in accordance with RBI guidelines. None of our ten largest customer exposures were classified as non-performing as on March 31, 2012. 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. We monitor concentration of exposures to individual industries as a proportion of funded exposures. As of March 31, 2012, our largest industry concentrations, in each case based on RBI guidelines, were as follows: banks and financial institutions 7.7%, wholesale and retail trade 7.6% and road transportation 6.0%. In addition, as of March 31, 2012, 45.9% 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, 2012, our total non-performing loans and credit substitutes in accordance with US GAAP were concentrated in the following industries: NBFC/financial intermediaries (9.4%), textiles and garments (7.5%), wholesale and retail trade (4.8%), food and beverages (4.4%), and information technology (2.8%).



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*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 in India. Under these guidelines banks in India are required to lend 40.0% of their adjusted net bank credit ( ANBC ) 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 the last reporting Friday of the fiscal year with reference to the ANBC of the previous fiscal year. Of the total priority sector advances, agricultural advances are required to be 18.0% of ANBC, including direct agricultural advances of at least 13.5% made directly to individual or groups of individual farmers and indirect agricultural advances of not more than 4.5% made for agricultural purposes such as loans to food and agri-processing industrial units, and financing farmers indirectly through the co-operative system. Advances to sections termed 'weaker' by the RBI are required to be 10.0% of ANBC. 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.

In the case of non-achievement of priority sector lending 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. Additionally, as per RBI guidelines, non-achievement of priority sector targets and sub-targets will be taken into account by RBI when granting regulatory clearances/approvals for various purposes.

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 0.4% as of March 31, 2012.

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.

*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, 2012, approximately 76% of our loans were partially or fully secured by collateral.

Although there is legislation in place that strengthens the rights of creditors and leads to quicker realization of collateral in the event of a default, we may not be able to realize the full value of the collateral, due to, among other things, delays on our part in taking immediate action, delays in bankruptcy foreclosure proceedings, stock market downturns, 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. 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 20% 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 .

*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 Chairman, our Managing Director, our Executive Directors and members of our senior management. Our future performance is dependent on the continued service of these persons. 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.

***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](#) .

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*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 II framework as of March 31, 2009. Our capital adequacy ratio, calculated in accordance with Indian GAAP, was 16.5% as of March 31, 2012 as per Basel II. 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.

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. On May 2, 2012, the RBI released guidelines on implementation of Basel III capital regulations in India. The key items covered under these guidelines are as follows: 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 proposed by the Basel III capital regulations is that the Tier 1 capital will predominantly consist of common equity of the banks which inter alia 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 I 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. 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, at the option of the RBI, write off such instruments or convert them into common equity. The capital requirement including the capital conservation buffer will be 11.5% (against the current requirement of 9%) once these guidelines are fully phased-in. The transitional arrangements will begin from January 1, 2013 and the guidelines will be fully phased-in and implemented as of March 31, 2018. For the fiscal year ending on March 31, 2013, banks will have to disclose capital ratios under the existing Basel II guidelines on capital adequacy as well as those computed under the Basel III capital adequacy framework. Our ability to support and grow our business could be adversely affected if we are unable to meet with the revised requirements.

**Table of Contents*****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.

***We compete directly with banks that are much larger than we are and which benefit from economies of scale, which makes it challenging for us to offer competitive prices to retain existing customers and solicit new business.***

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 such 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. 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, 2012, about 40% of our loans were short-term and about 44% of our loans were medium-term. As of March 31, 2012, about 29% of our deposits were short-term and about 45% of our deposits were medium-term. 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. Successive increases in policy rates since February 2010 to date have meant that the ongoing bout of interest rate tightening in India has been faster than many other economies. The RBI has raised key policy rates from 5.25% (repo rate) in April 2010 to 8.0% currently. As a result of certain reserve requirements of the RBI, we are more structurally exposed to interest rate risk than banks in many other countries. See Supervision and Regulation Legal Reserve Requirements. These requirements result in us maintaining (as per extant RBI guidelines currently in force) at least 24% of our liabilities (computed as per guidelines issued by the RBI) in Government issued bonds and 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 impact our profitability. The above 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.

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***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. In 2005, the RBI introduced the RTGS inter-bank settlement system which facilitates real time settlements primarily between banks. Although we believe our services offer advantages not offered by payment systems currently available, the development of a robust payments system would have an adverse impact on the cash float and fees we have enjoyed from our cash management services, which could materially adversely affect our financial condition.

***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 and initial public offering finance for retail customers, stock exchange clearing services, collecting bankers to various public offerings and depository 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, 2012 was 30.2% of our net worth on a non-consolidated basis and 30.4% 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 getting 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. 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 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.

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

Reputation 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

keep and attract customers, and 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 reputation 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.

*Cyber threats, such as phishing and trojans, could intrude into our network for data theft or to seek sensitive information, which 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 cyber threats, such as 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 a reputational damage to us, and data theft, wherein cyber criminals may intrude into our network with the intention of stealing our data or information. Although we have implemented various measures to mitigate risks that emanate from offering online banking services to our customers, we, as a large financial services organization with a high industry profile, are inherently exposed to this risk.

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***HDFC Limited controls a significant percentage of our share capital and exercises substantial influence over board decisions, which could result in HDFC Limited making decisions or foregoing opportunities to benefit HDFC Limited that restrict our growth and harm our financial condition.***

HDFC Limited and its subsidiaries owned 23.2% of our equity as of March 31, 2012. 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 including our Chairman and Managing Director who are not required to retire by rotation to our board, subject to RBI approval. Our current Chairman and Managing Director were nominated by HDFC Limited and appointed with the approval of our shareholders and the RBI. Two of our other directors, Mr. Keki Mistry is the Vice Chairman and Chief Executive Officer and Mrs. Renu Karnad, is the Managing Director of HDFC Limited. Accordingly, HDFC Limited can exercise substantial influence over our board and over matters subject to a shareholder vote. Mr. D. M. Sukthankar is the father of our Executive Director, Mr. Paresh Sukthankar, and serves as an independent director on the board of HDFC Limited. Mr. D. M. Sukthankar has been on 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 appointed as our Executive Director in October 2007. 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. Were such a combination to occur, we cannot predict the impact it would have on our business, growth prospects or the prices of our equity shares and ADSs.

***We may face conflicts of interest relating to our principal shareholder, HDFC Limited, which could cause us to forgo 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

Related Party Transactions in our Annual Report on Form 20-F for fiscal 2010, 2011 and 2012 for a summary of transactions we have engaged in and strategic investments made with HDFC Limited during fiscal 2010, 2011 and 2012. Also see Note 28 Related party transactions, in our consolidated financial statements. We currently distribute products of HDFC Limited and its group companies. If we forego opportunities because of our relationship with HDFC Limited, it 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.

***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. The total foreign ownership in a private sector bank cannot exceed 74% of its paid-up capital. 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).





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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. 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. 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](#) .

On August 29, 2011 the RBI released draft guidelines for licensing of new banks in the private sector. The key items covered under these draft guidelines are as follows: 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 model. The RBI has called for wider comments and feedback from relevant stakeholders and the public. Final guidelines will be issued and the process of inviting applications for setting up of new banks will be initiated after the RBI has received feedback, comments and suggestions on the draft guidelines, and after certain vital amendments to the Banking Regulation Act are in place.

If the number of banks in the country increase, 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 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 issued a master circular on July 1, 2009, incorporating the instructions and guidelines issued to banks on branch authorization. Pursuant to the master circular, the process by which the RBI authorized the opening of individual branches on a case-by-case basis was replaced by a system of aggregated approvals on an annual basis. While processing authorization requests, the RBI gives importance to the nature and scope of banking services, particularly in under-banked areas, actual credit flow to priority sectors, pricing of products, overall efforts to promote financial inclusion, the need to induce enhanced competition in the banking sector, the bank's regulatory compliance, quality of corporate governance, risk management and relationships with subsidiaries and affiliates.

We have applied for branches under the policy in the past and obtained approvals for opening branches under the policy. See [Supervision and Regulation Regulation Relating to the Opening of Branches](#) . However, there can be no assurance that we will receive licenses promptly or at all, and any prolonged delay in the receipt of such licenses will adversely affect our financial performance by preventing us from realizing anticipated revenue from the new 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 US 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. US 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.



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*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, 2009, we had 1,412 branches. As a result of our acquisition of Centurion Bank of Punjab effective May 23, 2008, our network expanded by over 400 branches while we continued to grow organically by commissioning new branches. As at March 31, 2012, we had 2,544 branches, a significant increase in the number of branches over the last three fiscal years. 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.

**Risks Relating to Investments in Indian Companies**

*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. The global slowdown of the financial market and economies had contributed and may continue to cause a slowdown in the Indian financial and economic environment, with attendant higher unemployment rates and decreases in purchasing power. While the domestic economy started witnessing an overall improvement in the general financial and economic conditions, we have begun to witness a reversal on account of high inflation and higher interest rates. These conditions, including global financial crisis and problems in the Eurozone countries, 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, because India depends significantly on imported oil for its energy needs, the Indian economy is adversely affected by volatile oil prices, consequent inflation and weather conditions adversely affecting agriculture 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. Finally, India faces major challenges in sustaining its growth, which include the need for substantial infrastructure development and improving access to healthcare and education. If the Indian economy deteriorates, our asset base may erode, which would result in a material decrease in our net income and total assets.

*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 have remained significant. The leadership of India has changed many times since 1996. The current coalition-led central government, which came to power in May 2009, has announced policies and taken initiatives that support the economic liberalization policies that have been pursued by previous central governments. However, we cannot assure you that these liberalization policies will continue 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. Any significant change in India's economic liberalization and deregulation policies would 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 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.



**Table of Contents****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 (the NYSE) at a premium to the trading prices of our underlying equity shares on the Indian stock exchanges, although this premium has declined in recent years. 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](#).

*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 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 National Stock Exchange and Bombay Stock Exchange Limited. 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.

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*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 depository, 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 depository 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.

*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 depository; 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 of 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 company 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. 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.

**Table of Contents****PRICE RANGE OF OUR AMERICAN DEPOSITARY SHARES AND EQUITY SHARES**

Our ADSs, each representing three equity shares, par value Rs. 2.0 per share, are listed on the NYSE under the symbol **HDB**. Our equity shares, including those underlying the ADSs, are listed on the National Stock Exchange under the symbol **HDFCBANK** and the Bombay Stock Exchange Limited 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		Average daily ADS trading volume (Number of ADSs)
	High	Low	
<b>2008</b>	U.S.\$ 29.1	U.S.\$ 12.7	2,294,535
<b>2009</b>	23.9	9.0	3,459,043
<b>2010</b>	28.2	11.9	1,915,617
<b>2011</b>			
First Quarter	31.3	25.3	1,437,000
Second Quarter	37.2	28.0	1,323,844
Third Quarter	38.3	30.5	1,207,961
Fourth Quarter	34.5	27.8	1,587,185
<b>2012</b>			
First Quarter	35.6	30.6	1,044,357
Second Quarter	36.8	27.5	1,037,488
Third Quarter	32.7	24.5	1,102,389
Fourth Quarter	35.9	26.6	939,853
<b>Most Recent Six Months</b>			
January 2012	32.1	26.6	1,057,890
February 2012	35.9	31.2	1,085,885
March 2012	35.2	32.6	699,791
April 2012	35.2	33.0	645,490
May 2012	34.4	27.8	856,905
June 2012	32.6	27.3	805,943
July 1, 2012 to July 20, 2012	35.0	32.5	486,860

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 JP Morgan Chase Bank, the Depository, for the American Depositary Shares (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\$ 33.5 per ADS on July 20, 2012.

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

The following table shows:

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the reported high and low market prices for our equity shares in rupees on the National Stock Exchange;

the imputed high and low closing sales prices for our equity shares translated into U.S. dollars; and

the average daily trading volume for our equity shares on the National Stock Exchange.



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Fiscal Year	Price per equity share		Price per equity share		Average daily equity share trading volume
	High	Low	High	Low	
<b>2008</b>	Rs. 357.8	Rs. 180.3	US\$ 7.0	US\$ 3.5	3,037,709
<b>2009</b>	309.6	159.7	6.1	3.1	7,736,578
<b>2010</b>	393.1	200.0	7.7	3.9	5,339,359
<b>2011</b>					
First Quarter	400.3	360.8	7.9	7.1	3,282,369
Second Quarter	499.1	381.5	9.8	7.5	3,891,951
Third Quarter	500.2	432.6	9.8	8.5	3,699,951
Fourth Quarter	478.1	400.6	9.4	7.9	4,789,346
<b>2012</b>					
First Quarter	505.0	441.6	9.9	8.7	3,729,841
Second Quarter	519.0	436.2	10.2	8.6	3,310,964
Third Quarter	497.0	400.3	9.8	7.9	3,726,123
Fourth Quarter	539.9	419.5	10.6	8.2	2,941,348
<b>Most Recent Six Months</b>					
January 2012	504.0	419.5	9.9	8.2	2,471,063
February 2012	539.9	481.4	10.6	9.5	3,797,786
March 2012	534.5	493.0	10.5	9.7	2,633,053
April 2012	558.0	515.9	11.0	10.1	2,351,758
May 2012	558.0	482.2	11.0	9.5	2,982,980
June 2012	564.9	485.1	11.1	9.5	2,945,019
July 1, 2012 to July 20, 2012	593.8	560.0	11.7	11.0	2,361,242

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. 582.6 per share on July 20, 2012.

As of March 31, 2012, there were 447,924 holders of record of our equity shares, including the shares underlying ADSs and GDRs, of which 222 had registered addresses in the United States and held an aggregate of 214,350 equity shares representing 0.05% of our shareholders. In our books only, the depositories, J.P. Morgan Chase Bank and Deutsche Bank Trust Company Americas, are the shareholders with respect to equity shares underlying 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, 2012, there were 23,691,290 GDRs outstanding, representing 11,845,645 shares of the Bank (in the aggregate 0.5% 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 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 created by the Government of India. No claims for the payment of dividends unpaid or unclaimed for a period of seven years shall lie against the fund of the Government of India or against us.

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, under the Indian Banking Regulation Act, to transfer 25% of the balance of profits 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 capital surplus reserve or legal reserve to stated capital. Bonus equity shares can be distributed only with the prior approval of the RBI. These bonus equity shares must be distributed to shareholders in proportion to the number of equity shares owned by them.

**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

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the period of the offer, which may not be less than 15 days from the date of the offer. 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 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. 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 by a show of hands or on a poll. 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. Unless a poll is demanded by a shareholder, resolutions are adopted at a general meeting by a majority of the shareholders having voting rights present or represented. The quorum for a general meeting is five members personally present. 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 without preemptive rights 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. ADS holders have no voting rights with respect to the deposited shares. See Description of American Depositary Shares Voting Rights .

### **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. 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.

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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 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 depository 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 depository participants appointed by depositories established under the Depositories Act, 1996. Charges for opening an account with a depository participant, transaction charges for each trade and custodian charges for securities held in each account vary depending upon the practice of each depository participant. Upon delivery, the equity shares shall be registered in the name of the relevant depository on our books and this depository shall enter the name of the investor in its records as the beneficial owner. The transfer of beneficial ownership shall be effected through the records of the depository. The beneficial owner shall be entitled to all rights and benefits and subject to all liabilities in respect of his securities held by a depository.

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 depository 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 depository 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 one month 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. See Restrictions on Foreign Ownership of Indian Securities .

### **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 a fine of up to Rs. 1,000 for each day this failure continues. However, under the Indian 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.



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

Until recently, the Companies Act did not permit a company to acquire its own equity shares because of the resulting reduction in the company's capital. However, the government of India amended the Companies Act and consequently this reduction in capital is permitted in certain circumstances. The 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 depository facility and then sell those equity shares back to us. ADS holders should note that equity shares withdrawn from the depository facility may only be redeposited into the depository facility under certain circumstances. See Description of American Depositary Shares Deposit, Withdrawal and Cancellation.

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 regulatory approvals required for ADS holders to participate 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.

### **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 Indian 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 and Listing Agreements**

Under the Securities and Exchange Board of India (Substantial Acquisitions of Shares & Takeovers) Regulations, 2011 (the Takeover Code as amended), 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.

No acquisition of shares/voting rights by an acquirer in a target company which entitles the acquirer 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 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.

We have entered into listing agreements with each of the Indian stock exchanges on which our equity shares are listed. Each of the listing agreements provides that the acquirer or holder of shares/voting rights in a target company shall in terms of 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 31<sup>st</sup> March every year. The promoter of every target company shall disclose the detail of holding of equity shares/voting rights in a target company as at 31<sup>st</sup> March every year. The promoter of every company must also disclose details of shares encumbered by him in a target company as well as details of invocation of encumbered shares or any release of such encumbrance.





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**DESCRIPTION OF AMERICAN DEPOSITARY SHARES**

**American Depositary Shares**

JPMorgan 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<sup>th</sup> Annual General Meeting held on July 6, 2011 approved the sub division of one (1) equity share of the Bank having a nominal value of Rs. 10.0 each into five (5) equity shares with a nominal value of Rs. 2.0 each. As a result of the same, the Bank issued additional proportionate ADSs and each ADSs represents three (3) 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. Investors may also obtain a copy of 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.

***Rights to Receive Additional Shares***

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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

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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.

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

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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.

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The custodian will hold all deposited shares for the account of the depository. 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 depository and any taxes or other fees or charges owing, the depository 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 depository'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 depository's office, the depository 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 depository participant of the National Securities Depository Limited or Central Depository Services (India) Limited to hold and sell the shares in dematerialized form upon payment of customary fees and expenses. See "Description of Equity Shares" Transfer of Shares.

The depository 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 depository 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 depository 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 depository and issued a circular dated February 5, 2007 pursuant to which the Bank furnished to the RBI a copy of its agreement with the depository. We have given an undertaking to the RBI stating that we will not recognize voting by the depository if the vote given by the depository is in contravention of its agreement with us and that we or the depository will not bring about any change in our depository agreement without the prior approval of the RBI.

Equity shares which have been withdrawn from the depository facility and transferred on our register of shareholders to a person other than the depository 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 depository 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 depository 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.

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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.

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

J.P. Morgan Chase Bank, N.A., as the depository 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 depository also collects the following fees from holders of ADRs or intermediaries acting on their behalf:

Category	Depository 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 depository receipts.	US\$1.50 per ADS.
(f) General depository services, particularly those charged on an annual basis.	Other services performed by the depository in administering the ADSs.	US\$0.01 per ADS (or portion thereof) not more than once each calendar year.
(g) Other	Expenses incurred on behalf of holders in connection with:  compliance with foreign exchange control regulations or any law or regulation relating to foreign investment;  the depository's or its custodian's compliance with applicable law, rule or regulation;  stock transfer or other taxes and other governmental charges;  cable, telex, facsimile transmission/delivery;  expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency); or  any other charge payable by depository or its agents.	The amount of such expenses incurred by the Depository.

As provided in the Deposit Agreement, the Depository 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 Depository may generally refuse to provide services until its fees for those services are paid.





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### **Fees Paid by the Depositary to us**

#### ***Direct Payments***

The depositary has agreed to reimburse certain reasonable 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 reimbursed in prior periods. We did not claim any legal fees, accounting fees or other expenses incurred in connection with our ADR program from our depositary during fiscal 2012.

### **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.

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**

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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.

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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.

## **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;

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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.

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### **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**

JPMorgan 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.

**Table of Contents****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.

Relating to Fiscal Year	Dividend per equity share		Total amount of dividends declared <sup>(1)</sup> (in millions)	
	Rs.	US\$	Rs.	US\$
2008	1.70	0.033	3,012.7	59.2
2009	2.00	0.039	4,253.8	83.6
2010	2.40	0.047	5,492.9	107.9
2011	3.30	0.065	7,676.2	150.8
2012	4.30	0.084	10,090.8	198.3

(1) Includes dividends declared on shares held by the Employees Welfare Trust.

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 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.

Effective April 1, 2007, we pay a 15.0% direct tax in respect of dividends paid by us. In addition, we pay a 5.0% surcharge on 15.0% 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 depository in Indian rupees and, except in certain instances, will be converted by the depository into U.S. dollars. The depository 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 .

**Table of Contents****SELECTED FINANCIAL AND OTHER DATA**

The following table sets forth our selected financial and operating data. Our selected income statement data for the fiscal years ended March 31, 2010, 2011 and 2012 and the selected balance sheet data as of March 31, 2011 and 2012 are derived from our audited financial statements included in this report together with the report of Deloitte Haskins & Sells, independent registered public accounting firm. Our selected balance sheet data as of March 31, 2008, March 31, 2009, March 31, 2010 and selected income data for the fiscal years ended March 31, 2008 and March 31, 2009 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, 2012 have been translated into U.S. dollars at the rate on such date of Rs. 50.89 per US\$1.00.

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. We acquired Centurion Bank of Punjab effective May 23, 2008. The selected financial and other data is presented accordingly.

	2008	2009	Year ended March 31,		2012	2012
			2010	2011		
			(in millions, except per equity share data and ADS data)			
<b>Selected income statement data:</b>						
Interest and dividend revenue	Rs. 104,249.7	Rs. 158,996.8	Rs. 158,651.3	Rs. 202,252.0	Rs. 277,540.0	US\$ 5,453.7
Interest expense	49,414.0	86,114.9	77,720.0	93,849.7	151,148.0	2,970.1
Net interest revenue	54,835.7	72,881.9	80,931.3	108,402.3	126,392.0	2,483.6
Provisions for credit losses, net	13,367.7	20,394.9	18,193.9	9,621.9	7,837.3	154.0
Net interest revenue after provisions for credit losses	41,468.0	52,487.0	62,737.4	98,780.4	118,554.7	2,329.6
Non-interest revenue, net	20,346.6	33,603.0	42,899.7	46,815.4	52,595.5	1,033.5
Net revenue	61,814.6	86,090.0	105,637.1	145,595.8	171,150.2	3,363.1
Non-interest expense	42,261.8	63,154.9	68,410.9	82,370.2	97,313.5	1,912.2
Income before income tax expense	19,552.8	22,935.1	37,226.2	63,225.6	73,836.7	1,450.9
Income tax expense	6,307.6	7,737.4	12,338.4	21,698.3	23,828.7	468.2
Net income before noncontrolling interest	13,245.2	15,197.7	24,887.8	41,527.3	50,008.0	982.7
Less: Net income attributable to noncontrolling interest	91.0	93.4	317.1	330.4	224.6	4.4
Net income attributable to HDFC Bank Limited	Rs. 13,154.2	Rs. 15,104.3	Rs. 24,570.7	Rs. 41,196.9	Rs. 49,783.4	US\$ 978.3
<b>Per equity share data:</b>						
Earnings per equity share, basic	Rs. 7.65	Rs. 7.28	Rs. 11.26	Rs. 17.84	Rs. 21.30	US\$ 0.42
Earnings per equity share, diluted	7.55	7.24	11.12	17.59	21.12	0.41
Dividends per share	1.70	2.00	2.40	3.30	4.30	0.08
Book value <sup>(1)</sup>	67.29	117.30	133.52	148.96	168.34	3.31
<b>Equity share data:</b>						
Equity shares outstanding at end of period	1,772.2	2,126.9	2,288.7	2,326.1	2,346.7	2,346.7
Weighted average equity shares outstanding basic	1,720.1	2,075.0	2,182.0	2,309.0	2,336.7	2,336.7
Weighted average equity shares outstanding diluted	1,742.1	2,085.5	2,209.0	2,341.9	2,357.3	2,357.3
<b>ADS data (where one ADS represents three shares):</b>						



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Earnings per ADS	basic	22.94	21.84	33.78	53.52	63.90	1.26
Earnings per ADS	diluted	22.65	21.72	33.36	52.77	63.36	1.23

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	2008	2009	As of March 31, 2010 2011 (in millions)		2012	2012
<b>Selected balance sheet data:</b>						
Cash and cash equivalents	Rs. 147,208.0	Rs. 171,224.4	Rs. 297,558.5	Rs. 288,902.1	Rs. 188,043.0	US\$ 3,695.1
Term placements <sup>(2)</sup>	5,917.6	34,473.2	58,166.3	102,049.4	150,096.5	2,949.4
Loans, net of allowance	715,345.3	986,495.0	1,297,180.4	1,622,856.0	2,006,374.3	39,425.7
<b>Investments:</b>						
Investments held for trading	113,557.8	35,386.2	28,158.8	38,216.9	77,043.4	1,513.9
Investments available for sale	419,008.8	508,106.3	481,398.8	628,704.9	807,080.4	15,859.3
Investments held to maturity <sup>(3)</sup>						
Total	532,566.6	543,492.5	509,557.6	666,921.8	884,123.8	17,373.2
Total assets	Rs. 1,507,988.9	Rs. 2,020,744.8	Rs. 2,416,520.4	Rs. 2,920,236.3	Rs. 3,571,155.7	US\$ 70,174.1
Long-term debt	32,832.4	68,452.2	75,854.4	93,287.2	178,366.6	3,504.9
Short-term borrowings	129,330.3	26,383.6	98,165.0	76,686.7	112,642.8	2,213.5
Total deposits	1,005,910.1	1,426,288.6	1,672,400.3	2,082,129.0	2,465,049.6	48,438.8
<b>Of which:</b>						
Interest-bearing deposits	718,646.9	1,142,281.9	1,301,046.0	1,619,283.6	2,012,057.9	39,537.4
Non-interest bearing deposits	287,263.2	284,006.7	371,354.3	462,845.4	452,991.7	8,901.4
Total liabilities	1,388,281.6	1,770,691.7	2,110,066.2	2,572,406.5	3,174,563.0	62,380.9
Noncontrolling interest	462.0	555.4	872.5	1,338.1	1,537.5	30.2
Shareholders equity	119,245.3	249,497.7	305,581.7	346,491.7	395,055.2	7,763.0
Total liabilities and shareholders equity	Rs. 1,507,988.9	Rs. 2,020,744.8	Rs. 2,416,520.4	Rs. 2,920,236.3	Rs. 3,571,155.7	US\$ 70,174.1
	2008	2009	Year ended March 31, 2010 2011 (in millions)		2012	2012
<b>Period average <sup>(4)</sup></b>						
Interest-earning assets	Rs. 1,077,606.7	Rs. 1,579,423.9	Rs. 1,756,963.3	Rs. 2,237,281.0	Rs. 2,746,339.2	US\$ 53,966.2
Loans, net of allowance	641,422.4	992,040.0	1,106,474.4	1,507,942.8	1,854,364.2	36,438.7
Total assets	1,251,281.2	1,917,502.6	2,095,543.0	2,585,236.0	3,097,162.6	60,859.9
Interest-bearing deposits	661,884.6	1,114,880.3	1,202,813.6	1,504,552.3	1,825,018.8	35,862.0
Non-interest bearing deposits	247,083.6	248,822.0	295,675.6	361,184.3	390,682.9	7,677.0
Total deposits	908,968.2	1,363,702.3	1,498,489.2	1,865,736.6	2,215,701.7	43,539.0
Interest-bearing liabilities	763,617.7	1,253,236.8	1,325,841.7	1,707,823.0	2,168,714.2	42,615.7
Long-term debt	32,218.4	43,493.5	72,433.5	101,241.4	148,201.6	2,912.2
Short-term borrowings	69,514.7	94,863.0	50,594.6	102,029.3	195,493.8	3,841.5
Total liabilities	1,149,483.2	1,696,255.7	1,825,399.3	2,265,574.5	2,722,648.3	53,500.7
Total shareholders equity	101,797.9	221,246.9	270,143.7	319,661.5	374,514.3	7,359.3

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	As of or for the year ended March 31,				
	2008	2009	2010	2011	2012
	(in percentage)				
<b>Profitability:</b>					
Net income attributable to HDFC Bank Limited as a percentage of:					
Average total assets	1.1	0.8	1.2	1.6	1.6
Average total shareholders' equity	13.0	6.8	9.1	12.9	13.3
Dividend payout ratio <sup>(5)</sup>	22.9	28.2	22.4	18.6	20.3
Spread <sup>(6)</sup>	4.8	4.3	4.2	4.5	4.2
Net interest margin <sup>(7)</sup>	5.1	4.6	4.6	4.8	4.6
Cost-to-net revenue ratio <sup>(8)</sup>	68.4	73.4	64.8	56.6	56.9
Cost-to-average assets ratio <sup>(9)</sup>	3.4	3.3	3.3	3.2	3.1
<b>Capital:</b>					
Total capital adequacy ratio <sup>(10)</sup>	13.60	15.69	17.44	16.22	16.52
Tier 1 capital adequacy ratio <sup>(10)</sup>	10.30	10.58	13.26	12.23	11.60
Tier 2 capital adequacy ratio <sup>(10)</sup>	3.30	5.11	4.18	3.99	4.92
Average total shareholders' equity as a percentage of average total assets	8.1	11.6	12.9	12.4	12.1
<b>Asset quality:</b>					
Gross non-performing customer assets as a percentage of gross customer assets <sup>(11)</sup>	1.2	1.9	1.5	1.2	0.9
Net non-performing customer assets as a percentage of net customer assets <sup>(11)</sup>	0.4	0.6	0.4	0.3	0.2
Total allowance for credit losses as a percentage of gross non-performing credit assets	144.2	125.5	123.3	125.3	146.6

- 1) Represents the difference between total assets and total liabilities, excluding 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 US GAAP.
- 4) Average balances are the average of daily outstanding amounts. Average figures are unaudited.
- 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 include 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) Tier 1 and Tier 2 capital adequacy ratios are computed in accordance with the guidelines of the RBI, based on the financial statements prepared in accordance with the Indian GAAP up to March 31, 2008 as per Basel I guidelines and as of March 31, 2009, 2010, 2011 and 2012 as per Basel II guidelines. 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. All amounts presented in this section are in accordance with U.S. GAAP, other than capital adequacy ratios, and are audited, except for average amounts. Footnotes appear at the end of each related section of tables.

**Average Balance Sheet**

The table below presents the average balances for interest-earning assets and interest-bearing 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 on 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. We have not recalculated tax-exempt income on a tax-equivalent basis.

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	2010			Year ended March 31, 2011			2012		
	Average balance	Interest revenue/ expense	Average yield/ cost	Average balance (in millions, except percentages)	Interest revenue/ expense	Average yield/ cost	Average balance	Interest revenue/ expense	Average yield/ cost
<b>Assets:</b>									
Interest-earning assets:									
Cash equivalents	Rs. 26,923.5	Rs. 732.9	2.7%	Rs. 26,126.2	Rs. 1,247.4	4.8%	Rs. 11,730.2	Rs. 576.7	4.9%
Term placements	37,059.7	1,804.1	4.9	73,259.0	3,531.3	4.8	119,812.5	5,970.4	5.0
Investments available for sale:									
Tax free <sup>(1)</sup>	2,942.2	170.5	5.8	2,634.5	176.0	6.7	6,986.6	1,930.7	27.6
Taxable	488,450.4	33,134.1	6.8	566,631.7	40,563.8	7.2	704,231.2	54,690.3	7.8
Investments held to maturity									
Investments held for trading	95,113.1	4,445.2	4.7	60,686.8	3,013.8	5.0	49,214.5	4,056.2	8.2
Loans, net:									
Retail loans	615,331.2	79,462.0	12.9	798,519.8	97,085.0	12.2	1,094,555.1	140,535.9	12.8
Wholesale loans	491,143.2	38,902.5	7.9	709,423.0	56,634.7	8.0	759,809.1	69,779.8	9.2
Total interest-earning assets:									
	Rs. 1,756,963.3	Rs. 158,651.3	9.0%	Rs. 2,237,281.0	Rs. 202,252.0	9.0%	Rs. 2,746,339.2	Rs. 277,540.0	10.1%
Non-interest-earning assets:									
Cash	113,018.5			154,829.0			182,544.0		
Property and equipment	19,890.9			22,431.5			23,068.4		
Other assets	205,670.3			170,694.5			145,211.0		
Total non-interest earning assets									
	338,579.7			347,955.0			350,823.4		
Total assets									
	Rs. 2,095,543.0	Rs. 158,651.3	7.6%	Rs. 2,585,236.0	Rs. 202,252.0	7.8%	Rs. 3,097,162.6	Rs. 277,540.0	9.0%
<b>Liabilities:</b>									
Interest-bearing liabilities:									
Savings account deposits	Rs. 414,444.4	Rs. 11,431.1	2.8%	Rs. 562,258.1	Rs. 19,662.0	3.5%	Rs. 657,063.0	Rs. 26,024.6	4.0%
Time deposits	788,369.2	58,422.9	7.4	942,294.2	60,554.3	6.4	1,167,955.8	100,758.5	8.6
Short-term borrowings <sup>(2)</sup>	50,594.6	1,813.4	3.6	102,029.3	5,408.5	5.3	195,493.8	12,376.4	6.3
Long-term debt	72,433.5	6,052.6	8.4	101,241.4	8,224.9	8.1	148,201.6	11,988.5	8.1
Total interest-bearing liabilities									
	Rs. 1,325,841.7	Rs. 77,720.0	5.9%	Rs. 1,707,823.0	Rs. 93,849.7	5.5%	Rs. 2,168,714.2	Rs. 151,148.0	7.0%
Non-interest-bearing liabilities:									
Non-interest-bearing deposits									
	295,675.6			361,184.3			390,682.9		
Other liabilities	203,882.0			196,567.2			163,251.2		
Total non-interest-bearing liabilities									
	499,557.6			557,751.5			553,934.1		

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Total liabilities	Rs. 1,825,399.3	Rs. 77,720.0	4.3%	Rs. 2,265,574.5	Rs. 93,849.7	4.1%	Rs. 2,722,648.3	Rs. 151,148.0	5.6%
Total shareholders equity	270,143.7			319,661.5			374,514.3		
Total liabilities and shareholders equity	Rs. 2,095,543.0	Rs. 77,720.0	3.7%	Rs. 2,585,236.0	Rs. 93,849.7	3.6%	Rs. 3,097,162.6	Rs. 151,148.0	4.9%

- 1) Yields on tax free securities are not on a tax equivalent basis.
- 2) Includes securities sold under repurchase agreements.

**Table of Contents****Analysis of Changes in Interest Revenue and Interest Expense: Volume and Rate**

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

	Fiscal 2011 vs. Fiscal 2010 Increase (decrease) <sup>(1)</sup> due to			Fiscal 2012 vs. Fiscal 2011 Increase (decrease) <sup>(1)</sup> due to		
	Net change	Change in average	Change in average rate	Net change	Change in average	Change in average rate
	(in millions)					
<b>Interest revenue:</b>						
Cash equivalents	Rs. 514.5	Rs. 214.8	Rs. 299.7	Rs. (670.7)	Rs. (687.3)	Rs. 16.6
Term placements	1,727.2	1,762.2	(35.0)	2,439.1	2,244.0	195.1
Investments available for sale:						
Tax free	5.5	(17.8)	23.3	1,754.7	290.7	1,464.0
Taxable	7,429.7	5,303.4	2,126.3	14,126.5	9,850.4	4,276.1
Investments held to maturity						
Investments held for trading	(1,431.4)	(1,608.9)	177.5	1,042.4	(569.7)	1,612.1
Loans, net:						
Retail loans	17,623.0	23,656.4	(6,033.4)	43,450.9	35,992.3	7,458.6
Wholesale loans	17,732.2	17,289.5	442.7	13,145.1	4,022.4	9,122.7
Total interest-earning assets	Rs. 43,600.7	Rs. 46,599.6	Rs. (2,998.9)	Rs. 75,288.0	Rs. 51,142.8	Rs. 24,145.2
<b>Interest expense:</b>						
Savings account deposits	Rs. 8,230.9	Rs. 4,077.0	Rs. 4,153.9	Rs. 6,362.6	Rs. 3,315.3	Rs. 3,047.3
Time deposits	2,131.4	11,406.8	(9,275.4)	40,204.2	14,501.6	25,702.6
Short-term borrowings	3,595.1	1,843.5	1751.6	6,967.9	4,954.5	2,013.4
Long-term debt	2,172.3	2,407.2	(234.9)	3,763.6	3,815.1	(51.5)
Total interest-bearing liabilities	Rs. 16,129.7	Rs. 19,734.5	Rs. (3,604.8)	Rs. 57,298.3	Rs. 26,586.5	Rs. 30,711.8
Net interest revenue	Rs. 27,471.0	Rs. 26,865.1	Rs. 605.9	Rs. 17,989.7	Rs. 24,556.3	Rs. (6,566.6)

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

**Table of Contents****Yields, Spreads and Margins**

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

	2010	Year ended March 31, 2011		2012
		(in millions, except percentages)		
Interest revenue	Rs. 158,651.3	Rs. 202,252.0	Rs. 277,540.0	
Average interest-earning assets	1,756,963.3	2,237,281.0	2,746,339.2	
Interest expense	77,720.0	93,849.7	151,148.0	
Average interest-bearing liabilities	1,325,841.7	1,707,823.0	2,168,714.2	
Average total assets	2,095,543.0	2,585,236.0	3,097,162.6	
Average interest-earning assets as a percentage of average total assets	83.8%	86.5%	88.7%	
Average interest-bearing liabilities as a percentage of average total assets	63.3%	66.1%	70.0%	
Average interest-earning assets as a percentage of average interest-bearing liabilities	132.5%	131.0%	126.6%	
Yield	9.0%	9.0%	10.1%	
Cost of funds <sup>(1)</sup>	4.3%	4.1%	5.6%	
Spread <sup>(2)</sup>	4.2%	4.5%	4.2%	
Net interest margin <sup>(3)</sup>	4.6%	4.8%	4.6%	

- 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.

**Returns on Equity and Assets**

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

	2010	Year ended March 31, 2011		2012
		(in millions, except percentages)		
Net income	Rs. 24,570.7	Rs. 41,196.9	Rs. 49,783.4	
Average total assets	2,095,543.0	2,585,236.0	3,097,162.6	
Average total shareholders' equity	270,143.7	319,661.5	374,514.3	
Net income as a percentage of average total assets	1.2%	1.6%	1.6%	
Net income as a percentage of average total shareholders' equity	9.1%	12.9%	13.3%	
Average total shareholders' equity as a percentage of average total assets	12.9%	12.4%	12.1%	



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Dividend payout-ratio	22.4%	18.6%	20.3%
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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.

	2010			At March 31, 2011			2012					
	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain (in millions)	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized Loss	Fair Value
Government securities	Rs. 470,083.7	Rs. 2,752.3	Rs. 3,079.7	Rs. 469,756.3	Rs. 587,670.4	Rs. 114.9	Rs. 8,773.1	Rs. 579,012.2	Rs. 764,519.0	Rs. 505.2	Rs. 12,433.9	Rs. 752,558.1
Other debt securities	3,980.7	110.4		4,091.1	43,394.0	151.2	111.3	43,433.9	40,376.1	106.3	108.6	40,376.1
Government debt securities <sup>(1)</sup>	Rs. 474,064.4	Rs. 2,862.7	Rs. 3,079.7	Rs. 473,847.4	Rs. 631,064.4	Rs. 266.1	Rs. 8,884.4	Rs. 622,446.1	Rs. 804,895.1	Rs. 611.5	Rs. 12,542.5	Rs. 792,900.1
Other debt securities <sup>(2)</sup>	7,474.4	113.2	36.2	7,551.4	5,982.7	288.4	12.3	6,258.8	13,137.3	985.3	6.3	14,111.8
	Rs. 481,538.8	Rs. 2,975.9	Rs. 3,115.9	Rs. 481,398.8	Rs. 637,047.1	Rs. 554.5	Rs. 8,896.7	Rs. 628,704.9	Rs. 818,032.4	Rs. 1,596.8	Rs. 12,548.8	Rs. 807,000.1

(1) Excludes asset and mortgage-backed securities.

(2) Includes asset and mortgage-backed securities.

**Held to Maturity Investments**

As of March 31, 2010, 2011 and 2012, 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:

	2010			At March 31, 2011			2012					
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain (in millions)	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross Unrealized loss	Fair value
Government securities	Rs. 20,867.9	Rs. 1.0	Rs. 8.0	Rs. 20,860.9	Rs. 14,222.6	Rs. 63.5	Rs. 0.3	Rs. 14,285.8	Rs. 51,194.4	Rs. 18.2	Rs. 195.2	Rs. 51,017.4
Other debt securities	7,189.2	40.7	0.6	7,229.3	23,856.8	71.5	0.1	23,928.2	25,987.0	46.9	7.9	26,026.0
Total debt securities	Rs. 28,057.1	Rs. 41.7	Rs. 8.6	Rs. 28,090.2	Rs. 38,079.4	Rs. 135.0	Rs. 0.4	Rs. 38,214.0	Rs. 77,181.4	Rs. 65.1	Rs. 203.1	Rs. 77,043.4

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Non-debt securities	69.7	0.4	1.5	68.6	3.0	0.1	2.9						
Total	Rs. 28,126.8	Rs. 42.1	Rs. 10.1	Rs. 28,158.8	Rs. 38,082.4	Rs. 135.0	Rs. 0.5	Rs. 38,216.9	Rs. 77,181.4	Rs. 65.1	Rs. 203.1	Rs. 77,043.4	

**Table of Contents****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 corporate debt securities classified as available-for-sale securities and their market yields.

	Up to one year		One to five years		Five to ten years		More than ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<b>At March 31, 2012</b>								
(in millions, except percentages)								
Government securities	Rs. 221,981.5	8.7%	Rs. 340,079.0	8.2%	Rs. 128,857.8	8.6%	Rs. 61,672.0	8.7%
Other debt securities	36,413.7	8.6	2,916.9	10.6	309.9	11.0	733.3	10.1
<b>Total debt securities, fair value</b>	<b>Rs. 258,395.2</b>	<b>8.7%</b>	<b>Rs. 342,995.9</b>	<b>8.2%</b>	<b>Rs. 129,167.7</b>	<b>8.6%</b>	<b>Rs. 62,405.3</b>	<b>8.7%</b>
<b>Total amortized cost</b>	<b>Rs. 258,561.4</b>		<b>Rs. 350,046.1</b>		<b>Rs. 132,847.7</b>		<b>Rs. 63,439.9</b>	

**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 approximately 72% of total deposits as of March 31, 2012 as compared to 67% as of March 31, 2011. Wholesale banking deposits represented approximately 28% of total deposits as of March 31, 2012 and 33% March 31, 2011.

**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 2.8% in fiscal 2010, 3.5% in fiscal 2011 and 4.0% in fiscal 2012. The average cost of time deposits was 7.4% in fiscal 2010, 6.4% in fiscal 2011 and 8.6% in fiscal 2012. The average deposits for the periods set forth are as follows:

	2010		Year ended March 31, 2011		2012	
	Amount	% of total	Amount	% of total	Amount	% of total
(in millions, except percentages)						
Current deposits	Rs. 295,675.6	19.7%	Rs. 361,184.3	19.4%	Rs. 390,682.9	17.6%
Savings deposits	414,444.4	27.7	562,258.1	30.1	657,063.0	29.7
Time deposits	788,369.2	52.6	942,294.2	50.5	1,167,955.8	52.7
<b>Total</b>	<b>Rs. 1,498,489.2</b>	<b>100.0%</b>	<b>Rs. 1,865,736.6</b>	<b>100.0%</b>	<b>Rs. 2,215,701.7</b>	<b>100.0%</b>

As of March 31, 2012, individual time deposits in excess of Rs. 0.1 million had a balance to maturity profile as follows:

	At March 31, 2012			
	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. 361,045.0	Rs. 225,512.3	Rs. 339,261.9	Rs. 251,951.7



**Table of Contents****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.

	2010	Years ended March 31, 2011	2012
	(in millions, except percentages)		
Period end	Rs. 98,165.0	Rs. 136,686.7	Rs. 182,642.8
Average balance during the period	Rs. 50,594.6	Rs. 102,029.3	Rs. 195,493.8
Maximum outstanding	Rs. 141,802.3	Rs. 255,927.6	Rs. 402,246.2
Average interest rate during the period <sup>(1)</sup>	3.6%	5.3%	6.3%
Average interest rate at period end <sup>(2)</sup>	4.6%	5.5%	6.1%

- 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, 2010, 2011 and 2012.

**Table of Contents****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, 2012 are Rs. 69.81 billion (previous year: Rs. 33.31 billion), Rs. 39.25 billion (previous year: Rs. 38.62 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	2003-04	2014-15	10.3	5.90			3.95
Lower Tier II	INR	2004-05	2014-15	9.9	7.05			0.15
Lower Tier II	INR	2004-05	2014-15	9.3	8.75			0.04
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
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	5.09
Upper Tier II							5 year GSec	
	INR	2007-08	2022-23	15.0	10.84	2017-18	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. 50.875 = 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.

**Table of Contents****Asset Liability Gap**

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

	As of March 31, 2012 <sup>(1)</sup>								
	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	Total
	(in millions, except percentages)								
Cash and cash equivalents <sup>(2)(3)</sup>	70,649.8	10,001.9	12,898.7	4,762.7	98,313.1	56,033.3	259.6	33,437.0	188,043.0
Term placements	1,228.7	3,746.6	5,605.0	14,525.1	25,105.4	53,520.1	31,586.2	39,884.8	150,096.5
Investments held for trading <sup>(4)</sup>	65,345.7	11,697.7			77,043.4				77,043.4
Investments available for sale <sup>(5)(6)</sup>	236,651.2	38,145.4	59,406.2	47,963.7	382,166.5	243,835.5	7,193.9	173,884.5	807,080.4
Securities purchased under agreement to resell	20,868.3				20,868.3				20,868.3
Loans, net <sup>(7)(8)</sup>	176,150.1	218,207.0	184,456.1	215,301.1	794,114.3	892,102.2	158,069.9	162,087.9	2,006,374.3
Accrued interest receivable	26,645.5				26,645.5				26,645.5
Other assets	52,881.0				52,881.0	126,706.6			179,587.6
<b>Total financial assets</b>	<b>650,420.3</b>	<b>281,798.6</b>	<b>262,366.0</b>	<b>282,552.6</b>	<b>1,477,137.5</b>	<b>1,372,197.7</b>	<b>197,109.6</b>	<b>409,294.2</b>	<b>3,455,739.0</b>
Deposits <sup>(9)(10)</sup>	219,537.0	211,906.9	197,723.0	95,790.6	724,957.5	1,098,741.2	8,646.1	632,704.8	2,465,049.6
Debt <sup>(11)</sup>	32,514.5	48,639.2	45,351.6	15,108.2	141,613.5	37,821.8	27,152.7	84,421.4	291,009.4
Securities sold under repurchase agreements	70,000.0				70,000.0				70,000.0
Other Liabilities <sup>(12)(13)</sup>	112,226.0	4,725.0	1,999.0		118,950.0	220,443.0		9,111.0	348,504.0
<b>Total financial liabilities</b>	<b>434,277.5</b>	<b>265,271.1</b>	<b>245,073.6</b>	<b>110,898.8</b>	<b>1,055,521.0</b>	<b>1,357,006.0</b>	<b>35,798.8</b>	<b>726,237.2</b>	<b>3,174,563.0</b>
<b>Asset/liability gap</b>	<b>216,142.8</b>	<b>16,527.5</b>	<b>17,292.4</b>	<b>171,653.8</b>	<b>421,616.5</b>	<b>15,191.7</b>	<b>161,310.8</b>	<b>(316,943.0)</b>	<b>281,176.0</b>
Cumulative gap	216,142.8	232,670.3	249,962.7	421,616.5	421,616.5	436,808.2	598,119.0	281,176.0	281,176.0
Cumulative gap as a percentage of total financial assets	33.2%	25.0%	20.9%	28.5%	28.5%	15.3%	19.6%	8.1%	8.1%

- 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.



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- 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.
- 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 and units of open-ended mutual funds in the available-for-sale investment portfolio are classified in the greater than five years 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.

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- 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) Includes accrued interest payable classified in the 0-28 days category.
- For further information on how we manage our asset liability risk, see Business Market Risk.

**Table of Contents****Loan Portfolio and Credit Substitutes**

As of March 31, 2012, our gross loan portfolio amounted to Rs. 2,034.3 billion. As of that date, our gross credit substitutes outstanding were Rs. 11.8 billion and represented credit substitutes outstanding. Almost all our gross loans and credit substitutes are to borrowers in India and over 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:

	2008	2009	At March 31, 2010 (in millions)	2011	2012
Retail loans	Rs. 441,312.4	Rs. 620,393.9	Rs. 732,984.2	Rs. 980,144.6	Rs. 1,344,966.8
Wholesale loans	286,768.9	390,652.0	587,956.8	668,605.7	689,314.4
Gross loans	Rs. 728,081.3	Rs. 1,011,045.9	Rs. 1,320,941.0	Rs. 1,648,750.3	Rs. 2,034,281.2
Credit substitutes (at fair value)	5,046.9	4,252.3	2,476.3	14,491.1	11,800.5
Gross loans plus credit substitutes	Rs. 733,128.2	Rs. 1,015,298.2	Rs. 1,323,417.3	Rs. 1,663,241.4	Rs. 2,046,081.7

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

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

	At March 31, 2012		
	Due in one year or less	Due in one to five years (in millions)	Due after five years
Retail loans	Rs. 442,975.0	Rs. 777,220.1	Rs. 124,771.7
Wholesale loans	363,954.8	278,063.4	47,296.2
Gross loans	Rs. 806,929.8	Rs. 1,055,283.5	Rs. 172,067.9
Credit substitutes (at fair value)	9,687.7	2,112.8	
Gross loans plus credit substitutes	Rs. 816,617.5	Rs. 1,057,396.3	Rs. 172,067.9

	At March 31, 2012		
	Due in one year or less	Due in one to five years (in millions)	Due after five years
Interest rate classification of loans by maturity:			
Variable rates	Rs. 93,183.8	Rs. 395,675.9	Rs. 59,994.2
Fixed rates	713,746.0	659,607.6	112,073.7

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Gross loans	Rs. 806,929.8	Rs. 1,055,283.5	Rs. 172,067.9
<b>Interest rate classification of credit substitutes by maturity:</b>			
Variable rates	Rs. 9,687.7	Rs. 2,112.8	Rs. 172,067.9
Fixed rates	Rs. 9,687.7	Rs. 2,112.8	Rs. 172,067.9
Gross credit substitutes	Rs. 9,687.7	Rs. 2,112.8	Rs. 172,067.9
<b>Interest rate classification of loans and credit substitutes by maturity:</b>			
Variable rates	Rs. 93,183.8	Rs. 395,675.9	Rs. 59,994.2
Fixed rates	Rs. 723,433.7	Rs. 661,720.4	Rs. 112,073.7
Gross loans and credit substitutes	Rs. 816,617.5	Rs. 1,057,396.3	Rs. 172,067.9

**Table of Contents****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 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, 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.

	2008		2009		At March 31, 2010 (in millions, except percentages)		2011		2012	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Wholesale/Retail										
Trade	41,119.1	5.6%	31,943.8	3.1%	71,084.9	5.4%	107,152.2	6.4%	163,202.4	8.0%
Land Transport	54,454.9	7.4	53,270.5	5.3	59,080.3	4.5	91,140.0	5.5	129,736.4	6.3
Automotive Manufacturers	27,201.1	3.7	38,991.6	3.8	73,833.6	5.6	79,226.6	4.8	70,175.3	3.4
Non-Banking Financial Companies /Financial Intermediaries			40,681.5	4.0	53,802.5	4.1	56,852.9	3.3	52,596.5	2.6
Real Estate & Property Services					27,051.3	2.0	39,964.8	2.4	47,422.1	2.3
Food and Beverage	16,967.3	2.3					34,458.0	2.1	46,444.1	2.3
Activities Allied to Agriculture	52,169.8	7.1	32,492.8	3.2	31,493.6	2.4	49,024.3	2.9	45,591.8	2.2
Power							36,646.8	2.2	44,135.9	2.2
Banks and Financial Institutions					37,590.1	2.8	45,070.1	2.7		
Iron and Steel							39,203.3	2.4		
Fertilizers	15,023.9	2.1	27,445.3	2.7	54,830.1	4.1	34,157.5	2.1		
Housing Finance Companies					35,697.6	2.7				
Petroleum & Petroleum Products			26,437.3	2.6						
Engineering	15,662.0	2.1								
Others (including unclassified retail)	510,530.1	69.7	764,035.4	75.3	878,953.3	66.4	1,050,344.9	63.2	1,446,777.2	70.7
Total	Rs. 733,128.2	100%	Rs. 1,015,298.2	100%	Rs. 1,323,417.3	100.0%	Rs. 1,663,241.4	100.0%	Rs. 2,046,081.7	100.0%

As of March 31, 2012, our 10 largest exposures totaled approximately Rs. 394.7 billion and represented 104.1% of our capital funds as per RBI guidelines. The largest group of companies under the same management control accounted for 28.0% of our capital funds as on March 31, 2012 as per RBI guidelines.

**Directed Lending**

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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.

We are required to comply with the priority sector lending requirements as of the last reporting Friday of each fiscal year, a date specified by the RBI for reporting. We met our overall priority sector lending targets of 40%. However, agricultural loans made under the direct category were 11.6% of ANBC, against the requirement of 13.5%, with a shortfall of Rs. 28.9 billion, and advances to sections termed weaker by the RBI were 4.4% against the requirement of 10.0%, with a shortfall of Rs. 84.9 billion. We may be required by the RBI to deposit with the Indian Development Banks certain amounts as specified by the RBI in the coming year due to the shortfall in certain sub-categories of priority sector lending targets. As of March 31, 2012, our total investments as directed by RBI in such deposits were Rs. 127.6 billion yielding returns ranging from 3.0% to 6.0%.

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

	2008	2009	As of March 31, 2010 (in millions)	2011	2012
<b>Directed lending:</b>					
Agriculture	Rs. 70,214.0	Rs. 105,459.5	Rs. 155,383.0	Rs. 204,506.2	Rs. 246,506.4
Micro and small enterprises	79,809.0	108,932.2	181,739.6	222,933.8	248,497.9
Other	25,285.1	85,736.7	107,206.0	123,550.0	148,296.9
<b>Total directed lending</b>	<b>Rs. 175,308.1</b>	<b>Rs. 300,128.4</b>	<b>Rs. 444,328.6</b>	<b>Rs. 550,990.0</b>	<b>Rs. 643,301.2</b>

**Non-Performing Loans**

The following discussion of non-performing loans is based on U.S. GAAP. For classification of non-performing loans under Indian regulatory requirements, see Supervision and Regulation.

As of March 31, 2012, our gross non-performing loans as a percentage of gross loan assets were 0.9 % and our gross non-performing loans net of specific valuation allowances as a percentage of net loan assets were 0.2%. As of March 31, 2012, 14.4% of non-performing loans were unsecured and unsecured non-performing loans were 0.6% of gross unsecured loans. Our valuation allowances, excluding unallocated allowances were 80.5% of gross non-performing loans. These allowances are based on the expected realization of cash flows from these assets and from the underlying collateral. All of our non-performing loans are rupee-denominated. Non-performing loans to the directed lending sector were 0.4% of gross loans.

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

	2008	2009	As of March 31, 2010 (in millions, except percentages)	2011	2012
<b>Non-performing loans:</b>					
Retail loans	Rs. 7,446.1	Rs. 14,957.7	Rs. 13,038.0	Rs. 11,159.5	Rs. 11,311.3
Wholesale loans	1,383.2	4,599.8	6,224.9	9,502.9	7,723.6
<b>Gross non-performing loans</b>	<b>Rs. 8,829.3</b>	<b>Rs. 19,557.5</b>	<b>Rs. 19,262.9</b>	<b>Rs. 20,662.4</b>	<b>Rs. 19,034.9</b>
Specific valuation allowances	Rs. 5,841.6	Rs. 13,220.6	Rs. 13,820.3	Rs. 16,089.8	Rs. 15,316.7
Unallocated valuation allowances	6,894.4	11,330.3	9,940.3	9,804.5	12,590.2
<b>Non-performing loans net of specific valuation allowance</b>	<b>2,987.7</b>	<b>6,336.9</b>	<b>5,442.6</b>	<b>4,572.6</b>	<b>3,718.2</b>
Gross loan assets	728,081.3	1,011,045.9	1,320,941.0	1,648,750.3	2,034,281.2
Net loan assets	Rs. 715,345.3	Rs. 986,495.0	Rs. 1,297,180.4	Rs. 1,622,856.0	Rs. 2,006,374.3
Gross non-performing loans as a percentage of gross loans	1.2%	1.9%	1.5%	1.3%	0.9%
Gross unsecured non-performing loans as a percentage of gross non-performing loans	41.5%	32.0%	25.5%	16.0%	14.4%
Unsecured non-performing loans as a percentage of gross unsecured loans.	1.8%	2.7%	1.4%	0.9%	0.6%
	0.4%	0.6%	0.4%	0.3%	0.2%

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Non-performing loans net of specific valuation allowance as a percentage of net loan assets					
Specific valuation allowance as a percentage of gross non-performing loans	66.2%	67.6%	71.7%	77.9%	80.5%
Total valuation allowance as a percentage of gross non-performing loans	144.2%	125.5%	123.3%	125.3%	146.6%



**Table of Contents****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:

	2008	2009	At March 31, 2010 (in millions)	2011	2012
Performing	Rs. 719,252.0	Rs. 991,488.4	Rs. 1,301,678.1	Rs. 1,628,087.9	Rs. 2,015,246.3
Non-performing or impaired:					
On accrual status			1,078.5	3,938.0	624.4
On non-accrual status	8,829.3	19,557.5	18,184.4	16,724.4	18,410.5
Total non-performing or impaired	8,829.3	19,557.5	19,262.9	20,662.4	19,034.9
Total	Rs. 728,081.3	Rs. 1,011,045.9	Rs. 1,320,941.0	Rs. 1,648,750.3	Rs. 2,034,281.2

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 when earned, except with respect to 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 expected amount of losses inherent in such product. In making such estimates, among other factors considered, we stratify such loans based on the number of days past due and take into account historical losses for such product, the nature of security available and loan to value ratios. 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.

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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.

In light of the significant growth in the size and diversity of our wholesale loan portfolio, 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.

**Table of Contents****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.

	2008			2009			2010			2011			2012	
	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	Gross Loans	Non performing loans	% of loans in industry	Gross Loans	Non performing loans
	Rs. 10,429.4	Rs. 219.8	2.1	Rs. 11,773.3	Rs. 448.3	3.8	Rs. 13,836.8	Rs. 788.6	5.7	Rs. 17,285.3	1,410.0	8.2	Rs. 17,931.2	1,430.0
				4,700.8	14.0	0.3							11,004.0	529.0
				40,425.2	11.2	0.0				54,241.0	2,147.1	4.0	47,563.0	1,782.0
							4,254.5	1.3	0.0	7,963.0	505.7	6.4	13,865.0	505.0
	5,670.1						14,725.3	383.5	2.6	10,756.5	373.2	3.5	11,878.3	365.0
	2,465.0	9.1	0.4										5,105.8	138.0
	16,967.3	8.0	0.0	18,808.9	783.5	4.2	23,567.9	801.6	3.4	34,458.0	878.2	2.5	46,444.1	829.0
							2,396.8	189.5	7.9				6,324.2	76.0
	360,322.0	6,231.2	1.7	507,274.0	13,789.6	2.7	557,204.8	12,179.3	2.2	751,084.6	10,267.8	1.4	996,118.1	10,543.0
	54,454.9	1226.9	2.3	53,270.5	1,182.3	2.2	59,080.3	858.7	1.5	91,140.0	891.7	1.0	129,736.4	770.0
	15,764.0	116.5	0.7	40,999.8	92.1	0.2	46,379.9	115.2	0.2	33,930.2	178.7	0.5	12,242.2	78.0
	15,023.9	41.5	0.3	17,529.4	17.8	0.1	21,106.9	118.1	0.6	23,846.4	224.3	0.9	33,487.0	212.0
	41,075.6	12.8	0.0	31,896.3	1,741.1	5.5	70,886.1	2,252.8	3.2	107,152.2	2,616.6	2.4	163,202.4	907.0
	1,223.3	129.1	10.6	7,922.7	129.0	1.6	11,369.0	129.1	1.1	14,714.9	129.1	0.9	28,992.4	134.0
				10,377.8	620.2	6.0	6,376.5	59.2	0.9	14,564.7	59.2	0.4	19,053.5	77.0
	52,169.8	642.9	1.2				73,784.3	9.4	0.0	76,336.1	266.9	0.3	70,078.3	281.0
	27,201.1	23.9	0.1	32,492.8	165.2	0.5	31,493.6	262.1	0.8	49,024.3	256.6	0.5	45,591.8	166.0
													14,519.3	49.0
				16,675.0	99.3	0.6	35,697.6	73.3	0.2	21,160.6	50.5	0.2	12,167.8	30.0
				12,462.9	179.8	1.4	20,337.2	165.4	0.8	39,203.3	207.6	0.5	40,755.1	57.0
				9,109.4	146.7	1.6				32,409.1	21.7	0.1	38,967.0	16.0
				27,445.3	0.1	0.0				34,157.5	2.4	0.0	18,764.1	1.0
				3,707.4	67.8	1.8	7,210.8	165.3	2.3	6,083.7	156.7	2.6		
							27,051.3	18.4	0.1	39,964.8	18.4	0.0		
							8,980.0	553.8	6.2					
							10,455.0	129.1	1.2					
							2,302.1	9.2	0.4					

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re of ucts	15,184.5	114.8	0.8	6,716.6	69.5	1.0			
	2,910.6	45.2	1.6						
	1,428.4	7.6	0.5						
	<b>8,829.3</b>			<b>19,557.5</b>	<b>19,262.9</b>		<b>20,662.4</b>		<b>19,034.8</b>
for es	5,841.6			13,220.6	13,820.3		16,089.8		15,316.6
forming	<b>2,987.7</b>			<b>6,336.9</b>	<b>5,442.6</b>		<b>4,572.6</b>		<b>3,718.6</b>

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As of March 31, 2012, our gross non-performing loans as a percentage of gross loans in the respective industries was the highest in Textiles, Information Technology and NBFC / Financial Intermediaries.

### ***Textiles***

World cotton prices increased substantially in 2011. Although there has been some decline subsequently, the performance of companies in this sector continues to be affected by the increase in raw material costs, slack overseas demand and stiff competition.

### ***Information Technology***

Due to lower industrial growth in the western countries and reduction of information technology (IT) budgets, the order inflow for the Indian IT companies has been slack, thereby affecting their revenues and margins. In relation to us, the problem exposure pertains to a single company which was affected by high leverage and a decrease in margins. The sector is expected to benefit from the depreciation of the Rupee during the forthcoming year.

### ***NBFC / Financial Intermediaries***

We have experienced problem in the NBFC (non-banking finance companies) sector due to the microfinance ( MFI ) segment. The MFI sector has been significantly impacted due to a Bill passed by a leading State Government in India that imposes several restrictions on the conduct of microfinance business in the State. The restrictions have adversely affected the performance of MFIs and accordingly the banking industry given the extent of lending to MFIs. The deterioration of the MFI portfolio quality is expected to continue until such time as a central regulation (the proposed MFI Bill) is approved by the Indian Parliament. The Bill is under the active consideration by the Government at present. Meanwhile, MFIs are diversifying into other geographies where recovery of loans is not under stress.

**Table of Contents****Top Ten Non-Performing Loans**

As of March 31, 2012, we had 115 wholesale non-performing loans outstanding. Our top ten non-performing loans represented 24.8% 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 2 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, 2012 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 2012 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, 2012							
	Industry	Type of banking arrangement	Gross principal outstanding (in millions)	Principal outstanding net of allowance for credit losses	Our share in collateral value	Currently servicing all interest payments	
Borrower 1	Food and Beverage	Consortium	Rs. 611.6	Rs. 289.1	Rs. 375.7	No	
Borrower 2	Wholesale / Retail Trade	Consortium	584.8	138.6	154.2	No	
Borrower 3	NBFC / Financial Intermediaries	Multiple	546.3	207.6	219.3	Yes	
Borrower 4	Information Technology	Multiple	529.5		Nil	No	
Borrower 5	Mining and Minerals	Multiple	504.4		Nil	No	
Borrower 6	NBFC / Financial Intermediaries	Multiple	468.0	66.7	81.0	Yes	
Borrower 7	NBFC / Financial Intermediaries	Multiple	411.3	68.7	86.5	No	
Borrower 8	Textiles & Garments	Multiple	388.0	12.3	15.6	No	
Borrower 9	Drugs and Pharmaceuticals	Consortium	365.2	325.2	325.3	Yes	
Borrower 10	Textiles & Garments	Consortium	308.1		Nil	No	
			Rs. 4,717.2	Rs. 1,108.2			

**Table of Contents****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:

	2008	2009	At March 31, 2010		2011	2012
			(in millions, except percentages)			
Gross restructured loans	Rs.	Rs. 685.7	Rs. 1,810.0	Rs. 2,123.0	Rs. 4,353.2	
Allowance for credit losses		685.7	742.2	1,061.9	3,332.0	
Net restructured loan	Rs.	Rs.	Rs. 1,067.8	Rs. 1,061.1	Rs. 1,021.2	

Gross restructured loans as a percentage of gross non-performing loans

	3.5%	9.4%	10.3%	22.9%
Net restructured loans as a percentage of net non-performing loans		19.6%	23.2%	27.5%

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.

**Non-Performing Loan Strategy**

Our non-performing loan strategy is focused on early problem recognition and active remedial management efforts. 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, among others, through legal process, 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.

**Table of Contents****Allowance for Credit Losses on Loans**

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

	2008	2009	For the years ended March 31, 2010		2011	2012
			(in millions)			
Specific allowance for credit losses at the beginning of the period	Rs. 4,224.2	Rs. 5,841.6	Rs. 13,220.6	Rs. 13,820.3	Rs. 16,089.8	
Net allowance for credit losses for the period including on acquisition of CBoP:						
Retail	10,317.8	21,063.6	18,147.6	10,480.4	7,781.9	
Wholesale	(54.2)	5,567.2	1,436.3	3,634.9	1,674.6	
Less allowances no longer required on account of write offs	(8,646.2)	(19,251.8)	(18,984.2)	(11,845.8)	(10,229.6)	
Specific allowance for credit losses at the end of period	Rs. 5,841.6	Rs. 13,220.6	Rs. 13,820.3	Rs. 16,089.8	Rs. 15,316.7	
Unallocated allowance for credit losses at the beginning of the period	Rs. 3,790.3	Rs. 6,894.4	Rs. 11,330.3	Rs. 9,940.3	Rs. 9,804.5	
Additions during the period	3,104.1	4,435.9	(1,390.0)	(135.8)	2,785.7	
Unallocated allowance for credit losses at the end of the period	Rs. 6,894.4	Rs. 11,330.3	Rs. 9,940.3	Rs. 9,804.5	Rs. 12,590.2	
Total allowance for credit losses at the beginning of the period	Rs. 8,014.5	Rs. 12,736.0	Rs. 24,550.9	Rs. 23,760.6	Rs. 25,894.3	
Allowance no longer required on account of write-offs	(8,646.2)	(19,251.8)	(18,984.2)	(11,845.8)	(10,229.6)	
Net addition to total allowance for the period charged to expense	13,367.7	31,066.7	18,193.9	13,979.5	12,242.2	
Total allowance for credit losses at the end of the period	Rs. 12,736.0	Rs. 24,550.9	Rs. 23,760.6	Rs. 25,894.3	Rs. 27,906.9	

Movements in our allowances for credit losses charged to expense do not include recoveries against write off cases amounting to Rs. 4,357.6 million and Rs. 4,404.9 million for fiscals 2011 and 2012, 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:

	2008	2009	As of March 31, 2010		2011	2012
			(in millions)			
<b>Wholesale</b>						



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Allocated	Rs. 1,368.6	Rs. 3,806.1	Rs. 4,610.8	Rs. 7,577.5	Rs. 6,433.7
Unallocated	491.4	814.0	985.4	1,447.5	1,207.7
Subtotal	Rs. 1,860.0	Rs. 4,620.1	Rs. 5,596.2	Rs. 9,025.0	Rs. 7,641.4
<b>Retail</b>					
Allocated	4,473.0	9,414.5	9,209.5	8,512.3	8,883.0
Unallocated	6,403.0	10,516.3	8,954.9	8,357.0	11,382.5
Subtotal	Rs. 10,876.0	Rs. 19,930.8	Rs. 18,164.4	Rs. 16,869.3	Rs. 20,265.5
Allowance for credit losses	Rs. 12,736.0	Rs. 24,550.9	Rs. 23,760.6	Rs. 25,894.3	Rs. 27,906.9

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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.

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 substitutes, principally consisting of our investments in commercial paper, debentures and preference shares issued by corporations, are part of the financing products we provide to our customers. 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 guidelines on shortfalls in directed lending sub-limits and interest from inter-bank loans.

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 yields 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.

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Our financial condition and results of operations are affected by general economic conditions prevailing in India. It was a challenging year for the Indian economy with lingering concerns over global growth prospects and financial stability weighing on external demand and international funding. Further, local headwinds such as inflation, rising interest rates and policy impediments exacerbated the impact of a shaky global environment on domestic growth. Aggressive monetary tightening curtailed leveraged spendings pulling private consumption growth lower from 8.1% for fiscal 2011 to 6.5% for fiscal 2012, while policy hurdles such as land acquisition problems and environmental clearances dampened investment momentum, with investment growth lower at 5.8% from 11.1% a year ago. The intensification of the debt crisis in Europe as well as a moderation in emerging markets across the globe reduced export growth sharply in the second half of fiscal 2012 to 6% from close to 25% in the first half of fiscal 2012, weakening a vital support for GDP growth in fiscal 2012.

The drag from local and global dampeners was largely concentrated on the industrial sector with growth for fiscal 2012 at 3.9%, sharply lower than the 7.2% recorded a year ago. Agricultural growth slowed down over the past year in comparison to higher growth in the previous fiscal year. While the monsoon season was more than adequate in fiscal 2012 and food grain production was strong, a robust growth of 3.0% in fiscal 2012 was lower as compared to a remarkably strong growth of 7.0% in fiscal 2011. Meanwhile, service sector growth remained strong, supported by structural drivers such as firm rural demand and low penetration, and registered a growth of 9.4% in fiscal 2012 as compared to 9.3% in fiscal 2011. On balance however, sturdy service sector growth was not enough to offset the drag from industry growth which pulled headline GDP growth in fiscal 2012 lower to 6.9% against 8.4% a year ago. Despite a slowdown in growth over fiscal year 2012, India has continued to outperform the global economy. With world output growth likely to remain relatively feeble at 3.3% in 2012 against 3.8% in 2011, we believe, structural supports from a rapidly expanding rural and semi-urban economy, favorable demographics and low product penetration are likely to continue to keep domestic growth higher than world growth.

### **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 Loan Losses***

Our allowance for credit losses is based on our best estimate of losses inherent in our loan portfolio and consists of our allowances for retail loans and wholesale loans.

##### ***Retail Loans***

We establish specific and unallocated allowances for our retail loans. 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 loans against securities. The loans are charged off against allowances at defined delinquency levels. We also establish unallocated allowances for our retail loans by product type. Our methodology for calculation of unallocated allowances for our retail lending book is based on a flow-rate model with an observation period of the last 12 to 36 months.

Our flow rate model reflects any recent deterioration that might have occurred due to either macro-economic changes or any other changes specific to the product or segment. We do not enter into any risk mitigation transactions such as insurance arrangements, credit default agreements or credit derivatives for our retail loans. More than half of our retail exposures are through standard fixed rate equated monthly installment based repayments, where the customer repays the loan amount gradually over the tenor of the loan. We also have some exposures through overdraft facilities and through credit cards. Most of our mortgage loans are based on floating rates of interest and exclude product offerings which may have option adjustable rate mortgage products, high loan to value mortgages or junior liens. Our exposures are primarily to the prime retail segment and we do not extend loans to what would be regarded as the sub-prime segment in the Indian market context.

The estimation for allowances is done separately for each significant product of our retail lending book. Usually, we have separate products for facilities or customer profiles.

##### ***Wholesale Loans***

We evaluate our wholesale loan portfolio on a periodic basis and grade our accounts considering both qualitative and quantitative criteria using a credit risk grading system. Although we believe our grading and surveillance process is comprehensive, it is inherently subjective as it is based on information we have available and requires us to exercise judgment in determining a borrower's grading and therefore may not be accurate in

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all cases. Our internal grading is updated at least annually. Our lending in the wholesale business is largely predicated on the cash flows generated by the business of the borrower and to a lesser degree on the potential recovery out of any collateral that may be obtained.

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We establish unallocated allowances for performing wholesale loans based on internal estimates of credit losses inherent in the portfolio. The inherent credit losses of the portfolio are reflected by the distribution of underlying exposures across various risk grades. Each risk grade in the credit risk grading system corresponds to a historically observed long run average one year default rate. The internal estimates of credit losses factors in these default rates and the historically observed weighted average loss given default rates. The latter is based on our post-default recoveries in past impaired credits, appropriately discounted for time value.

Wholesale loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired but are placed on surveillance 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 and the amount of the shortfall in relation to the principal and interest owed.

We consider wholesale loans to be impaired when it is probable that we will be unable to collect scheduled payments of principal or interest when due. In arriving at our estimate, we consider the borrower's payment status, financial condition and the value of collateral we hold. Impaired credits are put on a non-accrual basis. Impairment is measured for each non-performing wholesale banking customer for the aggregate of all wholesale loans made to that customer. For this aggregate funded exposure on the non-performing wholesale loan customer we establish a specific allowance. This allowance is 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 any collateral we hold. Our estimate of future cash flows from a borrower is inherently subjective as it is based on our expectations of the probability and timing of default. Our estimate of the net realizable value of any collateral we hold is also subjective, as the collateral we hold is generally working capital related, such as book debt or inventory.

***Interest Accrual and Revenue Recognition***

Interest income from loans is recognized on an accrual basis when earned, except with respect to loans placed on non-accrual status, for which interest income is recognized when received. Loans are placed on non-accrual status when they are past due for more than one quarter. We generally do not charge up-front loan origination fees. Nominal application fees are charged, which offset the related costs incurred.

Customer acquisition costs are deferred and amortized as a yield adjustment over the life of the loan. 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 sales 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.

***Valuation of Investments***

Investments consist of securities purchased as part of our treasury operations, such as government securities and other debt and equity securities, investments purchased as part of our wholesale banking operations, such as credit substitute securities issued by our wholesale banking customers, which include commercial paper, short-term debentures and preference shares and asset and mortgage backed securities.

Securities that are held principally for resale in the near term are classified as held for trading ( HFT ), 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 ). Securities with fair values that are not classified as held to maturity or held for trading are classified as available for sale ( AFS ). 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.

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We generally report our investments in debt and equity securities at fair value, except for debt securities classified as HTM securities, which are reported at amortized cost. Fair values are based on market quotations where a market quotation is available and otherwise based on present values at current interest rates for such investments.

We conduct a review each year to identify and evaluate investments that have indications of possible impairment. An investment in an equity or debt security or units of mutual funds 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 we intend to sell or will be required to sell the security until the forecasted recovery. 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 impairment for debt securities if the cause of the decline is related solely to interest rate increases and where we do not have an intent to sell and we will not be required to sell the security until the forecasted recovery. Additional disclosures have been provided on impairment status in Note 6 and Note 8 and on concentrations of credit risk in Note 12 of the Financial Statements.

**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 assets and property, plant and equipment as well as the liabilities assumed at the date of the acquisition. Moreover the useful lives of the acquired intangible assets, property, plant and equipment have to be determined. 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 a bank's interest and the acquiree's net fair value of identifiable assets and liabilities is recognized as goodwill. Our acquisition of CBoP was accounted for in accordance with SFAS No. 141, Business combinations, which was the then applicable accounting standard.

**Goodwill and Other Intangibles**

Goodwill arising from a business combination is not amortized but 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 under applicable accounting standards. We examined our goodwill that had arisen on acquisition of CBoP for possible impairment as of March 31, 2012. 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 our branch network, representing contractual and non-contractual customer relationships, customer list, core deposit intangibles 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

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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 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 till the lease expiry.

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***Fair Value Measurements***

FASB Accounting Standards Codification 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 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.



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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 33, Fair Value Measurement for further details including the classification hierarchy associated with assets and liabilities measured at fair value.

As of March 31, 2012, our Level 3 instruments measured at fair value was nil.

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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.

***Income Tax***

Income tax expense/benefit consists of the current tax provision and the net change in the deferred tax asset or liability in the year.

Our policy is to include interest and penalties related to gross unrecognized tax benefits within the provision for income taxes. Interest income or expenses on overpayments and underpayments of income taxes are included as an element of provision for income taxes.

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 carry forwards. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. 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 received 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.

Under FASB ASC 740, 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.

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

In April 2011, Accounting Standards Update (ASU) 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, was issued effective for interim and annual periods beginning on or after June 15, 2011. ASU 2011-02 provides evaluation criteria for whether a restructuring constitutes a troubled debt restructuring. Additional disclosures around the nature and extent of modified finance receivables and their effect on the allowance for loan losses may be required under ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* for finance receivables meeting the definition of a troubled debt restructuring in ASU 2011-02. The adoption of ASU 2011-02 is not expected to have a material impact on our consolidated financial position, results of operations and cash flows.

In April 2011, FASB issued new accounting guidance that addresses effective control in repurchase agreements and eliminates the requirement for entities to consider whether the transferor (i.e., seller) has the ability to repurchase the financial assets in a repurchase agreement. This new accounting guidance will be effective, on a prospective basis to new transactions or modifications for interim or annual periods beginning on or after December 15, 2011. The adoption of this guidance is not expected to have a material impact on our consolidated financial position or results of operations.

In May 2011, FASB issued ASU 2011-04 *Fair Value Measurement* which amends the fair value accounting guidance. The amendments clarify the application of the highest and best use and valuation premise concepts, preclude the application of blockage factors in the valuation of all financial instruments and include criteria for applying the fair value measurement principles to portfolios of financial instruments. The amendments additionally prescribe enhanced financial statement disclosures for Level 3 fair value measurements. The new amendments will be effective for interim or annual periods beginning on or after December 15, 2011. The adoption of this guidance is not expected to have a material impact on our consolidated financial position or results of operations.

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In June 2011, FASB issued new accounting guidance on the presentation of comprehensive income in financial statements. The new guidance removes current presentation options and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. In December 2011, FASB amended this guidance to defer the changes relating to the presentation of reclassification adjustments out of accumulated other comprehensive income. This new accounting guidance will be effective for interim or annual periods beginning on or after December 15, 2011. Upon adoption of this guidance, we will change the presentation of comprehensive income. The adoption of this guidance will not have any impact on our consolidated financial position or results of operations.

In September 2011, FASB issued new Accounting Standards Update 2011-08, *Testing Goodwill for Impairment*, which amends the guidance in ASC 350-20. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The adoption of this guidance is not expected to have a material impact on our consolidated financial position or results of operations. The new amendments will be effective for the interim or annual periods beginning on or after December 15, 2011.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities (Topic 210)*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013 and should be applied retrospectively for all comparative periods presented. We are evaluating the impact this ASU will have on its financial condition and results of operations.

### **Merger of Centurion Bank of Punjab**

During fiscal 2009, the Reserve Bank of India accorded its consent to the Scheme of Amalgamation of Centurion Bank of Punjab Limited ( CBoP ) with HDFC Bank Limited. Pursuant to the order of amalgamation, the operations of both banks were merged with effect from May 23, 2008. On June 24, 2008 our Share Allotment Committee approved the allocation of 349,419,780 equity shares of Rs. 2.0 each to the shareholders of CBoP pursuant to the share swap ratio of five equity shares of Rs. 2.0 each of HDFC Bank Limited for every twenty nine equity shares of Rs. 1.00 each held in CBoP by them as on the record date (viz. June 16, 2008). The amalgamation was accounted for as a business combination under the purchase method of accounting.

**Table of Contents****Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011***Net Interest Revenue after Allowance for Credit Losses*

Our net interest revenue after allowances for credit losses increased by 20.0% from Rs. 98.8 billion in fiscal 2011 to Rs. 118.6 billion in fiscal 2012. Our net interest margin declined marginally from 4.8% in fiscal 2011 to 4.6% in fiscal 2012. The following table sets out the components of net interest revenue after allowance for credit losses:

	2011	2012	Year ended March 31, Increase/ Decrease	% Increase/ Decrease
		(in millions, except percentages)		
Interest on loans	Rs. 153,719.7	Rs. 210,315.7	Rs. 56,596.0	36.8%
Interest on securities, including dividends and interest on trading assets	43,753.6	60,677.2	16,923.6	38.7
Other interest revenue	4,778.7	6,547.1	1,768.4	37.0
<b>Total interest and dividend revenue</b>	<b>202,252.0</b>	<b>277,540.0</b>	<b>75,288.0</b>	<b>37.2</b>
Interest on deposits	80,216.3	126,783.1	46,566.8	58.1
Interest on short-term borrowings	5,357.1	12,233.8	6,876.7	128.4
Interest on long term debt	8,224.9	11,988.5	3,763.6	45.8
Other interest expense	51.4	142.6	91.2	177.4
<b>Total interest expense</b>	<b>93,849.7</b>	<b>151,148.0</b>	<b>57,298.3</b>	<b>61.1</b>
<b>Net interest revenue</b>	<b>Rs. 108,402.3</b>	<b>Rs. 126,392.0</b>	<b>Rs. 17,989.7</b>	<b>16.6%</b>
Less: Allowance for credit losses:				
Retail	5,585.5	6,445.6	860.1	15.4
Wholesale	4,036.4	1,391.7	(2,644.7)	(65.5)
<b>Total</b>	<b>Rs. 9,621.9</b>	<b>Rs. 7,837.3</b>	<b>Rs. (1,784.6)</b>	<b>(18.5)%</b>
<b>Net interest revenue after allowance for credit losses</b>	<b>Rs. 98,780.4</b>	<b>Rs. 118,554.7</b>	<b>Rs. 19,774.3</b>	<b>20.0%</b>

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### ***Interest and Dividend Revenue***

Interest income on loans increased by 36.8% primarily due to an increase in our average loan book. Average volumes of our total loan book increased by 23.0% from Rs. 1,507.9 billion in fiscal 2011 to Rs. 1,854.4 billion in fiscal 2012. Our average volume of retail loans increased by 37.1% from Rs. 798.5 billion in fiscal 2011 to Rs. 1,094.6 billion in fiscal 2012. The growth in retail loans was across the product segments. Our average volume of wholesale loans increased by 7.1% from Rs. 709.4 billion in fiscal 2011 to Rs. 759.8 billion in fiscal 2012.

Income from the increase in average volumes of our loans was further augmented by an increase in yields from an average of 10.2% in fiscal 2011 to 11.3% in fiscal 2012. The increase in yields was in line with higher cost of funds due to rising interest rates scenario during fiscal 2012. Retail loan yields increased from 12.2% in fiscal 2011 to 12.8% in fiscal 2012. Wholesale loan yields increased from 8.0% in fiscal 2011 to 9.2% in fiscal 2012.

Interest on securities, including dividends, increased by 38.7% from Rs. 43.8 billion in fiscal 2011 to Rs. 60.7 billion in fiscal 2012, driven by an increase of Rs. 130.5 billion in average volume of investments and an increase in yields from 6.9% in fiscal 2011 to 8.0% in fiscal 2012.

Other interest revenue increased by 37.0% for fiscal 2012 compared to fiscal 2011 mainly due to an increase in interest from our placements with central government bodies. These placements are made to comply with the extant Reserve Bank of India guidelines on shortfall in priority sector lending sub-limits. These placements increased by Rs. 35.0 billion in fiscal 2012. Yield from these placements in fiscal 2012 was low at 4.7%.

### ***Interest Expense***

Our interest expense on deposits increased by 58.1% from Rs. 80.2 billion in fiscal 2011 to Rs. 126.8 billion in fiscal 2012 due to an increase in average interest earning deposits by 21.3% from Rs. 1,504.6 billion in fiscal 2011 to Rs. 1,825.0 billion in fiscal 2012.

There was an increase in the average volume of our savings accounts from Rs. 562.3 billion in fiscal 2011 to Rs. 657.1 billion in fiscal 2012 and an increase in the average volume of our time deposits from Rs. 942.3 billion in fiscal 2011 to Rs. 1,168.0 billion in fiscal 2012. Increase in our average cost of deposits further augmented the increase in interest expense on deposits. Our average cost of deposits increased from 4.3% in fiscal 2011 to 5.7% in fiscal 2012 as a result of a decrease in the proportion of average current and savings account balances to average total deposits from 49.5% to 47.3%. There was an increase in the average cost of time deposits from 6.4% in fiscal 2011 to 8.6% in fiscal 2012. In addition, the average cost of savings accounts increased from 3.5% in fiscal 2011 to 4.0% in fiscal 2012 due to a regulatory change effective May 2011.

Our interest expense on short-term borrowings increased by 128.8% from Rs. 5.4 billion in fiscal 2011 to Rs. 12.4 billion in fiscal 2012 mainly on account of an increase in our average volumes of short-term borrowings which increased by 91.6% from Rs. 102.0 billion in fiscal 2011 to Rs. 195.5 billion in fiscal 2012 and an increase in our cost of short-term borrowings from 5.3% in fiscal 2011 to 6.3% in fiscal 2012. Our interest expense on long-term debt increased by 45.8%. This was largely attributable to the Rs. 36.5 billion lower tier II debt capital we raised in the first half of fiscal 2012. Our average volumes of long-term debt increased from Rs. 101.2 billion in fiscal 2011 to Rs. 148.2 billion in fiscal 2012.

### ***Allowance for Credit Losses***

Our loan loss allowance for credit losses consists of specific and unallocated components. Allowances for credit losses decreased by 18.5% from Rs. 9.6 billion in fiscal 2011 to Rs. 7.8 billion in fiscal 2012.

This reduction was mainly attributable to a decrease in the allowances for credit losses in our wholesale loan portfolio which decreased by 65.5% from Rs. 4.0 billion in fiscal 2011 to Rs. 1.4 billion in fiscal 2012. Due to problems afflicting the micro finance institution (MFI) sector in India, including certain of our MFI loans, in fiscal 2011 we made allowances for credit losses which was the primary reason for a higher wholesale loan allowance in that fiscal.

Decrease in our wholesale loan allowance was partially offset by increase in our retail loan allowance which increased by 15.4% from Rs. 5.6 billion in fiscal 2011 to Rs. 6.4 billion in fiscal 2012. This increase was primarily on account increase in our retail unallocated allowances which was attributable to the growth in our retail loan portfolio and expected losses thereon. Average volume of our retail loans increased by 37.1% from Rs. 798.5 billion in fiscal 2011 to Rs. 1,094.6 billion in fiscal 2012.



**Table of Contents****Non-Interest Revenue**

Our non-interest revenue increased by 12.3% from Rs. 46.8 billion in fiscal 2011 to Rs. 52.6 billion in fiscal 2012. The following table sets forth the components of our non-interest revenue:

	2011	Year ended March 31,		% Increase/ Decrease
		2012	Increase/ Decrease	
	(in millions, except percentages)			
Fees and commissions	Rs.38,718.9	Rs.44,867.2	Rs.6,148.3	15.9%
Realized gains/(losses) on AFS securities	189.0	(2,614.3)	(2,803.3)	*
Trading securities loss, net	(598.3)	(154.7)	443.6	*
Foreign exchange transactions	12,283.4	7,531.5	(4,751.9)	(38.7)
Derivatives gains/(loss)	(3,873.8)	2,788.7	6,662.5	(172.0)
Other	96.2	177.1	80.9	84.1
<b>Total non-interest revenue</b>	<b>Rs. 46,815.4</b>	<b>Rs. 52,595.5</b>	<b>Rs. 5,780.1</b>	<b>12.3%</b>

\* Not meaningful

Fees and commissions increased by 15.9% from Rs. 38.7 billion in fiscal 2011 to Rs. 44.9 billion in fiscal 2012 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 debit cards and 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 fees from the sourcing of home loans. There was an increase in ATM fees and debit card charges due to increased volume of ATM and debit card transactions. Also higher volume in credit card spends led to higher interchange income. The increase in fees and commissions in the retail segment was partially offset by a drop in income from distribution of third party insurance products on account of lower distribution commission rates. Fees and commissions earned from our wholesale segment increased mainly on account of increase in income from our non-funded business and processing fee income.

Realized losses on AFS securities were primarily from sale and other than temporary impairment of units of mutual funds. Losses on trading securities were primarily from the sale of government securities.

Income from foreign exchange transactions decreased from Rs. 12.3 billion in fiscal 2011 to Rs. 7.5 billion in fiscal 2012, mainly on account of reduction in gain from the realized foreign exchange transactions largely attributable to movement in exchange rates. In fiscal 2012, derivative transactions (unadjusted for credit spread) resulted in income of Rs. 3.6 billion. Income during fiscal 2012 was primarily on account of income from forward exchange contracts of Rs. 2.6 billion largely attributable to cancellations of forward exchange contracts by non-bank customers. In addition, there was a gain of Rs. 1.7 billion from currency swaps and currency options, which was marginally offset by a loss of Rs. 0.7 billion from interest rate derivatives. This gain was largely attributable to mark to market gains driven primarily by increase in interest rates and depreciation of Indian rupee. The Indian rupee depreciated against the U.S. dollar from Rs. 44.6 per USD in March 2011 to Rs. 50.9 per USD in March 2012. In fiscal 2011, derivative transactions (unadjusted for credit spread) resulted in a loss of Rs. 4.4 billion which includes loss on interest rate derivatives and forward exchange contracts of Rs. 1.8 billion and Rs. 1.7 billion respectively. Income from derivative transactions (net of loss of Rs. 0.8 billion on account of increase in credit spread) was Rs. 2.8 billion in fiscal 2012 as compared to a loss of Rs. 3.9 billion (net of gain of Rs. 0.5 billion on account of reduction in credit spread) in fiscal 2011.

**Non- Interest Expense**

Our non-interest expense was comprised of the following:

2011	2012	Year ended March 31,		2011 % of	2012 % of
		Increase/ Decrease	% Increase/ Decrease		

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	(in millions, except percentages)				net revenues	net revenues
Salaries and staff benefits	Rs.37,865.6	Rs.45,791.3	Rs.7,925.7	20.9%	26.0%	26.8%
Premises and equipment	12,419.8	14,595.1	2,175.3	17.5	8.5	8.5
Depreciation and amortization	5,138.6	5,588.7	450.1	8.8	3.5	3.3
Administrative and other	24,387.6	29,009.5	4,621.9	19.0	16.8	16.9
Amortization of intangibles	2,558.6	2,328.9	(229.7)	(9.0)	1.8	1.4
<b>Total non-interest expense</b>	<b>Rs.82,370.2</b>	<b>Rs.97,313.5</b>	<b>Rs.14,943.3</b>	<b>18.1%</b>	<b>56.6%</b>	<b>56.9%</b>

Total non-interest expense increased by 18.1% from Rs. 82.4 billion in fiscal 2011 to Rs. 97.3 billion in fiscal 2012. As a percentage of our net revenues, non-interest expense was 56.9% in fiscal 2012 as compared to 56.6% in fiscal 2011.

As of March 31, 2012, we had 2,544 branches and 8,913 ATMs across 1,399 locations, which increased from 1,986 branches and 5,471 ATMs across 996 locations as of March 31, 2011. This led to an overall increase in our non-interest expense.



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Salaries and staff benefits increased by 20.9% from Rs. 37.9 billion in fiscal 2011 to Rs. 45.8 billion in fiscal 2012. This increase was primarily attributable to an increase in staff salaries and allowances and in the number of employees from 55,752 as of March 31, 2011 to 66,076 as of March 31, 2012.

Premises and equipment costs increased on account of an increase in rent, electricity, housekeeping, security and other infrastructure costs relating to the expanded branch network.

Depreciation and amortization expenses increased due to the increase in our distribution network and higher spending on technology and infrastructure to support our growth. During the fiscal year ended March 31, 2011, we had revised the estimated useful life of point-of-sale machines and certain information technology servers. Depreciation on these assets is being charged prospectively over the revised useful life of the asset. Consequently, the net income before non-controlling interest for fiscal 2011 was lower by Rs. 390.5 million.

Administrative and other expenses increased primarily on account of higher printing and stationery, postage and communication and insurance costs.

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. 2.3 billion in fiscal 2012 as compared to Rs. 2.6 billion in fiscal 2011.

**Income Tax**

Our income tax expense, net of interest earned on income tax refunds amounting to Rs. 1 billion, increased by 9.8%, from Rs. 21.7 billion in fiscal 2011 to Rs. 23.8 billion in fiscal 2012. Our effective tax rate was 34.3% in fiscal 2011 and 32.3% in fiscal 2012. The effective tax rate was lower in fiscal 2012 primarily on account of 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 2011 and 2012:

	<b>Year ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
Effective statutory income tax rate	33.22%	32.45%
Adjustments to reconcile statutory income tax rate to effective income tax rate:		
Stock-based compensation (net of forfeitures)	1.79	1.72
Income exempt from taxes	(1.03)	(1.33)
Interest on income tax refunds		(0.88)
Other, net	0.17	0.13
Effect of change in statutory tax rate	0.17	0.18
Annual effective income tax rate	34.32%	32.27%

**Net Income**

As a result of the foregoing factors, our net income after taxes increased by 20.8% from Rs. 41.2 billion in fiscal 2011 to Rs. 49.8 billion in fiscal 2012.

**Table of Contents****Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010****Net Interest Revenue After Allowance for Credit Losses**

Our net interest revenue after allowances for credit losses increased by 57.5% from Rs. 62.7 billion in fiscal 2010 to Rs. 98.8 billion in fiscal 2011. Our net interest margin increased from 4.6% in fiscal 2010 to 4.8% in fiscal 2011. The following table sets out the components of net interest revenue after allowance for credit losses:

	2010	2011	Year ended March 31, Increase/ (decrease)	% Increase/ (decrease)
		(in millions, except percentages)		
Interest on loans	Rs. 118,364.5	Rs. 153,719.7	Rs. 35,355.2	29.9%
Interest on securities, including dividends and interest on trading assets	37,749.8	43,753.6	6,003.8	15.9
Other interest revenue	2,537.0	4,778.7	2,241.7	88.4
<b>Total interest and dividend revenue</b>	<b>158,651.3</b>	<b>202,252.0</b>	<b>43,600.7</b>	<b>27.5</b>
Interest on deposits	69,854.0	80,216.3	10,362.3	14.8
Interest on short-term borrowings	1,420.4	5,357.1	3,936.7	277.2
Interest on long-term debt	6,052.6	8,224.9	2,172.3	35.9
Other interest expense	393.0	51.4	(341.6)	(86.9)
<b>Total interest expense</b>	<b>77,720.0</b>	<b>93,849.7</b>	<b>16,129.7</b>	<b>20.8</b>
<b>Net interest revenue</b>	<b>Rs. 80,931.3</b>	<b>Rs. 108,402.3</b>	<b>Rs. 27,471.0</b>	<b>33.9</b>
Less: Allowance for credit losses:				
Retail	16,586.2	5,585.5	(11,000.7)	(66.3)
Wholesale	1,607.7	4,036.4	2,428.70	151.1
<b>Total</b>	<b>Rs. 18,193.9</b>	<b>Rs. 9,621.9</b>	<b>Rs.(8,572.0)</b>	<b>(47.1)</b>
<b>Net interest revenue after allowance for credit losses</b>	<b>Rs. 62,737.4</b>	<b>Rs. 98,780.4</b>	<b>Rs. 36,043.0</b>	<b>57.5%</b>

**Interest and Dividend Revenue**

Interest income on loans increased by 29.9% due to an increase in our total average loan book. Our average volume of retail loans increased by 29.8% from Rs. 615.3 billion in fiscal 2010 to Rs. 798.5 billion in fiscal 2011. The growth in retail loans was across our product segments. Our average volume of wholesale loans increased by 44.4% from Rs. 491.1 billion in fiscal 2010 to Rs. 709.4 billion in fiscal 2011 driven by new customer acquisitions, increased lending to existing customers and one-off short-term lending opportunities to customers in the telecom sector.

Average volumes of our total loan book increased by 36.3% from Rs. 1,106.5 billion in fiscal 2010 to Rs. 1,507.9 billion in fiscal 2011. Income from the increase in average volumes of our loans was partially off-set by a decline in yields from an average of 10.7% in fiscal 2010 to 10.2% in fiscal 2011. The decrease in yields was in line with lower cost of funds due to benign interest rates during the first half of the year. Retail loan yields decreased from 12.9% in fiscal 2010 to 12.2% in fiscal 2011. Wholesale loan yields increased marginally from 7.9% in fiscal 2010 to 8.0% in fiscal 2011 primarily due to certain higher yielding short-term opportunistic assets. Interest on securities, including dividends, increased by 15.9% from Rs. 37.7 billion in fiscal 2010 to Rs. 43.8 billion in fiscal 2011, driven by an increase of Rs. 43.4 billion in average volume of investments and an increase in yields from 6.4% in fiscal 2010 to 6.9% in fiscal 2011.

Other interest revenue increased by 88.4% for fiscal 2011 compared to fiscal 2010 mainly due to an increase in interest from our placements with central government bodies. These placements are made to comply with the extant Reserve Bank of India guidelines on shortfall in priority sector lending sub-limits. These placements increased by Rs. 37.6 billion in fiscal 2011. The yields on these placements are low at 5.0%.

**Table of Contents****Interest Expense**

Our interest expense on deposits increased by 14.8% from Rs. 69.9 billion in fiscal 2010 to Rs. 80.2 billion in fiscal 2011 due to an increase in average total deposits by 24.5% from Rs. 1,498.5 billion in fiscal 2010 to Rs. 1,865.7 billion in fiscal 2011. There was an increase in the average volume of our current and savings accounts from Rs. 710.1 billion in fiscal 2010 to Rs. 923.4 billion in fiscal 2011 and an increase in the average volume of our time deposits from Rs. 788.4 billion in fiscal 2010 to Rs. 942.3 billion in fiscal 2011. The volume increase was partially offset by a decrease in cost of deposits. Our average cost of deposits decreased from 4.7% in fiscal 2010 to 4.3% in fiscal 2011 as a result of an increase in the proportion of average current and savings account balances to average total deposits from 47.4% to 49.5%. In addition there was a decrease in the average cost of time deposits from 7.4% in fiscal 2010 to 6.4% in fiscal 2011. However, the average cost of savings accounts increased from 2.8% in fiscal 2010 to 3.5% in fiscal 2011 due to a regulatory change effective April 1, 2010 in the method of computation of interest on savings accounts.

Our interest expense on short-term borrowings increased by 198.3% from Rs. 1.8 billion in fiscal 2010 to Rs. 5.4 billion in fiscal 2011 mainly on account of an increase in our average volumes of short-term borrowings, which increased by 101.6% from Rs. 50.6 billion in fiscal 2010 to Rs. 102.0 billion in fiscal 2011, and an increase in our cost of short-term borrowings from 3.6% in fiscal 2010 to 5.3% in fiscal 2011. Our interest expense on long-term debt increased by 35.9%. This is largely attributable to borrowings from refinance institutions and the upper tier II debt capital we raised in the first half of fiscal 2011. Our average volumes of long-term debt increased from Rs. 72.4 billion in fiscal 2010 to Rs. 101.2 billion in fiscal 2011.

**Allowance for Credit Losses**

Our loan loss allowance for credit losses consists of specific and unallocated components. Allowances for credit losses decreased by 47.1% from Rs. 18.2 billion in fiscal 2010 to Rs. 9.6 billion in fiscal 2011.

Fiscal 2011 continued to witness lower delinquencies and an improvement in asset quality in an overall favorable economic environment in India vis-à-vis the stress seen during the economic slowdown in fiscal 2009. The favorable economic environment coupled with increased penetration of the existing customer base and more conservative underwriting norms were the primary drivers for lower delinquencies and credit losses.

These factors were largely responsible for the decline of 66.3% in the retail loan loss allowance, which decreased from Rs. 16.6 billion in fiscal 2010 to Rs. 5.6 billion in fiscal 2011. Due to problems afflicting the micro finance institution (MFI) sector in India, including certain of our MFI loans, we made allowances for credit losses for these loans. This was the primary reason for the increase in our wholesale loan allowance by 151.1% from Rs. 1.6 billion in fiscal 2010 to Rs. 4.0 billion in fiscal 2011.

**Non-Interest Revenue**

Our non-interest revenue increased by 9.1% from Rs. 42.9 billion in fiscal 2010 to Rs. 46.8 billion in fiscal 2011. The following table sets forth the components of our non-interest revenue:

	Year ended March 31,			
	2010	2011	Increase/ (decrease)	% Increase/ (decrease)
	(in millions, except percentages)			
Fees and commissions	Rs. 30,469.3	Rs. 38,718.9	Rs. 8,249.6	27.1%
Realized gains on AFS securities	4,129.4	189.0	(3,940.4)	(95.4)
Trading securities gains/(loss), net	100.2	(598.3)	(698.5)	*
Foreign exchange transactions	5,091.6	12,283.4	7,191.8	141.2
Derivatives gains/(loss)	2,911.0	(3,873.8)	(6,784.8)	*
Other	198.2	96.2	(102.0)	(51.5)
<b>Total non-interest revenue</b>	<b>Rs. 42,899.7</b>	<b>Rs. 46,815.4</b>	<b>Rs. 3,915.7</b>	<b>9.1%</b>

\* Not meaningful

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Fees and commissions in the retail segment increased by 29.1% while those generated by the wholesale segment increased by 11.8%. The increase in those generated by the retail segment was primarily because of an increase in fees from the distribution of third party insurance products and mutual funds and a growth in service and processing fees and charges on retail asset products. Such fees and charges were primarily comprised of processing fees on new loans, foreclosure charges and fees from the sourcing of home loans. There was also an increase in ATM fees and debit card charges due to increased volume of ATM and debit card transactions. In addition, the increase in fees and charges was due to higher charges on customers maintaining insufficient balances. Such higher charges resulted from an increase in the number of such accounts. Fees and commissions earned from our wholesale segment increased mainly on account of an increase in processing and placement fees, an increase in fees from bullion transactions and higher processing fees on our custodial services.

Realized gains on AFS securities and loss on trading securities were primarily from the sale of government securities. The realized gains in fiscal 2010 were higher as the market yields lowered.

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Income from foreign exchange and derivative transactions were driven primarily by spreads on customer transactions based on trade flows and hedging needs of our customers. These revenues were distributed across our corporate and retail customer segments for plain vanilla foreign exchange products and across our corporate customer segment for derivative products.

Income from foreign exchange transactions increased by Rs.7.2 billion to Rs.12.3 billion in fiscal 2011. The increase in the income in fiscal 2011 was mainly on account of increase in trade volumes with non-bank customers which increased from USD 109.6 billion in fiscal 2010 to USD 139.1 billion in fiscal 2011 and volatility during fiscal 2011 in the exchange rate between US Dollar and Indian Rupee. In fiscal 2011, derivative transactions (unadjusted for credit spread) resulted in a loss of Rs. 4.4 billion, which includes loss on interest rate derivatives and forward exchange contracts of Rs. 1.8 billion and Rs. 1.7 billion respectively. The loss was driven primarily by increase in interest rates and movement in exchange rates. In fiscal 2010, the derivative transactions resulted in a gain of Rs. 1.4 billion (unadjusted for credit spread), which includes gain on forward exchange contracts of Rs. 8.8 billion and loss on option contracts of Rs. 7.9 billion. The gains on forward exchange contracts were primarily due to cancellations of forward exchange contracts by non-bank customers on account of adverse changes in exchange rates compared to fiscal 2009. The loss on option contracts includes mark to market losses of Rs. 8.4 billion. The loss from derivative transactions (net of gain of Rs. 0.5 billion on account of reduction in credit spread) was Rs. 3.9 billion in fiscal 2011 as compared to a gain of Rs. 2.9 billion (including gain of Rs. 1.6 billion on account of reduction in credit spread) in fiscal 2010. In fiscal 2009, several of our customers having foreign currency or derivative exposures suffered losses, which resulted from an overall decline in the economic environment stemming from the global financial crisis, for which we had recorded fair value adjustments on account of credit risk. In fiscals 2010 and 2011, due to continuing improvement in the overall credit environment and based on our risk assessment, there was a gain on account of credit spreads.

**Table of Contents****Non- Interest Expense**

Our non-interest expense was comprised of the following:

	Year ended March 31,				2010	2011
	2010	2011	Increase/ (decrease)	% Increase/ (decrease)	% of net revenues	% of net revenues
			(in millions, except percentages)			
Salaries and staff benefits	Rs. 31,665.9	Rs. 37,865.6	Rs. 6,199.7	19.6%	30.0%	26.0%
Premises and equipment	11,033.2	12,419.8	1,386.6	12.6	10.4	8.5
Depreciation and amortization	4,133.7	5,138.6	1,004.9	24.3	3.9	3.5
Administrative and other	17,808.6	24,387.6	6,579.0	36.9	16.9	16.8
Amortization of intangibles	3,769.5	2,558.6	(1,210.9)	(32.1)	3.6	1.8
<b>Total non-interest expense</b>	<b>Rs. 68,410.9</b>	<b>Rs. 82,370.2</b>	<b>Rs. 13,959.3</b>	<b>20.4%</b>	<b>64.8%</b>	<b>56.6%</b>

Total non-interest expense increased by 20.4% from Rs. 68.4 billion in fiscal 2010 to Rs. 82.4 billion in fiscal 2011. As a percentage of our net revenues, non-interest expense was 56.6% in fiscal 2011 as compared to 64.8% in fiscal 2010.

As of March 31, 2011, we had 1,986 branches and 5,471 ATMs across 996 locations, which increased from 1,725 branches and 4,232 ATMs across 779 locations as of March 31, 2010. This led to an overall increase in our non-interest expense.

Salaries and staff benefits increased by 19.6% from Rs. 31.7 billion in fiscal 2010 to Rs. 37.9 billion in fiscal 2011. This increase was primarily attributable to an increase in staff salaries and allowances and in the number of employees from 51,888 as of March 31, 2010 to 55,752 as of March 31, 2011.

Premises and equipment costs increased on account of an increase in rent, electricity, housekeeping, security and other infrastructure costs relating to the expanded branch network.

Depreciation and amortization expenses increased due to the increase in the branch network/ATMs and higher spending on technology and infrastructure to support our growth. During the fiscal year ended March 31, 2011, we revised the estimated useful life of point-of-sale machines and certain information technology servers. Depreciation on these assets is charged prospectively over the revised useful life of the asset. Consequently, the net income before noncontrolling interest for the year was lower by Rs. 390.5 million.

Administrative and other expenses increased primarily on account of higher advertising and publicity, printing and stationery and insurance costs.

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. 2.6 billion in fiscal 2011 as compared to Rs. 3.8 billion in fiscal 2010.

**Income Tax**

Our income tax expense increased by 75.9% from Rs. 12.3 billion in fiscal 2010 to Rs. 21.7 billion in fiscal 2011 in line with the increase in pre-tax income. Our effective tax rate was 33.1% in fiscal 2010 and 34.3% in fiscal 2011. The effective tax rate was higher in fiscal 2011 primarily on account of lower 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 2010 and 2011:

Years ended March 31,	
2010	2011

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Effective statutory income tax rate	33.99%	33.22%
Adjustments to reconcile statutory income tax rate to effective income tax rate:		
Stock-based compensation (net of forfeitures)	3.27	1.79
Income exempt from taxes	(4.11)	(1.03)
Other, net	(0.01)	0.17
Effect of change in statutory tax rate		0.17
Annual effective income tax rate	33.14%	34.32%

### ***Net Income***

As a result of the foregoing factors, our net income after taxes increased by 67.7% from Rs. 24.6 billion in fiscal 2010 to Rs. 41.2 billion in fiscal 2011.

**Table of Contents****Liquidity and Capital Resources**

Our growth over the last three years has been 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.

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.

	2010	Year ended March 31, 2011 (in millions)	2012
<b>Cash Flows from Operating Activities:</b>			
Net income before non-controlling interest	Rs. 24,887.8	Rs. 41,527.3	Rs. 50,008.0
Non-cash adjustments to net income	33,134.4	25,509.8	22,137.7
Net change in other assets and liabilities	51,042.2	(16,920.5)	(34,653.4)
<b>Net cash provided/(used) by operating activities</b>	<b>Rs. 109,064.4</b>	<b>Rs. 50,116.6</b>	<b>Rs. 37,492.3</b>
<b>Cash Flows from Investing Activities:</b>			
Net change in term placements	(23,646.0)	(43,925.1)	(48,174.4)
Net change in investments	13,846.8	(157,060.9)	(181,331.0)
Net change in repurchase options and reverse repurchase options	5,497.2	80,000.0	(10,868.3)
Loans purchased net of repayments	(48,911.4)	(36,828.9)	(15,960.7)
Increase in loans originated, net of principal collections	(284,839.6)	(303,115.8)	(379,906.4)
Net additions to property and equipment	(5,854.8)	(5,745.3)	(7,878.5)
<b>Net cash used in investing activities</b>	<b>Rs. (343,907.8)</b>	<b>Rs. (466,676.0)</b>	<b>Rs. (644,119.3)</b>
<b>Cash Flows from Financing Activities:</b>			
Net increase in deposits	246,365.0	409,794.4	385,202.5
Net increase/(decrease) in short-term borrowings	70,763.3	(21,185.6)	38,641.2
Proceeds from issuance of shares by subsidiaries to non-controlling interest		113.7	12.3
Net increase in long-term debt	9,264.2	17,375.3	82,141.2
Proceeds from issuance of equity shares for options exercised	5,559.7	8,281.6	5,302.8
Proceeds from issuance of equity shares/warrants/equity shares on exercise of warrants	36,080.5		
Payment of dividends and dividend tax	(4,985.8)	(6,440.9)	(8,947.6)
<b>Net cash provided by financing activities</b>	<b>Rs. 363,046.9</b>	<b>Rs. 407,938.5</b>	<b>Rs. 502,352.4</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,869.4)</b>	<b>(35.5)</b>	<b>3,415.5</b>
Net change in cash and cash equivalents	126,334.1	(8,656.4)	(100,859.1)
Cash and cash equivalents, beginning of year	171,224.4	297,558.5	288,902.1
<b>Cash and cash equivalents, end of year</b>	<b>Rs. 297,558.5</b>	<b>Rs. 288,902.1</b>	<b>Rs. 188,043.0</b>
<b>Cash Flows from Operating Activities</b>			

Our net cash provided/used 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. 109.1 billion in fiscal 2010 to Rs. 50.1 billion in fiscal 2011, mainly due to higher cash flows in fiscal 2010 as compared to fiscal 2011 as a result of increase in bills payable. Our net cash provided by operating activities decreased from Rs. 50.1 billion in fiscal 2011 to Rs. 37.5 billion in fiscal 2012 mainly due to increase in investments held for trading in fiscal 2012.

**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. 395.9 billion in fiscal 2012 and Rs. 339.9 billion in fiscal 2011 primarily on account of an increase in our retail loan portfolio. The increase in investments in fiscal 2012 was Rs. 181.3 billion primarily on account of an increase in available-for-sale debt securities.





**Table of Contents****Cash Flows from Financing Activities**

Our primary sources of cash flows from financing activities are deposits and, to a lesser extent, borrowings. The increase in deposits is attributable to the overall expansion of our business. Our total deposits increased by 18.4% from Rs. 2,082.1 billion in fiscal 2011 to Rs. 2,465.0 billion in fiscal 2012. Savings account deposits at Rs. 740.0 billion and current account deposits at Rs. 453.0 billion together accounted for approximately 48.4% of total deposits as of March 31, 2012. There was a 29.2% increase in our time deposits from Rs. 984.8 billion in fiscal 2011 to Rs. 1,272.1 billion in fiscal 2012. Our short-term borrowings increased by Rs. 35.9 billion from Rs. 76.7 billion in fiscal 2011 to Rs. 112.6 billion in fiscal 2012. There was an increase in long-term debt from Rs. 93.3 billion in fiscal 2011 to Rs. 178.4 billion in fiscal 2012 primarily due to the lower tier II debt capital and borrowings from refinance institutions we raised during the year.

**Financial Condition****Assets**

The following table sets forth the principal components of our assets as of March 31, 2011 and March 31, 2012:

	As of March 31,		Increase/ (decrease)	% Increase/ (decrease)
	2011	2012 (in millions, except percentages)		
Cash and cash equivalents	Rs. 288,902.1	Rs. 188,043.0	Rs. (100,859.1)	(34.9)%
Term placements	102,049.4	150,096.5	48,047.1	47.1
Investments held for trading	38,216.9	77,043.4	38,826.5	101.6
Investments available for sale	628,704.9	807,080.4	178,375.5	28.4
Securities purchased under agreements to resell		20,868.3	20,868.3	*
Loans, net	1,622,856.0	2,006,374.3	383,518.3	23.6
Accrued interest receivable	19,752.6	26,645.5	6,892.9	34.9
Property and equipment	22,881.2	24,960.9	2,079.7	9.1
Intangibles	6,402.9	4,074.0	(2,328.9)	(36.4)
Goodwill	74,937.9	74,937.9		
Other assets	115,532.4	191,031.5	75,499.1	65.3
<b>Total assets</b>	<b>Rs. 2,920,236.3</b>	<b>Rs. 3,571,155.7</b>	<b>Rs. 650,919.4</b>	<b>22.3%</b>

\* Not meaningful

Our total assets increased by 22.3% to Rs. 3,571.2 billion in fiscal 2012 from Rs. 2,920.2 billion in fiscal 2011.

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 Reserve Bank of India 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 have increased on account of our placements with central government bodies. These placements are made to comply with the extant Reserve Bank of India guidelines on shortfalls in priority sector lending sub-limits and account for approximately 85% of term placements as of March 31, 2012.

Securities held under the trading portfolio are for trading purposes and are generally sold within 90 days from purchase. Investments held for trading increased by 101.6% from Rs. 38.2 billion as of March 31, 2011 to Rs. 77.0 billion as of March 31, 2012, primarily on account of investments in government of India securities, partially offset by a decrease in our portfolio of deposit certificates issued by banks.

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Investments available for sale increased by 28.4%, primarily on account of an increase in investments in government of India securities for SLR requirements.

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Net loans increased mainly due to an increase in our retail lending. Our outstanding gross retail loan portfolio increased by 37.2% from Rs. 980.1 billion as of March 31, 2011 to Rs. 1,345.0 billion as of March 31, 2012. Secured loans were the key drivers of the increase in the retail loan book. We originate home loans under an arrangement with HDFC Limited. During the year we purchased from HDFC Limited aggregating Rs. 49.8 billion of AAA credit enhanced home loans. Our gross wholesale loan book increased by 3.1% from Rs. 668.6 billion in fiscal 2011 to Rs. 689.3 billion in fiscal 2012.

Our property and equipment increased by 9.1% from Rs. 22.9 billion in fiscal 2011 to Rs. 25.0 billion in fiscal 2012, primarily on account of growth in our distribution network. As of March 31, 2011 we had a network of 1,986 branches in 996 cities which grew to 2,544 branches in 1,399 cities as of March 31, 2012.

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. 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. 2.6 billion and Rs. 2.3 billion for fiscals 2011 and 2012, respectively. Consequently, these intangibles were carried at an amortized value of Rs. 4.1 billion as of March 31, 2012.

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. These anticipated synergies contributed to a purchase price that resulted in the recognition of goodwill. The said goodwill has not been impaired as of March 31, 2012 and has been carried forward at the same value as that at the acquisition date.

Other assets increased by 65.3% from Rs. 115.5 billion as of March 31, 2011 to Rs. 191.0 billion as of March 31, 2012 primarily on account of an increase in derivatives from Rs. 75.6 billion to Rs. 133.2 billion which was largely attributable to the depreciation of the Indian Rupee in fiscal 2012 and increase in the volume of our derivative contracts.

**Liabilities and Shareholders Equity**

The following table sets forth the principal components of our liabilities and shareholders equity as of March 31, 2011 and March 31, 2012:

	As of March 31,			%
	2011	2012	Increase/ (decrease)	Increase/ (decrease)
	(in millions, except percentages)			
<b>Liabilities</b>				
<i>Interest bearing deposits</i>	Rs. 1,619,283.6	Rs. 2,012,057.9	Rs. 392,774.3	24.3%
<i>Non-interest bearing deposits</i>	462,845.4	452,991.7	(9,853.7)	(2.1)
<b>Total deposits</b>	<b>2,082,129.0</b>	<b>2,465,049.6</b>	<b>382,920.6</b>	<b>18.4%</b>
Securities sold under repurchase agreements	60,000.0	70,000.0	10,000.0	16.7
Short-term borrowings	76,686.7	112,642.8	35,956.1	46.9
Accrued interest payable	27,746.0	51,935.9	24,189.9	87.2
Long-term debt	93,287.2	178,366.6	85,079.4	91.2
Accrued expenses and other liabilities	232,557.6	296,568.1	64,010.5	27.5
<b>Total liabilities</b>	<b>2,572,406.5</b>	<b>3,174,563.0</b>	<b>602,156.5</b>	<b>23.4%</b>
Non-controlling interest in subsidiaries	1,338.1	1,537.5	199.4	14.9
HDFC Bank Limited shareholders equity	346,491.7	395,055.2	48,563.5	14.0
<b>Total liabilities and shareholders equity</b>	<b>Rs. 2,920,236.3</b>	<b>Rs. 3,571,155.7</b>	<b>Rs. 650,919.4</b>	<b>22.3%</b>

Our total liabilities increased by 23.4% from Rs. 2,572.4 billion in fiscal 2011 to Rs. 3,174.6 billion in fiscal 2012. The increase in our interest-bearing deposits was on account of an increase in savings deposits and in time deposits. Savings account deposits increased by 16.6% from Rs. 634.5 billion as of March 31, 2011 to Rs. 740.0 billion as of March 31, 2012. Time deposits increased by 29.2% from Rs. 984.8 billion as of March 31, 2011 to Rs. 1,272.1 billion as of March 31, 2012. Our non-interest bearing deposits decreased by 2.1% from Rs. 462.8 billion in fiscal 2011 to Rs. 453.0 billion in fiscal 2012. Of our total deposits as of March 31, 2012, retail deposits accounted for approximately 72% and wholesale deposits accounted for the balance.



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Most of our funding requirements are met through short-term and medium-term funding sources. Of our total non-equity sources of funding as of March 31, 2012, deposits accounted for 77.7%, short-term borrowings accounted for 3.5% and long-term debt accounted for 5.6%. Our short-term borrowings, which were primarily comprised of money market borrowings, increased by Rs. 36.0 billion in fiscal 2012. Securities sold under repurchase agreements were Rs. 70.0 billion as of March 31, 2012 on account of our borrowing under the liquidity adjustment facility that is offered by the Reserve Bank of India. The borrowing was against our investments in government securities that we held in excess of the statutory liquidity requirements.

Long-term debt increased by 91.2% in fiscal 2012, primarily due to the lower tier II debt capital and borrowings from refinance institutions we raised during the year.

Accrued interest payable increased by 87.2% from Rs. 27.7 billion in fiscal 2011 to Rs. 51.9 billion in fiscal 2012 on account of increase in volumes of interest bearing liabilities and an increase in our cost of funds.

Accrued expenses and other liabilities increased by 27.5% from Rs. 232.6 billion to Rs. 296.6 billion, primarily because of increase in derivatives largely attributable to the depreciation of the Indian Rupee in fiscal 2012 and increase in the volume of our derivative contracts.

Shareholders' equity increased primarily due to an increase in the retained earnings and additional paid-in capital on account of the exercise of stock options by employees.

**Capital**

We are a banking company within the meaning of the Indian Banking Regulations 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. As per RBI's prudential norms on capital adequacy under the Basel I framework (Basel I), we are required to maintain a capital to risk-weighted asset ratio of a minimum of 9%, for both credit risk and market risk. The RBI has also issued its prudential guidelines on Capital Adequacy and Market Discipline Implementation of the New Capital Adequacy Framework (Basel II). We migrated to the new framework effective March 31, 2009. Under the Basel II guidelines, we are required to maintain a minimum capital to risk-weighted asset ratio of 9% on an ongoing basis for credit risk, market risk and operational risk, with a minimum Tier 1 capital ratio of 6%. Further, the minimum capital maintained by us as of March 31, 2012 is subject to a prudential floor, which is the higher of the following amounts:

- a) the minimum capital required as per the Basel II framework; or
- b) 80% of the minimum capital required to be maintained as per the Basel I framework.

Our regulatory capital and capital adequacy ratios measured in accordance with Indian GAAP and calculated under both the Basel I and Basel II frameworks are as follows:

	2011	Basel I 2012	2012 (in millions, except percentages)	2011	Basel II 2012	2012
Tier 1 capital	Rs. 237,704.1	Rs. 281,135.6	US\$ 5,524.4	Rs. 237,183.5	Rs. 280,674.9	US\$ 5,515.3
Tier 2 capital	77,438.1	118,989.7	2,338.2	77,438.1	118,989.7	2,338.2
<b>Total capital</b>	<b>Rs. 315,142.2</b>	<b>Rs. 400,125.3</b>	<b>US\$ 7,862.6</b>	<b>Rs. 314,621.6</b>	<b>Rs. 399,664.6</b>	<b>US\$ 7,853.5</b>
<b>Total risk weighted assets and contingents</b>	<b>Rs. 2,057,206.2</b>	<b>Rs. 2,547,642.9</b>	<b>US\$ 50,061.8</b>	<b>Rs. 1,939,602.6</b>	<b>Rs. 2,418,963.2</b>	<b>US\$ 47,533.2</b>
Capital ratios of the Bank:						
Tier 1	11.56%	11.04%		12.23%	11.60%	
Total capital	15.32%	15.71%		16.22%	16.52%	
Minimum capital ratios required by the RBI:						
Tier 1	4.50%	4.50%		6.00%	6.00%	

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Total capital

9.00%

9.00%

9.00%

9.00%

**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. 13.7 billion in fiscal 2013. This budgeted amount includes Rs. 2.0 billion to expand our branch and back office network, Rs. 0.9 billion to expand our ATM network, Rs. 0.5 billion to expand our Electronic Data Capture terminal network and Rs. 10.3 billion to upgrade and expand our hardware, data center, network and other systems. Our capital expenditure needs may change 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.



**Table of Contents****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. See Business Treasury 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, 2012, together with the fair values on each reporting date:

	Notional	Gross Assets	Gross Liabilities	Net Fair Value	Notional	Net Fair Value
			(in millions)			
Interest rate derivatives	Rs. 2,352,335.4	Rs. 11,735.6	Rs. 12,353.8	Rs. (618.2)	US\$ 46,223.9	US\$ (12.1)
Currency options	220,616.6	3,987.7	3,038.8	948.9	4,335.2	18.6
Currency swaps	53,438.4	2,959.3	1,882.0	1,077.3	1,050.1	21.2
Forward exchange contracts	5,648,917.1	114,511.7	110,657.7	3,854.0	111,002.5	75.7
<b>Total</b>	<b>Rs. 8,275,307.5</b>	<b>Rs. 133,194.3</b>	<b>Rs. 127,932.3</b>	<b>Rs. 5,262.0</b>	<b>US\$ 162,611.7</b>	<b>US\$ 103.4</b>

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 changes in fair value recorded in earnings.

**Table of Contents****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:

	2011	As of March 31, 2012 (in millions)	2012
<b>Bank guarantees:</b>			
Financial guarantees	Rs. 62,104.7	Rs. 76,921.6	US\$ 1,511.5
Performance guarantees	54,857.1	59,909.3	1,177.2
Documentary credits	154,406.1	209,182.1	4,110.5
<b>Total</b>	<b>Rs. 271,367.9</b>	<b>Rs. 346,013.0</b>	<b>US\$ 6,799.2</b>

Guarantees and documentary credits outstanding increased by 27.5% to Rs. 346.0 billion as of March 31, 2012, principally due to general growth in our wholesale banking business and to meet our clients' trade requirements.

**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. 682.1 billion as of March 31, 2012. 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, 2012 by expected settlement period.

**Contractual Obligations**

	Total	Payments due by period, as of March 31, 2012			
		Less than 1 year	1-3 years (in millions)	3-5 years	After 5 years
Subordinated debt	Rs. 111,056.5	Rs.	Rs. 4,140.0	Rs. 16,120.0	Rs. 90,796.5
Other long term debt	67,310.1	19,687.8	38,748.2	5,350.0	3,524.1
Operating leases <sup>(a)</sup>	29,893.9	5,152.0	9,264.2	8,166.4	7,311.3
Short-term borrowings	112,642.8	112,642.8			
Securities sold under repurchase agreements	70,000.0	70,000.0			
Unconditional purchase obligations <sup>(b)</sup>	3,274.2	3,274.2			
<b>Total</b>	<b>Rs. 394,177.5</b>	<b>Rs. 210,756.8</b>	<b>Rs. 52,152.4</b>	<b>Rs. 29,636.4</b>	<b>Rs. 101,631.9</b>

(a) Operating leases are principally for the lease of office, branch and ATM premises, and residential premises for executives.

(b) Unconditional purchase obligations principally constitute the capital expenditure commitments made as of March 31, 2012. See Note 27 Commitments and contingencies.

**Commercial Commitments**

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Our commercial commitments consist principally of letters of credit, guarantees, forward exchange contracts and derivative contracts.

We have recognized a liability of Rs. 895.9 million as of March 31, 2012 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. 375.4 million as of March 31, 2012.

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.

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The residual maturities of the above obligations as of March 31, 2012 are set forth in the following table:

	Total amounts committed	Amount of commitment expiration per period, as of March 31, 2012			
		Less than 1 year	1-3 years (in millions)	3-5 years	Over 5 years
Documentary credits	Rs. 209,182.1	Rs. 203,498.0	Rs. 5,684.1	Rs.	Rs.
Guarantees	136,830.9	96,340.9	30,136.2	4,288.4	6,065.4
Derivatives*	8,275,307.5	7,326,382.9	586,838.1	326,672.6	35,413.9
<b>Total</b>	<b>Rs. 8,621,320.5</b>	<b>Rs. 7,626,221.8</b>	<b>Rs. 622,658.4</b>	<b>Rs. 330,961.0</b>	<b>Rs. 41,479.3</b>

\* 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.

Our exposures to our ten largest borrowers as of March 31, 2012, computed as per RBI guidelines, based on the higher of the outstanding balance or the limit on loans, investments (including credit substitutes) and non-funded exposures as per Indian GAAP were as follows. None of these exposures were impaired as of March 31, 2012:

Borrower Industry		March 31, 2012 Funded Exposure (in millions)	Non-Funded Exposure	Total Exposure	Total Exposure
Borrower 1	Banks and Financial Institutions	Rs. 91,154.8	Rs.	Rs. 91,154.8	US\$ 1,791.2
Borrower 2	Coal & Petroleum Products	24,500.0	28,502.9	53,002.9	1,041.5
Borrower 3	Coal & Petroleum Products	12,761.6	39,387.5	52,149.1	1,024.7
Borrower 4	NBFC / Financial Intermediaries	42,500.0		42,500.0	835.1
Borrower 5	NBFC / Financial Intermediaries	30,000.0		30,000.0	589.5
Borrower 6	NBFC / Financial Intermediaries	30,000.0		30,000.0	589.5
Borrower 7	Non-ferrous Metals	3,650.0	24,205.9	27,855.9	547.4
Borrower 8	Banks and Financial Institutions	24,184.3	14.0	24,198.3	475.5
Borrower 9	Banks and Financial Institutions	22,206.6		22,206.6	436.4
Borrower 10	Iron and Steel	Rs. 3,229.1	Rs. 18,381.8	Rs. 21,610.9	US\$ 424.7

As of March 31, 2012, our exposure to 13 borrowers was, for each such borrower, more than 5% of our capital funds, which was mainly comprised of large credit facilities to these borrowers. Of the total exposure to these borrowers, approximately 47% 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 Reserve Bank of India 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 exposure, directly/indirectly on, to risk related to, counter parties/entities in foreign countries. On an ongoing basis, we monitor such cross border exposures. Our aggregate country risk exposure was about 3% of our total assets. Currently there is no country where we have an exposure exceeding 1% of our total assets, in accordance with the RBI guidelines. Our exposure, primarily in the nature of commercial credits, to countries in Europe impacted by the sovereign debt crisis is not significant (aggregates about 0.03% of our total assets).

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### ***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 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 data/information or extorting money.

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 (SOC) 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 avoid obsolescence.

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**MANAGEMENT**

**Directors and Senior Management**

Our Memorandum and Articles of Association (the "Articles") provide that until otherwise determined by a general meeting of shareholders, the number of our directors shall not be less than 3 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, 2012.

As per the Indian Companies Act, 1956 (the "Companies Act"), at least two-thirds of our 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.

Under the terms of our organizational documents, HDFC Limited has a right to nominate two directors who are not required to retire by rotation, 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 Chairman and the Managing Director.

The Banking Regulations 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. Mr. Ashim Samanta has specialized knowledge and experience in small-scale industry. Dr. Pandit Palande has specialized knowledge and experience in the agricultural sector.

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Interested directors may not vote at board proceedings, except where the interest is based solely on a contract of indemnity for which the director is a surety, the interest is based on the director's involvement as director of another company and holder of shares of that company, or where a proper notification has been given under the Companies Act.

None of our directors or members of our senior management holds 1.0% or more of our shares.

Our Board of Directors, as of March 31, 2012, was comprised of:

Name	Position	Age
Mr. C.M. Vasudev	Chairman	69
Mr. Aditya Puri	Managing Director	61
Mr. Harish Engineer	Executive Director	63
Mr. Paresh Sukthankar	Executive Director	49
Mr. Anami N. Roy	Non-Executive Director	62
Mr. Ashim Samanta	Non-Executive Director	58
Mr. Bobby Parikh	Non-Executive Director	48
Dr. Pandit Palande	Non-Executive Director	51
Mr. Partho Datta	Non-Executive Director	63
Mrs. Renu Karnad	Non-Executive Director	59
Mr. Keki Mistry <sup>1</sup>	Non-Executive Director	58

<sup>1</sup> Mr. Keki Mistry was inducted as a Director with effect from January 19, 2012.

The following are brief biographies of our directors:

**Mr. C. M. Vasudev** holds a Master's degree in Economics and Physics. He joined the Indian Administrative Services in 1966. Mr. Vasudev has worked as an Executive Director of World Bank representing India, Bangladesh, Sri Lanka and Bhutan. Mr. Vasudev has extensive experience of working at policy making levels in the financial sector and was responsible for setting up policies and oversight of management at World Bank. He chaired World Bank's committee on development effectiveness with the responsibility of ensuring effectiveness of World Bank's operations. Mr. Vasudev has also worked as Secretary, Ministry of Finance for more than 8 years and has had various assignments, including Secretary, Department of Economic Affairs, Department of Expenditure, Department of Banking and Additional Secretary, Budget with responsibility for framing the fiscal policies and policies for economic reforms and for co-ordinating preparation of budgets of the Government of India and monitoring their implementation. He was appointed as a Government nominee Director on the Boards of many companies in the financial sector including the State Bank of India, IDBI, ICICI, IDFC, NABARD, the National Housing Bank and also on the Central Board of the RBI. He was also member secretary of the Narasimham Committee on financial sector reforms. He also chaired a committee on reforms of the NBFC sector. He also worked as Joint Secretary of the Ministry of Commerce with responsibility for state trading, trade policy including interface with the WTO.

Mr. Vasudev is Director on the boards of ICRA Management Consulting Services Limited, Uttarakhand Jal Vidyut Nigam Limited, Star Paper Mills Limited, Power Exchange India Limited, Bedrock Ventures Private Limited, NSDL Database Management Limited and Centennial Development Advisory Services Private Limited. He is a member of the Audit Committee and the Chairman of Remuneration Committee of ICRA Management Consultancy Services Limited and Chairman of the Risk Management Committee and a member of the Audit Committee of the Power Exchange India Limited.

**Mr. Aditya Puri** holds a Bachelor's degree in Commerce from Punjab University and is an associate member of the Institute of Chartered Accountants of India. 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 38 years of experience in the banking sector in India and abroad. Mr. Puri is not a Director on the Board of any other company.

**Mr. Harish Engineer** is an Executive Director of the Bank. He is a Science Graduate from Mumbai University and holds a Diploma in Business Management from Hazarimal Somani College, Mumbai. Mr. Engineer has been associated with the Bank since 1994 in various capacities and is responsible for Wholesale Banking at present. Mr. Engineer has over 41 years experience in the fields of finance and banking. Prior to joining the Bank, Mr. Engineer worked with Bank of America for 26 years in various areas including operations and corporate credit management. Mr. Engineer is neither a Chairman nor a Director of any other company in India.



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**Mr. Paresh Sukthankar** is an Executive Director in whole-time employment of the Bank. He has a Masters in Business Administration (MBA) from Jammalal Bajaj Institute (Mumbai) and the Advanced Management Program (AMP) from the Harvard Business School. Mr. Sukthankar has been with the Bank since its inception in 1994. Mr. Sukthankar has supervisory responsibilities for the Bank's Credit and Risk Management function covering the corporate and retail credit portfolios as well as the treasury activities. Mr. Sukthankar also has supervisory responsibility for the Finance and Human Resources functions and leads various strategic initiatives of the Bank. Prior to joining the Bank, Mr. Sukthankar worked in Citibank for around 9 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 Reserve Bank of India and Indian Banks Association. Mr. Sukthankar is neither a chairman nor a director of any other company.

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**Mr. Anami N. Roy** holds a Master's degree in Arts and Philosophy and is a distinguished retired civil servant. During his career of 38 years in the Indian Police Service (IPS), he held a range of assignments both in the state of Maharashtra and the Government of India. He retired in 2010 as the Director General of Police (DGP), Maharashtra. His areas of specialization include policy planning, budget, recruitment, training and other finance and administration functions in addition to all operational matters. He also held the position of Director General of the Anti-Corruption Bureau, in which capacity he drafted 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 problem solving. Mr. Roy has also completed many training courses in very important areas of public administration in some prestigious institutions in India and abroad. Mr. Roy is a Director on the Board of India Ventures Advisors, Glaxo SmithKline Pharmaceuticals Limited and Planet Retail Holdings Limited. He is the Chairman of Vandana Foundation, a non-profit company registered under section 25 of the Companies Act, 1956.

**Mr. Ashim Samanta** holds a Bachelor of Commerce degree from the University of Mumbai and has nearly 37 years of business experience. He has particular experience in the field of bulk drugs and fine chemicals. He is a Director of Samanta Organics Private Limited, Nautilus Trading & Leasing Private Limited, Ashish Rang Udyog Private Limited, Shakti Cine Studios Private Limited and Samanta Movies Private Limited. Mr. Samanta has also been engaged in setting up and running of a film mixing, editing and dubbing studio.

**Mr. Bobby Parikh** has a Bachelor's degree in Commerce from the University of Mumbai and qualified as a Chartered Accountant in 1987. Mr. Parikh is a Senior Partner with BMR & Associates and leads its financial services practice. Prior to joining BMR & Associates, 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 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 developing structured financial products, besides providing tax and business advisory and tax reporting services. 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 Advisors Private Limited, Tax and Advisors Private Limited, BMR Managed Services Private Limited, BMR Advisors Pte Limited, BMR & Associates, Aviva Life Insurance Company India Limited, Green Infra Limited, Indostar Capital Finance Limited and Birla Sun Life Asset Management Company Limited. He is the Chairman of the Audit Committee and a Member of Investment Committee, Asset Liability Management Committee and Remuneration Committee of Aviva Life Insurance Company India Limited. He is the Chairman of the Audit Committee and a member of the Compensation Committee of Green Infra Limited. He is also a member of the Audit Committee and Risk Management Committee of Indostar Capital Finance Limited. Mr. Parikh is one of the financial experts on the Audit & Compliance Committee of the Board.

**Dr. Pandit Palande** has a Ph.D. degree in Business Administration and completed an advanced course in Management at Oxford University and Warwick University in UK. 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. Under the guidance of Dr. Palande, YCMOU has become one of the green universities in India. As a Project Director of Indian Space Research Organization ( ISRO ) GAP-3 of YCMOU, Dr. Palande has been serving the academic and agriculture community on a large scale. Dr. Palande is neither a Chairman nor a director of any other company.

**Mr. Partho S. Datta** is an associate member of the Institute of Chartered Accountants of India (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 and Endurance Technologies Private Limited. He is the Chairman of Audit Committee and member of the Risk Management Committee, Investment Committee and Remuneration Committee of Peerless Funds Management Company Limited. He is also the Chairman of the Audit Committee and a member of the Investor Grievance Committee of Endurance Technologies Private Limited. He is a member of the Audit Committee and Board Committee of IRIS Business Services Limited. Mr. Datta has extensive experience in various Financial and Accounting matters including financial management, investor

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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 & Compliance Committee of the Board.

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**Mrs. Renu Karnad** is a law graduate and also holds a Masters 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 the Managing Director of HDFC Limited. Mrs. Karnad is also a Director on the Boards of BOSCH Limited, Credit Information Bureau (India) Limited, GRUH Finance Limited, HDFC Asset Management Company Limited, HDFC Ergo General Insurance Company Limited, HDFC Standard Life Insurance Company Limited, AKZO Nobel India Limited, Indraprastha Medical Corporation Limited, EIH Limited, Feedback Infrastructure Services Private Limited, G4S Corporate Services (India) Private Limited, Value and Budget Housing Corporation (India) Private Limited, Lafarge India Private Limited, Transunion LLC- Chicago and HDFC PLC Maldives. Mrs. Renu Karnad is the Chairperson on the Board of Directors of HDFC Property Ventures Limited, Credila Financial Services Private Limited, HDFC Sales Private Limited, and HDFC Education and Development Services Private Limited. Mrs. Karnad is the Chairperson of the Audit Committee of AKZO Nobel India Private Limited, Credit Information Bureau (India) Limited and BOSCH Limited. She is a member of the Audit Committee of HDFC ERGO General Insurance Company Limited and member of Investor Grievance committee of BOSCH Limited. She is the Chairperson of the Remuneration Committee of AKZO Nobel India Limited as well the Chairperson of Compensation Committee of HDFC Standard Life Insurance Company Private Limited. She is also a member of the Investment Committee, the Compensation Committee, the Compensation-ESOS Committee, the Committee of Directors of GRUH Finance Limited; the Customer Service Committee and the Risk Management Committee of HDFC Asset Management Company Limited; the Remuneration Committee of Credit Information Bureau (India) Limited; the Investment Sub Committee and the Property Sub Committee of BOSCH Limited; and the Allotment Committee of HDFC Education and Development Services Private Limited.

**Mr. Keki Mistry** was appointed as an additional director of the Bank with effect from January 19, 2012. He has obtained a Bachelors Degree in Commerce from the University of Mumbai. He is a qualified Chartered Accountant and a Fellow Member of the Institute of Chartered Accountants of India. Mr. Mistry is also a member of the Michigan Association of Certified Public Accountants, USA. Mr. Mistry started his career with The Indian Hotels Company Limited, one of the largest chain of hotels in India. In 1981, Mr. Mistry joined Housing Development Finance Corporation Limited (HDFC). He was inducted on to the Board of Directors of HDFC as an Executive Director in the year 1993 and was elevated to the post of Managing Director with effect from November 2000. In October 2007, Mr. Mistry was appointed as Vice Chairman & Managing Director of HDFC and became the Vice Chairman & CEO in January 2010. Mr. Mistry is also a Director on the Boards of HDFC Asset Management Company Limited, HDFC Standard Life Insurance Company Limited, HDFC ERGO General Insurance Company Limited, GRUH Finance Limited, Infrastructure Leasing & Financial Services Limited, Sun Pharmaceutical Industries Limited, The Great Eastern Shipping Co Limited, Greatship (India) Limited, Next Gen Publishing Limited, Shrenuj & Company Limited, Torrent Power Limited and BSE Limited. Mr. Mistry is also a member on the India Advisory Board at Price Waterhouse Coopers. Mr. Mistry is the Chairman of the Audit Committee of Great Eastern Shipping Limited, Greatship (India) Limited, Sun Pharmaceuticals Industries Limited and Torrent Power Limited. He is a member of the Audit Committee of HDFC Standard Life Insurance Company Limited, HDFC ERGO General Insurance Company Limited, HDFC Asset Management Company Limited, GRUH Finance Limited, Infrastructure Leasing & Financial Services Limited and Shrenuj & Company Limited. He is a member of the Compensation Committee of GRUH Finance Limited, Infrastructure Leasing & Financial Services Limited and Greatship (India) Limited. He is the Chairman of the Nomination Committee of Greatship (India) Limited and a member of the Nomination Committee of Infrastructure Leasing & Financial Services Limited and Torrent Power Limited.

## **Senior Management**

As of March 31, 2012, our senior management was comprised of the following:

<b>Name</b>	<b>Position</b>	<b>Age</b>
Mr. Aditya Puri	Managing Director	61
Mr. Harish Engineer	Executive Director	63
Mr. Paresh Sukthankar	Executive Director	49
Mr. Abhay Aima	Head, Equities and Private Banking, Third Party Products and NRI Banking	50
Mr. Anil Jaggia	Head, Information Technology, Legal, Quality Initiatives, Administration and Infrastructure	51
Mr. Anil Nath	Head, Business Banking, Agri and Correspondent Banking	59
Mr. Ashish Parthasarthy	Head, Treasury	44
Mr. Bhavesh Zaveri	Head, Operations	46
Mr. G. Subramanian*	Head, Internal Control and Compliance Risk	65
Mr. Jimmy Tata	Head, Corporate Banking	46
Mr. Kaizad Bharucha	Head, Credit and Market Risk	47
Mr. Navin Puri	Head, Branch Banking	54

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Mr. Pralay Mondal**	Head, Retail Assets and Credit Cards	47
Mr. Rahul N. Bhagat	Head, Retail Liabilities and Marketing	49
Mr. Rajender Sehgal	Head, Financial Institutions Group, Custody and Sustainable Livelihood Business	57
Mr. Sashi Jagdishan	Head, Finance	47

\* Mr. G. Subramanian retired on April 30, 2012

\*\* Mr. Pralay Mondal resigned from the Bank effective June 16, 2012.

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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 Defence Academy. Mr. Aima is the Bank's Head of Equities, Private Banking and Third Party Products. 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** is an engineering graduate from IIT, Kanpur. Thereafter, he received a management degree from the Indian Institute of Management in Ahmedabad. He is a senior banker with over 20 years of experience in banking across the world. He started his career in India with Citibank N.A. and then moved to the USA with Citibank N.A. for seven years. At Citibank, Mr. Jaggia held various senior management positions. He returned to India to take up the post of Chief Operating Officer at Centurion Bank Limited in 2004. He is currently Head of IT, Quality Initiatives, Legal, Administration and Infrastructure at the Bank.

**Mr. Anil Nath** holds a Masters of Business Administration degree 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 heads Business Banking, Agri and Correspondent Banking. 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.

**Mr. Ashish Pathasarthy** holds a Bachelor of Engineering degree from the Karnataka Regional Engineering College and has a Post-Graduate Diploma in Management from the Indian Institute of Management, Bangalore. He has over twenty 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 Masters 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 heads wholesale banking operations and cash management products. 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. G. Subramanian** holds a Bachelor of Science degree in Chemistry from Madras Christian College and is a Certified Associate of the Indian Institute of Bankers. Mr. Subramanian was the Head of Internal Controls and Compliance Risk, until his retirement on April 30, 2012. Prior to joining the Bank, Mr. Subramanian was Deputy General Manager at the RBI. Mr. Subramanian serves as a Director of Computer Age Management Services Private Limited, HDB Financial Services Limited, Vayana Enterprises Private Limited and Atlas Documentary Facilitators Company Private Limited.

**Mr. Jimmy Tata** holds a Masters of Financial Management degree 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 twenty years of work experience and has been with the Bank since 1994. He is currently the Head of Corporate Banking.

**Mr. Kaizad Bharucha** has a Bachelor of Commerce degree from the University of Mumbai. He has been a career banker with over two decades of banking experience and is Head of Credit and Market Risk, Risk Intelligence and Control and Debt Management. He was previously with SBI Commercial and International Bank Ltd. as Group Head of Credits. Mr. Bharucha serves as Director of HDB Financial Services Limited. He is a member of the risk committee and Asset Liability committee of HDB Financial Services Limited. He also serves on the board of International Asset Reconstruction Company, where he serves as a member of the Asset Acquisition and Reconstruction committee and the Strategy, Policy and Process committee, Governance committee and HR and remuneration committee of the Board.

**Mr. Navin Puri** holds a Bachelor of Commerce degree from Calcutta University and is a member of the Institute of Chartered Accountants of India. He also received a Masters of Business Administration degree from Texas University, U.S.A. Mr. Puri has nineteen years of banking experience. He has been with the Bank since February 1999. He currently heads the Retail Branch Banking business, and is also the Business Head for Retail Current Accounts of the Bank.

**Mr. Pralay Mondal** holds a B-Tech (Hons) from the Indian Institute of Technology, Kharagpur and a Post Graduate Diploma in Business Management in Marketing from the Indian Institute of Management, Calcutta. He has over nineteen years of experience in marketing, sales, product and business profit and loss management in the fast moving consumer goods, office automation and banking industries. He was the head of the Retail Assets and Credit Cards business of the Bank, until his resignation effective June 16, 2012. Mr. Mondal also served as a director of HBL Global Private Limited and HDB Financial Services Limited.

**Mr. Rahul N. Bhagat** holds a Bachelor of Arts in History (Hons) from St. Stephen's College, Delhi University and a Masters degree in International Affairs from the College of William & Mary, Virginia, USA. He has over nineteen 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,

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Marketing, High Net-Worth and Direct Channels businesses in the Bank.

**Mr. Rajender Sehgal** holds a Masters of Business Administration degree from Delhi University with specialization in Financial and Marketing Management. He has nearly thirty five years of experience in industrial finance credit and international banking. Mr. Sehgal was employed by State Bank of India prior to joining the Bank. He has been with the Bank since 1998 and heads Financial Institutions Group, Custody and the Sustainable Livelihood Business.

**Mr. Sashi Jagdishan** holds a Bachelor of Science degree in Physics from the University of Mumbai and a Masters in Economics of Money, Banking and Finance from the University of Sheffield, UK. He is also a Chartered Accountant of the Institute of Chartered Accountants of India. He has been with the Bank since 1996 and currently heads the finance function of the Bank.

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### **Corporate Governance**

#### ***Audit and Compliance Committee***

The Audit and Compliance Committee (the Audit Committee) of the Bank is comprised of Mr. C. M. Vasudev, Mr. Ashim Samanta, Dr. Pandit Palande, Mr. Partho Datta and Mr. Bobby Parikh. The Committee is chaired by Mr. C. M. Vasudev. The Committee met seven times during the year.

The terms of reference of the Audit Committee are in accordance with Clause 49 of the Listing Agreement entered into with the Stock Exchanges in India, and inter alia 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 United States regulatory standards as the Bank's securities are also listed on the New York Stock Exchange.

#### ***Compensation Committee***

The Compensation Committee reviews the overall compensation structure and policies of the Bank with a view to attract, retain and motivate employees, consider grants of stock options to employees, review compensation levels of the Bank's employees vis-à-vis other banks and the industry in general. The Bank's compensation policy provides a fair and consistent basis for motivating and rewarding employees appropriately according to their job role, job size, performance, contribution, skill and competence.

Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. Partho Datta and Mr. Bobby Parikh are the members of the Committee. The Committee is chaired by Mr. C. M. Vasudev. All the members of the Committee are independent directors.

The Committee met three times during the year.

#### ***Investors' Grievance (Share) Committee***

The Share Committee approves and monitors transfer, transmission, splitting and consolidation 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, is placed before the Committee for ratification. The Committee also monitors redress of complaints from shareholders relating to transfer of shares, non-receipt of the annual report and dividends.

The Share Committee consists of Mr. Ashim Samanta, Mr. Anami N. Roy, Mr. Aditya Puri and Mr. Paresh Sukthankar. The Committee is chaired by Mr. Ashim Samanta. 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 the non-availability of the members of the Committee.



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As on March 31, 2012, 45 instruments of transfer representing 14,070 shares were pending and have since been processed. The details of the transfers are reported to the Board of Directors from time to time.

During fiscal 2012, we received 1,836 complaints from our shareholders. All the complaints were attended to and as on March 31, 2012 no complaints remained unattended or pending. In addition, 11,444 letters were received from our shareholders relating to change of address, nomination requests, email id and contact details updation, ECS / NECS mandates, queries relating to annual reports, sub-division of shares and amalgamation, requests for revalidation of dividend and other investor related matters. These letters have also been responded to. The Committee met five times during the year.

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### ***Risk Policy and Monitoring Committee***

The Risk Policy and Monitoring Committee has been formed as per the guidelines of the Reserve Bank of India on the 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 the Bank's 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, which was called the Risk Monitoring Committee earlier, has been renamed as the Risk Policy and Monitoring Committee during the year.

The Committee consists of Mr. C. M. Vasudev, Mr. Partho Datta, Mrs. Renu Karnad, Mr. Aditya Puri and Mr. Paresh Sukthankar.

The Committee met five times 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 Credit Approval Committee consists of Mr. Ashim Samanta, Mr. Bobby Parikh, Mrs. Renu Karnad, Mr. Aditya Puri and Mr. Harish Engineer.

The Credit Approval Committee met sixteen times during the year.

### ***Premises Committee***

The Premises Committee approves purchases and leasing of premises for the use of Bank's branches, back offices, ATMs and residence of executives in accordance with the guidelines laid down by the Board. The Committee consists of Mr. Ashim Samanta, Dr. Pandit Palande, Mrs. Renu Karnad and Mr. Aditya Puri.

The Premises Committee met five times during the year.

### ***Nomination Committee***

The Bank has constituted a Nomination Committee for recommending the appointment of independent / non-executive directors on the Board of the Bank. The Nomination Committee scrutinizes the nominations for independent / non-executive directors, looks at their qualifications and experience. For identifying Fit and Proper persons, the Committee adopts the following criteria to assess competency of the persons nominated:

academic qualifications, previous experience, track record; and

integrity of the candidates.

For assessing 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 practices are considered. The members of the Nomination Committee are Mr. C. M. Vasudev, Mr. Ashim Samanta and Dr. Pandit Palande. All the members of the Nomination Committee are independent directors.

The Nomination Committee met two times during the year.

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### ***Fraud Monitoring Committee***

Pursuant to the directions of the Reserve Bank of India, the Bank has constituted a Fraud Monitoring Committee, exclusively dedicated to the monitoring and following up of cases of fraud involving amounts of 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, reporting 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.

The members of the Fraud Monitoring Committee are Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. Partho Datta, Mr. Anami N. Roy and Mr. Aditya Puri.

The Fraud Monitoring 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.

The members of the Customer Service Committee are Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. Anami N. Roy and Mr. Aditya Puri.

The Customer Service Committee met four times 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, at the annual general meeting held on June 10, 2008, passed a special resolution pursuant to Section 293(1)(d) 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

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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.

**Table of Contents****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 16th Annual General Meeting held on June 30, 2010, the shareholders of the Bank approved the reappointment of our Managing Director for a further three-year period and also approved the revised salary/compensation and allowances of the Managing Director, with effect from April 1, 2010, subject to the approval of the RBI. The RBI has since approved the reappointment of Mr. Aditya Puri as the Managing Director of the Bank for a period of three years up to March 31, 2013 and also the revision in his remuneration. At the same Annual General Meeting, the shareholders of the Bank also approved the reappointments of Mr. Harish Engineer and Mr. Paresh Sukthankar as Executive Directors for the periods from October 12, 2010 to September 30, 2013 and October 11, 2013, respectively, and also approved their salary/compensation, with effect from October 12, 2010, subject to the approval of the RBI. The RBI approval for the reappointment and the remuneration of our Executive Directors has also since been received.

At the 18th Annual General Meeting held on July 13, 2012, the shareholders of the Bank approved the reappointment of our Managing Director for the period April 1, 2013 to October 31, 2015, and the remuneration payable for the extended period, subject to the approval of the RBI.

For fiscal 2012, the aggregate amount of compensation paid to our Managing Director, Executive Directors and members of our senior management was approximately Rs. 318 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 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 limitations prescribed by the Companies Act or the Government of India. At the Board meeting held on October 17, 2006, it was decided that sitting fees for attending Board meetings and Committee meetings would be Rs. 20,000 per meeting, except in the case of meetings of the Investors Grievance (Share) Committee, for which the sitting fees are Rs. 10,000 per meeting. 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.

Mr. C.M. Vasudev, Chairman, was paid remuneration of Rs. 1.5 million during fiscal 2012. Mr. C.M. Vasudev is also paid sitting fees for attending Board and Committee meetings.

The details of the remuneration paid during fiscal 2012 to Mr. Aditya Puri, Managing Director and Mr. Harish Engineer and Mr. Paresh Sukthankar, Executive Directors, are as follows:

Particulars	Aditya Puri	Harish Engineer	Paresh Sukthankar
	(Rs. in million, except stock options)		
Basic	17.3	9.0	9.0
Allowances and perquisites	11.9	7.7	7.8
Provident fund	2.1	1.1	1.1
Superannuation	2.6	1.3	1.3
Performance bonus	15.1	6.3	6.3
Number of stock options granted during the year	900,000	450,000	450,000

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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 2012 are as follows:

<b>Name of the Director</b>	<b>Sitting Fees (Rs.)</b>
Mr. C. M. Vasudev	620,000
Mr. Keki Mistry <sup>1</sup>	60,000
Mrs. Renu Karnad	520,000
Mr. Ashim Samanta	670,000
Dr. Pandit Palande	480,000
Mr. Partho Datta	500,000
Mr. Bobby Parikh	640,000
Mr. Anami N. Roy	330,000

<sup>1</sup> *Mr. Keki Mistry has been inducted as a Director with effect from January 19, 2012.*

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 according to the provisions of Section 217 (2A) of the Indian Companies Act, 1956. Section 219 (1) (iv) of the Indian Companies Act, 1956 provides that the Annexure need not be circulated to shareholders. Any shareholder wishing to obtain the details of remuneration may write to the Bank and obtain a copy of the Annexure to the Directors' Report.

We granted 2.0 million stock options to members of our senior management (other than our Managing Director and Executive Directors) during fiscal 2012.

Other than our Chairman, Managing Director and Executive Directors, none of our directors has a service contract with us.

**Table of Contents****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, 2012.

Name	Largest amount outstanding since March 31, 2011	Amount outstanding as of March 31, 2012	Interest rate as of March 31, 2012	Nature of Loan
	(Rs. in million, except percentages)			
Abhay Aima	6.62	6.48	10%	Housing Loan
Abhay Aima	0.56	0.56	5%	Personal Loan
Ashish Parthasarthy	6.71	6.63	10%	Housing Loan
Aditya Puri	5.00	5.00	10%	Housing Loan
Anil Nath	3.10	2.93	10%	Housing Loan
Anil Jaggia	20.00	20.00	10%	Housing Loan
Bhavesh Zaveri	0.39	0.23	5%	Personal Loan
G. Subramanian	2.41	2.08	10%	Housing Loan
Harish Engineer	2.30	2.30	10%	Housing Loan
Kaizad Bharucha	4.64	4.57	10%	Housing Loan
Navin Puri	4.26	4.10	10%	Housing Loan
Navin Puri	0.44	0.31	5%	Personal Loan
Pralay Mondal	6.60	6.50	10%	Housing Loan
Rahul Bhagat	7.37	7.22	10%	Housing Loan
Rajender Sehgal	4.08	3.95	10%	Housing Loan
Rajender Sehgal	0.48	0.38	5%	Personal Loan
Sashi Jagdishan	6.53	6.42	10%	Housing Loan
Sashi Jagdishan	0.60	0.59	5%	Personal Loan

**Employees Stock Options**

Our shareholders approved plan A-(year 2000) in January 2000, plan B-(year 2003) in June 2003, plan C-(year 2005) in June 2005, plan D-(year 2007) in June 2007 and plan E-(year 2010) in June 2010 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-018. Under plan A, the option price is set as the average of the daily closing prices on the Bombay Stock Exchange 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 and E, 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% and 50% 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% and 25% on each of the two successive anniversaries following the date of grant. All the above are subject to standard vesting conditions. In fiscal 2012, 20.6 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. 41.1 million and the share premium by Rs. 5,261.5 million. As of March 31, 2012, 99.8 million options convertible to equity shares of Rs. 2.0 each were outstanding. On acquisition of CBoP, all options granted to the employees of CBoP and outstanding as on the effective date were converted in the swap ratio of one option of HDFC Bank for every 29 options of CBoP. Correspondingly, the exercise price of the converted options was determined based on the exercise price originally stipulated by CBoP multiplied by 29. These options are exercisable within a period of 5 years from the date of vesting. Key options were granted at an exercise price, which was less than the then market price of the shares of CBoP. General options were granted at the market price. The market price was the latest available closing price, prior to the date of the meeting of the Compensation Committee of the Board of CBoP in which options were granted or shares issued, on the Indian stock exchanges on which CBoP was listed. As the shares of the CBoP were listed on more than one stock exchange, the closing price on the stock exchange where trading volume on said date was the highest was considered.





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### **Other Compensation**

All employees, including our Managing Director, Executive Directors 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 5 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 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 we and the employee contribute monthly at a determined rate (currently 12.0% of the employee's basic salary). Of this, the Bank contributes an amount (currently 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 we set up 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, 2012. 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, 2012, 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.

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Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2012. In conducting its assessment of internal control over financial reporting, management based its evaluation on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management has concluded that our internal control over financial reporting was effective as of March 31, 2012.

Our independent registered public accounting firm, Deloitte Haskins & Sells, 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, 2012.

### **Changes in Internal Controls**

There were no changes in our internal controls or in other factors that could materially, or are reasonably likely to materially affect, these controls during the period covered by this report.

**Table of Contents****Audit and Compliance 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 investor.helpdesk@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:

Type of Services	Fiscal Year Ended		Description of Services
	March 31, 2011	March 31, 2012	
	(in millions)		
Audit services	Rs. 33.5	Rs. 31.4	Audit of financial statements
Audit-related services			Services related to review of financial statements and due diligence
Tax services			Tax audit, tax returns, tax processing, tax filing and advisory services
Other services	0.6	0.9	Special audit/other advisory services
<b>Total</b>	<b>Rs. 34.1</b>	<b>Rs. 32.3</b>	

Our Audit and Compliance Committee charter requires us to receive the approval of our Audit and Compliance 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 and Compliance Committee.

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**Compliance with NYSE Listing Standards on Corporate Governance**

We are incorporated under the Indian Companies Act, 1956, and our equity shares are listed on the 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 Depository 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  
Board of Directors ( Board )**

An NYSE listed company needs to have a majority of independent directors. *[NYSE Listed Company Manual Section 303A.01]*

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]*

**Corporate Governance Rules as per Listing Agreements with Indian  
Stock Exchange(s)**

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.

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.

The definition of the term independent director is different and is set out in Clause 49 (I)(A)(iii) of the Listing Agreement.

***Executive Sessions***

Non-management directors need to meet at regularly scheduled executive sessions without management. *[NYSE Listed Company Manual Section 303A.03]*

There is no requirement for such sessions.

***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]*

An Indian stock exchange listed company may, but is not required to, have a nomination committee, and if it does, the committee need not be comprised entirely of independent directors.

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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]*

### ***Compensation Committee***

An NYSE listed company needs to have a compensation committee composed entirely of independent directors. *[NYSE Listed Company Manual Section 303A.05]*

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]*

### ***Audit Committee***

An NYSE listed company needs to have an audit committee with at least three members that satisfies 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]*

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]*

### ***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]*

If an Indian stock exchange listed company has a nomination committee, it is not required to have a charter for that committee. The performance evaluation of non-executive directors can be done by a peer group comprised of the entire board of directors, excluding the director being evaluated.

As per a non-mandatory Indian requirement, Indian stock exchange listed companies are encouraged to establish a compensation/remuneration committee to determine on behalf of the board and the shareholders the company's policy on specific remuneration packages for executive directors, including compensation and pension rights. To avoid conflicts of interest, it is a non-mandatory requirement that any compensation committee may consist of at least three non-executive directors. It is also a non-mandatory requirement that the chairman of any compensation committee may be an independent director.

Any compensation committee may, but is not required to, have a charter. The annual corporate governance report of an Indian stock exchange listed company generally provides details of remuneration, including brief details of the remuneration policy of the company and any compensation committee's agreed terms of reference.

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.

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.

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.



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***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, 1956 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.

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.

***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.



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**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 of Association, 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. 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).

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.

**Table of Contents****PRINCIPAL SHAREHOLDERS**

The following table contains information relating to the beneficial ownership of our equity shares as of March 31, 2012 by:

each person or group of affiliated persons known by us to beneficially own 5.0% or more of our equity shares; and

individual directors and their relatives as well as the senior management of the Bank.

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 HDFC Limited, a housing finance company in India. As of March 31, 2012, HDFC Limited, together with its subsidiaries, held an aggregate of 23.15% of our equity shares.

	Number of Shares	Percentage of Total Equity Shares Outstanding
HDFC group	543,216,100	23.15%
Life Insurance Corporation of India	142,236,554	6.06%
Directors and relatives	55,30,957	0.24%

The ADSs are represented by underlying equity shares. As on March 31, 2012, Indian equity shares numbering 393,784,146 represent the ADSs and constitute 16.78% of the Bank's capital. In our books only, the Depository, J.P. Morgan Chase Bank, 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, HDFC Limited agrees to provide us the right to buy back 70% of the home loans sourced and disbursed pursuant to services rendered by us. During fiscal 2012, we purchased AAA-rated home loans aggregating to Rs. 49,776.2 million from HDFC Limited under the above arrangement, some of which qualified as priority sector advances. We earned Rs. 838.7 million from HDFC Limited in fiscal 2012 as fees for selling these loans and other services rendered. An amount of Rs. 136.5 million was receivable from HDFC Limited as of March 31, 2012.

***Property***

We have facilities located on five properties owned or leased by HDFC Limited. In fiscal 2012, we paid an aggregate of Rs. 16.9 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, 2012, HDFC Limited held a deposit of Rs. 1.5 million that we have paid to secure these leased properties.

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### ***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, 2012 were Rs. 2,500.0 million and Rs. 107.3 million, respectively.

We paid a dividend of Rs. 1,297.6 million to HDFC Limited during fiscal 2012, as proposed in the previous fiscal year.

### **HDFC Standard Life Insurance Company Limited ( HDFC Standard Life )**

In fiscal 2012, we paid HDFC Standard Life Rs. 209.2 million as our contribution towards superannuation in respect of our employees. In the same period, we received fees and commissions from HDFC Standard Life aggregating Rs. 4,563.7 million for the sale of insurance policies and other services. As of March 31, 2012, commissions amounting to Rs. 581.1 million were receivable from HDFC Standard Life.

### **HDFC Asset Management Company Limited ( HDFC AMC )**

During fiscal 2012, we earned Rs. 524.1 million as fees from HDFC AMC for distribution of units of mutual funds and other services rendered. As of March 31, 2012, fees of Rs. 75.1 million were receivable from HDFC AMC.

### **HDFC Ergo General Insurance Company Limited ( HDFC Ergo ) (formerly HDFC Chubb General Insurance Company Limited)**

We paid Rs. 157.1 million to HDFC Ergo towards insurance premiums in fiscal 2012. During fiscal 2012, we received Rs. 1,104.4 million for the sale of insurance policies and other services rendered. As of March 31, 2012, an amount of Rs. 117.0 million was receivable from HDFC Ergo.

### **Salisbury Investments Private Limited ( Salisbury Investments )**

We have paid a security deposit of Rs. 35.0 million to Salisbury Investments and, in fiscal 2012, 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, 2012, the book value of our investment in the equity of IARCL was Rs. 311.7 million. We have an investment of Rs. 349.4 million in security receipts issued by IARCL as of March 31, 2012. During the year ended March 31, 2012, we received Rs. 2.8 million towards services rendered to IARCL. As of March 31, 2012, the outstanding balance of loans given to IARCL was Rs. 279.0 million.

**Table of Contents****Centillion Solutions and Services (P) Ltd. ( Centillion )**

Centillion was an associate of CBoP due to the latter's investment in Centillion, which we took over on our acquisition of CBoP. During fiscal 2012, we incurred expenses of Rs. 0.1 million towards payment of back-office processing services. We sold our entire stake in Centillion during fiscal 2012.

**Key Management Personnel and Their Relatives**

In fiscal 2012, we paid a total remuneration of Rs. 99.8 million to Mr. Aditya Puri, our managing director, Mr. Harish Engineer and Mr. Paresh Sukthankar, our executive directors. In the same fiscal year, we paid Rs. 3.0 million and Rs. 3.0 million to Mr. Harish Engineer and Mr. Paresh Sukthankar, respectively, as rent for their residential accommodation. As of March 31, 2012, the outstanding balances of the security deposits we had given to Mr. Harish Engineer, his relatives and Mr. Paresh Sukthankar were Rs. 7.2 million, Rs. 7.8 million and Rs. 15.0 million, respectively. As of March 31, 2012, the outstanding balances of the housing loans given to Mr. Aditya Puri and Mr. Harish Engineer were Rs. 5.0 million and Rs. 2.3 million, respectively. We also earned interest income amounting to Rs. 0.3 million on the above loans in fiscal 2012.

**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. 3.3	10.2%	31.2%
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 arms-length.

**Table of Contents****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 conversion of the ADSs. The summary is based on the provisions of Section 115AC and other applicable provisions of the Income Tax Act, 1961 (43 of 1961) (the Indian Income Tax Act ) and the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 promulgated by the government of India (the Depository 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 assets, 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 interest, dividends and capital gains is earned.*

**EACH INVESTOR IS ADVISED TO CONSULT HIS/HER TAX ADVISOR ABOUT THE PARTICULAR TAX CONSEQUENCES APPLICABLE ON INVESTMENTS 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 depository bank (the Depository ), as applicable and, in particular, the applicable provisions of the 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***

Upon withdrawal of equity shares from the depository facility, dividends paid to such non-resident holder are not presently taxable. However, we must pay a dividend distribution tax at the rate of 16.2225% (including 15.0% plus a surcharge of 5% of 15.0% and an add-on education cess at the rate of 3.0% of the total dividend distribution tax and surcharge) on the total amount distributed as dividend. In India, dividends are not taxable in the hands of the recipient.

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 shares are not subject to Indian tax.

***Taxation on Acquisition of ADSs or Equity Shares Received Upon Conversion or in Exchange for ADSs***

The acquisition by a non-resident holder of GDRs or of equity shares in exchange for ADSs does not constitute a taxable event for Indian income tax purposes. Such exchange may, however, give rise to stamp duty as described below under Stamp Duty .

***Taxation of Capital Gains in Relation to ADSs***

The Finance Act, 2012 has, with effect from April 1, 1962, treated the rights transfer which has derived its substantial share or interest from assets located in India as gains realized on the sale of such rights, as subject to Indian taxation. The capital gains realized on the sale of such rights will be subject to tax at variable rates with a maximum of 40.0% excluding the applicable surcharge at the rate of 2.5% and add-on tax at the rate of 3.0%, in case of a foreign company, and 30.0% excluding the applicable surcharge and add-on tax in case of resident individuals and non-resident individuals with taxable income over Rs. 0.25 million.

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### ***Taxation of Capital Gains in Relation to Equity Shares Received Upon Conversion or in Exchange for ADSs***

Capital gains realized by a non-resident investor on the transfer of the equity shares received upon conversion of the ADSs (whether in India or outside India to a non-resident investor) will be subject to income tax under the provisions of the Indian Income Tax Act.

Under the Indian Income Tax Act capital gains can be of two types, long-term capital gains or short-term capital gains. Normally, gains arising on sale of capital assets held for more than 36 months are considered long-term capital gains and gains arising on sale of capital assets held for less than 36 months are considered short-term capital gains. Tax on long-term and short-term capital gains, if payable, shall be paid by the transferor.

Effective October 1, 2004, any gain realized on the sale of listed equity shares held for more than 12 months to an Indian resident, or to a non-resident investor in India, will not be subject to Indian capital gains tax if the Securities Transaction Tax ( STT ) has been paid on the transaction.

Since June 1, 2006, as amended by the Finance Bill, 2012, in respect of a sale and purchase of equity shares entered into on a recognized stock exchange, (i) 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; and (ii) 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.

Any gain realized on the sale of equity shares to an Indian resident whether in India or outside India or to a non-resident in India for more than 12 months on which no STT has been paid will be subject to Indian capital gains tax at the rate of 20% plus applicable surcharge on income tax and add-on tax at the rate of 3% of the sale of shares. For the purpose of computing capital gains tax on the sale of the equity shares under the Section 115AC Regime, 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 Bombay Stock Exchange Limited or the National Stock Exchange as of the date on which the depository 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 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 Depository to its custodian.

Capital gain realized in respect of equity shares held (calculated in the manner set forth in the prior paragraph) for 12 months or less (short-term gain) on which STT is paid in the manner and rates set out above is subject to tax at the rate of 15% plus applicable surcharge on income tax and an add-on tax at the rate of 3%. In the event that no STT is paid, short-term gain is subject to tax at variable rates with a maximum rate of 40% plus applicable surcharge on income tax and add-on tax at the rate of 3%. The actual rate of tax on short-term gains depends on a number of factors, including the legal status of the non-resident holder and the type of income chargeable in India. The provisions 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. However, during the period of fiduciary ownership of equity shares in the hands of the Depository, the provisions of the Double Taxation Avoidance Agreement entered into by the government of India with the United States will be applicable in the matter of taxation of capital gains, if any, on ADSs.

### ***Tax Deduction at Source***

Tax on long-term and short-term capital gains is to be deducted at source by the person paying for equity shares, in accordance with the relevant provisions of the Indian Income Tax Act, depending upon the status of the person.

### ***Capital Losses***

Neither Section 115AC nor the Depository 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.





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### ***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 Depository in exchange for ADS representing such equity shares will not render an investor liable for Indian stamp duty but 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.

### ***Other Taxes***

At present, there is no wealth tax, gift tax or inheritance tax which may apply to the ADSs or the underlying shares.

### ***Service Tax***

Brokerage or commissions paid to stockbrokers in connection with the sale or purchase of shares listed on a recognized stock exchange in India are subject to a service tax of 12% (excluding an add-on tax at the rate of 3.0%) ad valorem. The stockbroker is responsible for collecting the service tax and paying it to the relevant authority.

### **United States Tax**

The following summary describes the material United States federal income tax consequences relating to an investment in our equity shares or ADSs as of the date hereof. This summary is based on the Internal Revenue Code of 1986, as amended (the 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. We will not seek a ruling from the Internal Revenue Service (IRS) with regard to the United States federal income tax treatment relating to investment in our equity shares or ADSs and, therefore, there can be no assurance that the IRS will agree with the conclusions set forth below.

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 holders who hold equity shares or ADSs 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 other financial institutions;

United States investors whose functional currency is not the United States dollar;

United States expatriates;

investors that hold our equity shares or ADSs as part of a hedge, straddle or conversion transaction;

holders that purchase or otherwise acquire equity shares or ADSs other than through this offering; 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 equity shares or ADSs, or the indirect consequences to holders of equity interests in entities that own our equity shares or ADSs. In addition, this summary does not address the state, local and foreign tax consequences of an investment in our equity shares or ADSs.

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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 equity shares or ADSs in your particular circumstances.

### ***Taxation of U.S. Holders***

You are a U.S. Holder if you are a beneficial owner of equity shares or ADSs and you are for United States federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation, or any other entity taxable as a corporation, 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 equity shares or ADSs 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 equity shares or ADSs, 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 equity shares or ADSs 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. However, the United States Treasury has expressed concerns that parties to whom depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADSs. Accordingly, the analysis of the creditability of Indian taxes paid with respect to the ADSs could be affected by future actions that may be taken by the United States Treasury.

### ***Distributions on Equity Shares or ADSs***

Cash distributions made by us to a U.S. Holder with respect to equity shares or ADSs (including amounts withheld in respect of any Indian withholding taxes) 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). If these dividends constitute qualified dividend income ( QDI ), individual U.S. Holders of our equity shares or ADSs will generally pay tax on such dividends received before 2013 at a maximum rate of 15.0%, provided certain holding period requirements and other conditions are satisfied. Assuming we are not a passive foreign investment company (as discussed below), or foreign investment company, 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 as to allow 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 will be treated first as a non-taxable return of capital reducing such U.S. Holder's tax basis in the equity shares or ADSs. 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 equity shares or ADSs for more than one year. Dividends paid by us generally will not be eligible for the dividends-received deduction available to certain United States corporate shareholders.

Cash distributions paid on the equity shares or ADSs will generally be treated as foreign source income. Subject to certain limitations, a U.S. Holder may be entitled to a credit or deduction against its U.S. federal income taxes for the amount of any Indian taxes that are withheld from cash distributions made to such U.S. Holder. The decision to claim either a credit or deduction must be made annually, and will apply to all foreign taxes paid by the U.S. Holder to any foreign country or U.S. possession with respect to the applicable tax year. The limitation on foreign

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taxes eligible for credit is calculated separately with respect to specific classes of income. Income received with respect to the equity shares or ADSs will generally be treated as passive category income for United States foreign tax credit limitation purposes. The rules regarding the availability of foreign tax credits are complex and U.S. Holders may be subject to various limitations on the amount of foreign tax credits that are available. We therefore urge you to consult your own tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

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The amount of any cash distribution paid in Indian rupees will equal the U.S. 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 held directly by such U.S. Holder), regardless of whether the payment is in fact converted to U.S. 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 U.S. 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 U.S. dollars. If the Indian rupees are not converted into U.S. 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 Equity Shares or ADSs*

A U.S. Holder will generally recognize capital gain or loss upon the sale, exchange or other disposition of the equity shares or ADSs measured by the difference between the U.S. dollar value of the amount received and the U.S. Holder's tax basis (determined in taxable U.S. dollars) in the equity shares or ADSs. Any gain or loss will be long-term capital gain or loss if the equity shares or ADSs 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. Your ability to deduct capital losses is subject to limitations. Under certain circumstances described under *Indian Tax Taxation of Capital Gains in Relation to ADSs* and *Indian Tax Taxation of Capital Gains in Relation to Equity Shares Received upon Conversion or in Exchange for ADSs*, you may be subject to Indian tax upon the disposition of equity shares or ADSs. In such circumstances and subject to applicable limitations (and the relief provided by an applicable income tax treaty), you may be able to credit the Indian tax against your 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 or ADSs, the amount realized will be based upon the United States dollar value of the foreign currency received with respect to such equity shares or ADSs as determined on the settlement date of such sale, exchange or other taxable disposition.

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 or ADSs, provided that the election is applied consistently from year to year. Such election cannot be changed without the consent of the 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 or ADSs.

### *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 passive foreign investment company (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, we do not believe that we are, nor do we expect to become, a PFIC for United States federal income tax purposes. However, the matter is not free from doubt. We urge you to consult your own tax advisor regarding the adverse tax consequences of owning the equity shares or ADSs of a PFIC and making certain elections designed to lessen those adverse consequences.

### *Information with Respect to Foreign Financial Assets*

Under recently enacted legislation, individuals, who are U.S. Holders that own specified foreign financial assets, including stock of a non-U.S. corporation owned directly, 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 U.S. Federal income tax returns. Penalties apply for failure to properly complete and file IRS Form 8938. U.S. Holders that are individuals are encouraged to consult their tax advisors regarding the application of this legislation to their ownership of our equity shares or ADSs.

### ***Taxation of Non-U.S. Holders***

#### *Distributions on Equity Shares or ADSs*

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 equity shares or ADSs, unless such income is considered effectively connected with the Non-U.S. Holder's conduct of a United States trade or

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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).

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*Sale or Exchange of Equity Shares or ADSs*

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 equity shares or ADSs 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).

***Backup Withholding and Information Reporting***

In general, dividends on equity shares or ADSs, and payments of the proceeds of a sale, exchange or other taxable disposition of equity shares or ADSs, 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 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.

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.

**Table of Contents****SUPERVISION AND REGULATION**

The main legislation governing commercial banks in India is the Banking Regulation Act 1949 ( 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, 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 has the ability 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 bank has adequate capital and earnings prospects; and iv) that public interest will be served if a license is granted to the bank. 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 is assisted by the Department of Banking Supervision, Department of Non-Banking Supervision and Financial Institutions Division of the RBI in supervising commercial banks, non-banking finance companies and financial institutions respectively. 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.

**Proposal for entry of new banks in the private sector**

On August 29, 2011, the RBI released draft guidelines for licensing of new banks in the private sector. The key items covered under these draft guidelines are as follows: 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 model. The RBI has called for wider comments and feedback from relevant stakeholders and the public. Final guidelines will be issued and the process of inviting applications for setting up new banks will be initiated after the RBI has received feedback, comments and suggestions on the draft guidelines, and after certain amendments to the Banking Regulation Act are in place.

**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. On May 4, 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 aims to serve 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 are 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 has called for wider comments and feedback from relevant stakeholders and the public. Guidelines will be issued after RBI has received feedback, comments and suggestions on the report of the Working Group.

**Regulations Relating to the Opening of Branches**

Section 23 of the Banking Regulation Act provides that banks must obtain the prior approval of the RBI to open new branches. Permission is granted based on factors such as the financial condition and history of the bank, its management, adequacy of capital structure and earning prospects and the public interest. The RBI may cancel a license for violations of the conditions under which it was granted.

The RBI issued a master circular on July 1, 2009 incorporating the instructions and guidelines issued to banks on branch authorization. Pursuant to the master circular, the process by which the RBI authorized the opening of individual branches on a case-by-case basis was replaced by a system of aggregated approvals on an annual basis. The RBI discusses with individual banks their branch expansion strategies and plans over the



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medium term. The term "branch" for this purpose has been defined to also include extension counters, offsite ATMs, administrative offices, credit card centers, controlling offices and back offices. The RBI also permits scheduled commercial banks to install off-site ATMs at centers/places identified by them, without having the need to get permission from the RBI in each case. This would, however, be subject to any direction which the RBI may issue, including for closure/shifting of any such off-site ATMs, wherever considered 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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While processing authorization requests, the RBI gives importance to the nature and scope of banking services, particularly in under-banked areas, actual credit flow to priority sectors, pricing of products, overall efforts to promote financial inclusion, the need to induce enhanced competition in the banking sector, the bank's regulatory compliance, quality of corporate governance, risk management and relationships with subsidiaries and affiliates.

Under the existing branch licensing policy, the RBI has given a general permission to scheduled commercial banks (other than regional rural banks) to open branches in locations having a population lower than 100,000 and, in the case of the north eastern states of India, including the state of Sikkim, without having the need to obtain prior approvals. Banks are directed to report full details of the branches opened in terms of the above general permission. The RBI gives permission to open a branch in a location having a population of more than 100,000 for each branch opened in a location having a population lower than 100,000 in an under banked district in an under banked state.

### **Capital Adequacy Requirements**

The RBI issued guidelines for the implementation of the New Capital Adequacy Framework (Basel II). In order to maintain consistency and harmony with international standards, banks were advised to adopt the Standardized Approach for Credit Risk and Basic Indicator Approach for Operational Risk with effect for us from March 31, 2009.

Under these guidelines, we are 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. We are also required to ensure that our Basel II minimum capital requirement continues 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.

The capital funds of a bank are classified into Tier I and Tier II capital. Tier I capital provides the most permanent and readily available support against unexpected losses. It is comprised of paid-up capital and reserves consisting of any statutory reserves, free reserves and capital reserves, innovative perpetual debt instruments eligible for inclusion as Tier I capital (not exceeding 15.0% of Tier I capital), perpetual non-cumulative preference shares (including innovative Tier I instruments not exceeding 40.0% of Tier I capital) as reduced by equity investments in financial subsidiaries, intangible assets, deferred tax assets, gaps in provisioning and losses in the current period and those brought forward from the previous period (subject to the provisions of the RBI master circular dated July 1, 2011 on Prudential Guidelines on Capital Adequacy and Market Discipline- New Capital Adequacy Framework). The RBI has permitted banks to issue perpetual debt with a call option after not less than ten years, to be exercised with its prior approval for inclusion in Tier I capital up to a maximum of 15.0% of total Tier I capital as on March 31 of the previous financial year. In July 2006, the RBI issued guidelines permitting the issuance of Tier I debt instruments denominated in foreign currencies without its prior approval, subject to compliance with certain requirements.

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 risk weighted assets), hybrid debt capital instruments (which combine features of both equity and debt securities) such as cumulative perpetual preference shares (which should be fully paid up and should not contain clauses that permit redemption by the holder), subordinated debt with an initial maturity of not less than five years and innovative perpetual debt instruments (in excess of 15.0% of Tier I capital). Any subordinated debt is subject to progressive discounts each year for inclusion in Tier II capital and total subordinated debt considered as Tier II capital cannot exceed 50% of Tier I capital. Banks are also permitted to issue debt instruments with a minimum maturity of 15 years and a call option after not less than 10 years, to be exercised with the prior approval of the RBI, for inclusion in Tier II capital as upper Tier II debt. Tier II debt instruments may be denominated in foreign currencies subject to limits prescribed by the RBI.

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.



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The risk weight for residential mortgage loans of less than Rs. 3 million with loan-to-value ratios of up to 75.0% is 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 up to 75.0% is 75.0%. For mortgage loans below Rs. 7.5 million with loan-to-values greater than 75.0% the risk weight is 100.0%. The risk weight of residential mortgage loans of Rs.7.5 million and above, irrespective of the loan to value ratio, is 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.

A capital charge for operational risk equal to the average of 15.0% of the sum of a bank's annual gross income (excluding extraordinary income) for the previous three years, where positive, has been prescribed.

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 positions in bullion, open foreign exchange position limits, trading positions in derivatives and derivatives entered into for hedging trading book exposures.

Banks may migrate to the advanced approaches for capital computation under Basel II in respect of credit risk, market risk and operational risk subject to obtaining the RBI's prior approval.

### **Guidelines on implementation of Basel III Capital Regulations in India**

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. On May 2, 2012, the RBI released guidelines on implementation of Basel III capital regulations in India. The key items covered under these guidelines are as follows: 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; v) supplementing the risk-based capital requirement with a leverage ratio. One of the major changes proposed by the Basel III capital regulations is that the Tier 1 capital will predominantly consist of common equity of the banks which inter alia 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 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. 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, at the option of the RBI, write off such instruments or convert them into common equity. The transitional arrangements will begin from January 1, 2013 and the guidelines will be fully phased-in and implemented as of March 31, 2018. For the fiscal year ending on March 31, 2013, banks will have to disclose capital ratios under the existing Basel II guidelines on capital adequacy as well as those computed under the Basel III capital adequacy framework.

### **Loan Loss Provisions and Non-Performing Assets**

In April 1992, the RBI issued formal 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 US GAAP, loan loss provision is made in accordance with ASC 310 and as described under 'Management's Discussion and Analysis' and under note 2i, 'Allowances for credit loss', 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 once 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 remains overdue (as defined below) for a period of more than 90 days in respect of a term loan;

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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;

in the case of a loan granted for short duration crops, the installments of principal or interest thereon remain overdue for two crop seasons;

in the case of a loan granted for long duration crops, the installments of principal or interest thereon remain overdue for one crop season;

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 issued on 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 on 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 .

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### ***Asset Classification***

Banks are required to classify NPAs into the following three categories:

*Sub-standard Assets:* Assets that are non-performing for a period not exceeding 12 months. In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of dues to the banks in full. 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 continuously for 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 guidelines for projects under implementation which will apply before the commencement of 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.

### ***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.



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### ***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. These provisioning requirements are in the range of 0.25% to 2.00% on the outstanding loans and are based on the type of exposure. Provisions for housing loans at teaser rates would be 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.

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.

#### *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, attract an additional provision of 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 and 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. The value assigned to the collateral securing a loan is the realizable value determined by third party appraisers. 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 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). The standards state that floating provisions can be utilized only for contingencies under extraordinary circumstances for making specific provisions in impaired accounts after obtaining approval from the bank s board of directors and with the prior permission of the RBI. Floating provisions must be held separately



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and cannot be reversed by credit to the profit and loss account. 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 total risk-weighted assets. We have elected to treat floating provisions as part of Tier II capital. Further, floating provisions would not include specific voluntary provisions made by banks for advances at rates which are higher than the stipulated rates and consistently adopted from year to year.

### *Prudential Coverage Ratio*

With a view to ensuring counter-cyclical provisioning in the banking system, the RBI has 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%.

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### **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 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. These assets are to be sold on a non-recourse basis only. A bank may sell a standard asset only if (i) the borrower has a consortium or multiple banking arrangement; (ii) at least 75.0% by value of the total loans to the borrower are 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. The banks selling financial assets must ensure that there is no known liability devolving on 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 NPFAs among banks, financial institutions and non-banking finance companies. In terms of these guidelines, banks' boards are required to lay down 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.

### **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 issued new guidelines for the securitization of standard assets. 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 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 laid down to ensure that the originator exercises due diligence with regard to the securitized assets. The guidelines also lay down the upper limit on the total retained exposure of the originator, the disclosures to be made by the originators, applicability of capital adequacy, asset classification and provisioning norms to these transactions etc. The norms also stipulate stress testing and extensive monitoring requirements on the purchased portfolios. Transactions which do not meet the requirements laid down by the guidelines will be assigned very high risk weights under capital adequacy norms. For points not covered in the new guidelines, the February 2006

stipulations continue to apply.

**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.

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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 25 of the Companies Act 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 had 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 will be 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 laid down in the RBI Master Circular on Lending to Priority Sector dated July 1, 2011. The priority sector is broadly comprised of agriculture, micro and small enterprises ( MSEs ), including retail trade, micro credit, education and housing, 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 priority sector lending targets (40.0% and 32.0% for domestic and foreign banks, respectively) are linked to the adjusted net bank credit ( ANBC ) or the credit equivalent amount of off-balance sheet exposures, whichever is higher, as on March 31 of the previous year.

Of the total priority sector advances, agricultural advances are required to be 18.0% of ANBC. Indirect lending in excess of 4.5% of ANBC or the credit equivalent amount of off-balance sheet exposures, whichever is higher, will not be reckoned for computing performance under the 18.0% target. However, all agricultural advances under the categories direct and indirect will be reckoned in computing performance under the overall priority sector target. The guidelines have capped eligible direct agriculture finance to non-individuals (i.e. partnership firms, corporate and institutions) at Rs. 10 million per borrower. One third of loans in excess of Rs. 10 million per borrower would also be considered as direct finance while the remaining two thirds would constitute indirect finance. Advances to weaker sections are required to be 10.0% of ANBC and 1.0% of ANBC is required to be lent under the Differential Rate of Interest Scheme. Loans up to Rs. 2.5 million per borrower under housing finance, excluding loans granted by banks to their own employees, are to be treated as part of priority sector lending. In addition, fresh investments made by banks with the National Bank for Agriculture and Rural Development ( NABARD ) in lieu of non-achievement of priority sector lending targets are no longer eligible to be considered as indirect finance subsequent to the fiscal year 2007. The investments that existed as of March 31, 2007 were eligible for classification as indirect agriculture finance until March 31, 2010 or the date of maturity, whichever was earlier.

Domestic scheduled commercial banks having a shortfall in lending to priority sector 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 fixed 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.

In August 2011, RBI formed a committee to re-examine the existing classification and suggest revised guidelines in relation to priority sector lending. The committee submitted its report to the RBI in February 2012. The RBI, having reviewed the recommendations of this committee and feedback from relevant stakeholders, issued revised guidelines on priority sector lending classification and targets in July 2012. As per the revised guidelines, priority sectors are defined to include those sectors of the economy which, if not designated as priority sectors,

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may not get timely and adequate credit. Typically these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections. The overall target under priority sector is retained at 40% of ANBC or the credit equivalent amount of off-balance sheet exposures, whichever is higher. The targets under both direct and indirect agriculture are retained at 13.5% and 4.5% respectively while refocusing the direct agricultural lending by banks to individuals, self-help groups ( SHGs ) and joint liability groups ( JLGs ). The guidelines also focus on direct lending by banks against on-lending through intermediaries, such as Non-banking financial companies and housing finance companies. Investments by banks in securitized assets and outright purchases of loans will be eligible for classification under priority sector only if prescribed criteria are fulfilled. 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 5 years starting April 1, 2013. The revised guidelines are operational with immediate effect. The priority sector loans sanctioned under the previous guidelines will continue to be classified under priority sector till maturity / renewal.

### *Export Credit*

The RBI also requires banks to make loans to exporters at concessional rates of interest. This enables exporters to have access to internationally competitive financing options. Banks have been advised to reach a level of outstanding export credit equivalent to 12.0% of their adjusted net bank credit. We provide export credit for pre-shipment and post-shipment requirements of exporters in Rupees as well as foreign currencies. The export credit category of directed lending forms part of the priority sector lending for foreign banks only. 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.

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### ***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 ).

The RBI limits exposure to individual borrowers to not more than 15.0% of the capital funds of the bank and limits exposure to a borrower group to not more than 40.0% of the capital funds of the bank. The capital funds for this purpose are comprised of Tier I and Tier II capital, as defined under the capital adequacy standards. 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 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 ( AFC ) must not exceed 10.0% or 15.0%, respectively, of the bank's capital funds as per its last audited balance sheet. Banks 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. Exposure of a bank to infrastructure finance companies ( IFC ) should not exceed 15.0% of its capital funds as per its last audited balance sheet, 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 is the aggregate of:

- 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 on 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 venture capital funds ( 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;

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. However, with effect from April 16, 2008, banks may 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, collaterals 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 investment. Banks are not permitted to finance acquisitions by companies in India.

### **Regulations Relating to Investments**

#### ***Exposure Limits***

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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. 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 attract a 100.0% risk weight for credit risk for capital adequacy purposes.

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 prescribed disclosure requirements for listed companies as prescribed by the Securities and Exchange Board of India ( 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 SARFEASI 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.

In July 2011, the RBI issued guidelines in relation to investments by banks in liquid or short-term debt schemes of mutual funds. These guidelines prescribe that 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.



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### ***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.

### ***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. For disclosure in the balance sheet the investments are further classified into six groups - government securities, other approved securities, shares, debentures and bonds, investments in subsidiaries and joint ventures and other investments.

Held to maturity ( HTM ) investments compulsorily include recapitalization bonds received from the Government, investments in subsidiaries and joint ventures and investments in long-term bonds (with a minimum residual maturity of seven years) issued by companies engaged in infrastructure activities. The minimum residual maturity of seven years must be 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. Effective September 2004, the RBI has permitted banks to exceed the limit of 25.0% of investments for the held to maturity category provided the excess comprises only statutory liquidity ratio investments and the aggregate of such investments in the held to maturity category does not exceed 25.0% of the prescribed demand and time liabilities. The RBI had permitted banks to transfer additional securities to the held to maturity category as a one-time measure during fiscal year 2005, in addition to the transfer permitted under the earlier guidelines. The transfer was to be done at the lower of acquisition cost, book value or market value on the date of transfer.

Profit on the sale of investments in the held to maturity category is appropriated to the capital reserve account after being taken in the income statement. Loss on any sale is recognized in the income statement.

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Investments under the held for trading category must be sold within 90 days; in the event of an inability to sell due to adverse factors including tight liquidity, extreme volatility or a unidirectional movement in the market, the unsold securities must be shifted to the available for sale category, at acquisition cost/book value/market value on the date of transfer whichever is the least.

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 may be done 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 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, or the Asset Liability Management Committee or the Investment Committee.

Held to maturity securities are not marked to market and are carried at acquisition cost. However, in the case of securities acquired at a premium, the amortization is provided separately.

Available for sale and held for trading securities are valued at market or fair value as at the balance sheet date. Depreciation or appreciation for each basket within the available for sale and held for trading categories is aggregated. Net appreciation in each basket, if any, which is not realized, is ignored, whilst net depreciation is provided for.

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.

### ***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.

### **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. Further, banks must pay interest of 4.0% per annum (upped from 3.5% effective May 2011) 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 by the RBI to pay an additional interest of 1.0% over the interest payable on deposits from the public. From April 1, 2010, payment of interest is calculated on a daily average 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. Effective October 25, 2011, the RBI permitted banks the flexibility 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.0.1million, irrespective of the amount in the account within this limit; and

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for 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.

Effective December 16, 2011, the RBI also permitted banks the flexibility to offer varying rates of interest on NRE and NRO deposit accounts.

Domestic time deposits and non-resident ordinary ( NRO ) accounts have a minimum maturity of seven days. Non-resident rupee ( NRE ) accounts have a minimum maturity of one year. Time deposits from non-resident Indians denominated in foreign currency have a minimum maturity of one year and a maximum maturity of five years.

The RBI has permitted banks the flexibility to offer varying rates of interest on domestic time deposits of the same maturity subject to the following conditions:

time deposits are of Rs. 1.5 million 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.

To achieve greater financial inclusion, banks have been advised by the RBI to make available a basic banking no frills account either with no or very low minimum balances and charges that would make such accounts accessible to vast sections of the population.

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### **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.

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 issued on July 2, 2012.

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The PML Act and the rules made thereunder stipulate that banking companies, financial institutions and intermediaries (together, the Institutions ) shall maintain a comprehensive record of all their transactions, including the nature and value of such 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 transactions involving receipts by non-profit organizations of values greater than Rs. 1 million or an equivalent in foreign currency;
- (d) 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
- (e) all other suspicious transactions.

**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:

- i. 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;
- ii. credit balances in Asian Clearing Union (US \$) Accounts;
- iii. inter-bank term deposits or term borrowing liabilities of original maturities of 15 days and above and up to one year in liabilities to the banking system . Similarly banks should exclude their inter-bank assets of term deposits and term lending or original maturity of 15 days and above and up to one year in assets with the banking system for the purpose of maintenance of

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CRR. The interest accrued on these deposits are also exempted from reserve requirements; and

iv. demand and time liabilities in respect of the banks Offshore Banking Units.

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 was 4.75% as of March 31, 2012.

### ***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 at 24.0% as of March 31, 2012. 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.

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### **Regulations on Asset Liability Management**

Since 1999, the Reserve Bank of India (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, up to one year, 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 dated November 4, 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.

### **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 required to enroll 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.

### **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 banks in India (including overdraft balances in nostro accounts not adjusted within five days) should not exceed 50.0% 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 20.0% of the profits of each year before any dividend is declared. If there is an appropriation from the reserve funds or share premium account, the bank is required to report the same to the RBI within 21 days, explaining the circumstances leading to such appropriation. 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 fiscal 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;



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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.

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 can issue only ordinary shares. The Banking Regulations Act specifies that no shareholder in a banking company can exercise voting rights in a poll in excess of 10.0% of total voting rights of all the shareholders of the banking company. Legislation introduced in the Indian parliament proposes to amend the Banking Regulation Act to increase the limit of 10.0% on the maximum voting power exercisable by a shareholder in a banking company to 26.0% and allow banks to issue preference shares.

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### ***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 set right 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;

the unaudited operating results for each quarter;

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 portfolio, risk management systems, internal controls, credit allocation and regulatory compliance, at intervals ranging from one to three years. We are subject 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.

### ***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 above 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.

We paid a penalty of Rs. 1.5 million during fiscal year 2012. The RBI had issued a show cause notice in October 2010 to us for having contravened the guidelines issued by the RBI and provisions of Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulation 2000 in respect of derivative deals done by us, as observed in the RBI's annual financial inspection with respect to our financial position as at and for the fiscal years ended March 31, 2007 and March 31, 2008. Subsequently, vide our letter dated October 19, 2010, we submitted our response to the RBI explaining our position and clarifying that we were in compliance with the RBI guidelines. While RBI

accepted some of our submissions, few other submissions made in the matter were not accepted and the RBI imposed a penalty of Rs. 1.5 million for non-compliance of the RBI's directions and instructions in terms of section 47A(1)(b) read with section 46(4) of the Banking Regulation Act, 1949, which we paid in fiscal 2012.

**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.

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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 AMC's 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.

### **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.

The RBI had issued guidelines relating to salary and other remuneration payable to the chairmen, managing directors and full-time directors of new private sector banks. Pursuant to the guidelines, the RBI has permitted banks to fix the performance bonus payable to the managing director/whole time directors on either of two criteria:

up to a maximum of 25% of the salary; or

the average bonus paid to officers and employees. The average bonus paid to officers and employees is calculated by dividing the total salary bill by the total bonus paid to them.

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 requiring banks to take 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, guaranteed pay, severance package, stock, pension plan, and gratuity and is required to be implemented effective fiscal 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**

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 its 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, depository participant, and investment banking, and since 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 in the Bank from all sources (including from FIIs) may not exceed 74.0% of our paid-up equity share capital. Shares held by FIIs under portfolio investment schemes through stock exchanges may not exceed 49.0% 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.

**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: (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.

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### **Special Status of Banks in India**

The special status of banks is recognized under various statutes including the Sick Industrial Companies Act, 1985, Recovery of Debts Due to Banks and Financial Institutions Act, 1993 and the SARFAESI Act. As a bank, we are entitled to certain benefits under the above 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 this Act, the procedures for recovery of debt have been simplified and indicative time frames been fixed for speedy disposal of cases. Upon establishment of the Debt Recovery Tribunal, 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 Sick Industrial Companies Act, 1985, provides for reference of sick industrial companies, to the BIFR. Under the Act, 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 Sick Industrial Companies Act, 1985 has been repealed by the Sick Industrial Companies (Special Provisions) Repeal Act, 2004 (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 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 Bureaus**

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.

### **Regulations governing international branches and representative offices**

We have overseas banking branches in Bahrain and Hong Kong and one representative office each in Dubai-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.

Our representative office in Dubai, UAE is regulated by the Central Bank of UAE and our representative office in Nairobi, Kenya is regulated by the Central Bank of Kenya.

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**Table of Contents****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, by circular dated March 18, 2004 issued by the RBI and more recently by circular dated September 26, 2007 issued by the RBI, persons resident in India are now permitted to remit up to US\$ 200,000 for any permissible current or capital account transaction or a combination of both.

**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, under the recent amendments to Indian regulations, no approval of the RBI is 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.

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.

**Two-Way Fungibility of ADRs**

The RBI permits the re-conversion of shares of Indian companies into ADRs, subject to the following conditions:

the Indian company has issued ADRs;

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 ADRs;

shares are purchased on a recognized stock exchange;

the shares are purchased with the permission of the custodian of the ADRs of the Indian company and are deposited with the custodian;

the number of shares so purchased does not exceed the ADRs converted into underlying shares, and are in compliance with the sectoral caps applicable under the Foreign Direct Investment regime; and

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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.



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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 ADRs 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 ADR 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 depository facility in exchange for ADSs and the depository 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 ADR 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 depository 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 Foreign Exchange Management Act. The Foreign Exchange Management Act, when read together with a series of 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.

The RBI has issued a notification under the provisions of the Foreign Exchange Management Act relaxing the requirement of prior approval for an Indian company making an ADS issue, provided that the issuer is eligible to issue ADSs pursuant to the relevant scheme or notification issued by the Ministry of Finance or has the necessary approval from the Ministry of Finance.

Under the 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. Foreign Direct Investment ( FDI ) means investment by a non-resident entity/person resident outside India in the equity shares/compulsorily convertible preference shares/ compulsorily convertible debentures of an Indian company under Schedule 1 of the FEM (Transfer or Issue of Security by a Person Outside India) Regulations, 2000. FIPB approval is required for investment in some sectors, including petroleum, defense, public sector banks and asset reconstruction companies. Also, the following investments would require the prior permission of the FIPB:

investments, including a transfer of shares, in excess of specified sectoral caps;

transfer of control and / or ownership pursuant to 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;

investment of more than 24.0% in the equity capital of units manufacturing items reserved for small scale industries;

investments by an unincorporated entity; and

investment by swap of shares.

A person residing outside India (other than a citizen of Pakistan) or any entity incorporated outside India (other than an entity incorporated in Pakistan) 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 any entity incorporated in Bangladesh may, with the prior approval of the Government, purchase shares, convertible debentures or preference shares of an Indian company subject to the prescribed terms and conditions.

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Subject to certain exceptions, 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.

Under the foreign investment rules, the following restrictions are applicable to foreign ownership:

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% requires prior approval of the FIPB. It includes FDI, ADSs, Global Depository Receipts and investments under the portfolio investment scheme by foreign institutional investors 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.

Under the Issue of Foreign Currency Convertible Bonds and Equity Shares (through Depository Receipt Mechanism) Scheme, 1993, foreign investors may purchase ADSs subject to the receipt of all necessary government approvals at the time the depository receipt program is set up. With a view to liberalizing the operational procedures, the Government of India's Ministry of Finance and the RBI have granted a general approval to ADS issues, subject to certain restrictions. However, price of offering is determined by the lead manager of the offering. The issue of ADSs must be made at a price that is not lower than the average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the two weeks preceding the relevant date. The relevant date is the date of the meeting in which the board of the company or the committee of directors duly authorized by the board of the company decides to open the proposed issue. This pricing requirement will be dispensed with if the ADSs are offered simultaneously with or within 30 days of a domestic offering of equity shares and if the ADSs are priced at or above the price of the domestic offering. Companies contemplating such a simultaneous or immediately follow-on offering must obtain prior approval of SEBI and must make the follow-on offering within 30 days.

Under the portfolio investment scheme, foreign institutional investors, subject to registration with SEBI and the RBI, may hold in aggregate up to 24.0% of the paid-up equity capital of a company (including a private sector banking company). Subject to a resolution of the board of directors, a special resolution of the shareholders and prior approval of the RBI, this limit may be raised to 49.0% of the total issued capital of a private sector banking company; no single foreign institutional investor may own more than 10.0% of the total issued capital of the company; a corporate or individual sub-account of the foreign institutional investor may not hold more than 5.0% of the total issued capital of a company; a broad-based sub-account may not hold more than 10.0% of the total issued capital of a company. No single Non-Resident Indian may own more than 5.0% of the total issued capital of the company and 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. In addition, overseas corporate bodies 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.

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SEBI, through the SEBI (Foreign Institutional Investors) (Amendment) Regulations, 2008, which amended the Foreign Institutional Investors Regulations 1995, has provided that a foreign institutional investor ( FII ) may issue, deal in or hold offshore derivative instruments such as participatory notes, equity-linked notes or any other similar instruments against underlying securities, listed or proposed to be listed on any stock exchange in India, only in favor of those entities that are regulated by any regulatory authority in the countries of their incorporation or establishment, subject to compliance with the know your client requirement. The FII is also required to ensure that no further issue or transfer of any off-shore derivative instrument is made to any person other than a regulated entity. Sub-accounts cannot issue offshore derivative instruments. Also, SEBI, has broadened the scope of who can apply in order to be granted a registration and the criteria that would be followed and has stated that a foreign institutional investor shall be responsible and liable for all acts of commission and omission of all its sub-accounts and other deeds and things done by such sub-accounts in their capacity as sub-accounts under these regulations.

Investors in ADSs do not need to seek the specific approval from the government of India to purchase, hold or dispose of their ADSs. In our ADS offering, we obtained the in-principle approval of the relevant stock exchanges for listing of the equity shares underlying the ADSs. We were not required to obtain the prior approval of the FIPB or the RBI. 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 noted above and may be subject to the portfolio investment restrictions, including the portfolio investment limitations mentioned above. Secondary purchases of securities of Indian companies in India by foreign direct investors or investments by Non-Resident Indians, persons of Indian origin, overseas corporate bodies and foreign institutional investors above the FDI ownership levels set forth above require the government of India's approval on a case-by-case basis. Furthermore, if an investor withdraws equity shares from the ADS program and its direct or indirect holding in us is equal to or exceeds 25.0% of our total equity, such investor may be required to make a public offer to the remaining shareholders under the Takeover Code.

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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](http://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, 2012. 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. Based on those criteria and our assessment we believe that, as of March 31, 2012, the Bank's internal control over financial reporting was effective.

The Bank's independent public accountant, Deloitte Haskins & Sells, has issued an audit report on the Bank's internal control over financial reporting.

**HDFC BANK LIMITED**

**HDFC Bank House,**

**Senapati BapatMarg,**

**Lower Parel,**

**Mumbai 400 013, India.**

**July 27, 2012**

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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 Internal Control over Financial Reporting of HDFC Bank Limited and its subsidiaries (the Bank) as of March 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Bank'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 Item 15 under Controls and Procedures of the accompanying Form 20-F titled Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Bank'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, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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 by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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 Bank maintained, in all material respects, effective internal control over financial reporting as of March 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2012 of the Bank and our report dated July 27, 2012 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Haskins & Sells

Chartered Accountants

Mumbai, India

July 27, 2012





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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 sheets of HDFC Bank Limited and its subsidiaries (the Bank ) as of March 31, 2011 and 2012, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three year period ended March 31, 2012. 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, 2011 and 2012, and the results of their operations and their cash flows for each of the years in the three year period ended March 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bank's internal control over financial reporting as of March 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 27, 2012 expressed an unqualified opinion on the Bank's internal control over financial reporting.

Our audit for the year ended and as of March 31, 2012, also comprehended the translation of Indian Rupee amounts into United States dollar amounts and in our opinion, such translation has been made in conformity with the basis stated in Note 2(y). The translation of the consolidated financial statement amounts into United States dollars have been made solely for the convenience of the readers.

/s/ Deloitte Haskins & Sells

Chartered Accountants

Mumbai, India

July 27, 2012

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	2011	As of March 31, 2012	2012
	(In millions, except number of shares)		
<b>ASSETS:</b>			
Cash and cash equivalents	Rs. 288,902.1	Rs. 188,043.0	US\$ 3,695.1
Term placements	102,049.4	150,096.5	2,949.4
Investments held for trading, at fair value	38,216.9	77,043.4	1,513.9
Investments available for sale, at fair value (includes restricted investments of Rs. 535,694.2 and Rs. 544,169.2 (US\$ 10,693.1), respectively)	628,704.9	807,080.4	15,859.3
Securities purchased under agreements to resell		20,868.3	410.1
Loans (net of allowance of Rs. 25,894.3 and Rs. 27,906.9 (US\$ 548.4), respectively)	1,622,856.0	2,006,374.3	39,425.7
Accrued interest receivable	19,752.6	26,645.5	523.6
Property and equipment, net	22,881.2	24,960.9	490.5
Intangible assets, net	6,402.9	4,074.0	80.1
Goodwill	74,937.9	74,937.9	1,472.5
Other assets	115,532.4	191,031.5	3,753.9
<b>Total assets</b>	<b>Rs. 2,920,236.3</b>	<b>Rs. 3,571,155.7</b>	<b>US\$ 70,174.1</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>			
<b>Liabilities:</b>			
Interest-bearing deposits	Rs. 1,619,283.6	Rs. 2,012,057.9	US\$ 39,537.4
Non-interest-bearing deposits	462,845.4	452,991.7	8,901.4
<b>Total deposits</b>	<b>2,082,129.0</b>	<b>2,465,049.6</b>	<b>48,438.8</b>
Securities sold under repurchase agreements	60,000.0	70,000.0	1,375.5
Short-term borrowings	76,686.7	112,642.8	2,213.5
Accrued interest payable	27,746.0	51,935.9	1,020.6
Long-term debt	93,287.2	178,366.6	3,504.9
Accrued expenses and other liabilities	232,557.6	296,568.1	5,827.6
<b>Total liabilities</b>	<b>Rs. 2,572,406.5</b>	<b>Rs. 3,174,563.0</b>	<b>US\$ 62,380.9</b>
<b>Commitments and contingencies (see note 27)</b>			
<b>Shareholders equity:</b>			
Equity shares: par value Rs. 2.0 each; authorized 2,750,000,000 shares; issued and outstanding 2,326,128,420 shares and 2,346,688,270 shares, as of March 31, 2011 and March 31, 2012, respectively (see note 1)	Rs. 4,652.2	Rs. 4,693.4	US\$ 92.2
Additional paid-in capital	235,377.9	244,564.7	4,805.8
Retained earnings	71,946.1	99,761.6	1,960.4
Statutory reserve	40,228.0	53,248.3	1,046.3
Accumulated other comprehensive income (loss)	(5,712.5)	(7,212.8)	(141.7)
<b>Total HDFC Bank Limited shareholders equity</b>	<b>346,491.7</b>	<b>395,055.2</b>	<b>7,763.0</b>
Noncontrolling interest in subsidiaries	1,338.1	1,537.5	30.2

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Total shareholders equity	347,829.8	396,592.7	7,793.2
Total liabilities and shareholders equity	Rs. 2,920,236.3	Rs. 3,571,155.7	US\$ 70,174.1

See accompanying notes to consolidated financial statements

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**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

	2010	Fiscal years ended March 31,		2012
		2011	2012	2012
		(In millions, except share and per share amounts)		
<b>Interest and dividend revenue:</b>				
Loans	Rs. 118,364.5	Rs. 153,719.7	Rs. 210,315.7	US\$ 4,132.8
Trading securities	4,445.2	3,013.8	4,056.2	79.7
Available for sale securities	33,304.6	40,739.8	56,621.0	1,112.6
Other	2,537.0	4,778.7	6,547.1	128.6
<b>Total interest and dividend revenue</b>	<b>158,651.3</b>	<b>202,252.0</b>	<b>277,540.0</b>	<b>5,453.7</b>
<b>Interest expense:</b>				
Deposits	69,854.0	80,216.3	126,783.1	2,491.3
Short-term borrowings	1,420.4	5,357.1	12,233.8	240.4
Long-term debt	6,052.6	8,224.9	11,988.5	235.6
Other	393.0	51.4	142.6	2.8
<b>Total interest expense</b>	<b>77,720.0</b>	<b>93,849.7</b>	<b>151,148.0</b>	<b>2,970.1</b>
<b>Net interest revenue</b>	<b>80,931.3</b>	<b>108,402.3</b>	<b>126,392.0</b>	<b>2,483.6</b>
<b>Provision for credit losses</b>	<b>18,193.9</b>	<b>9,621.9</b>	<b>7,837.3</b>	<b>154.0</b>
<b>Net interest revenue after provision for credit losses</b>	<b>62,737.4</b>	<b>98,780.4</b>	<b>118,554.7</b>	<b>2,329.6</b>
<b>Non-interest revenue, net:</b>				
Fees and commissions	30,469.3	38,718.9	44,867.2	881.6
Trading securities gain/(loss), net	100.2	(598.3)	(154.7)	(3.0)
Realized gain/(loss) on sales of available for sale securities, net	4,574.9	375.7	(1,315.1)	(25.8)
Other than temporary impairment losses on available for sale securities	(445.5)	(186.7)	(1,299.2)	(25.5)
Foreign exchange transactions	5,091.6	12,283.4	7,531.5	148.0
Derivatives gain/(loss), net	2,911.0	(3,873.8)	2,788.7	54.8
Other, net	198.2	96.2	177.1	3.4
<b>Total non-interest revenue, net</b>	<b>42,899.7</b>	<b>46,815.4</b>	<b>52,595.5</b>	<b>1,033.5</b>
<b>Total revenue, net</b>	<b>105,637.1</b>	<b>145,595.8</b>	<b>171,150.2</b>	<b>3,363.1</b>
<b>Non-interest expense:</b>				
Salaries and staff benefits	31,665.9	37,865.6	45,791.3	899.8
Premises and equipment	11,033.2	12,419.8	14,595.1	286.8
Depreciation and amortization	4,133.7	5,138.6	5,588.7	109.8
Administrative and other	17,808.6	24,387.6	29,009.5	570.0
Amortization of intangible assets	3,769.5	2,558.6	2,328.9	45.8

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Total non-interest expense	68,410.9	82,370.2	97,313.5	1,912.2
Income before income tax expense	37,226.2	63,225.6	73,836.7	1,450.9
Income tax expense	12,338.4	21,698.3	23,828.7	468.2
Net income before noncontrolling interest	Rs. 24,887.8	Rs. 41,527.3	Rs. 50,008.0	US\$ 982.7
Less: Net income attributable to noncontrolling interest	317.1	330.4	224.6	4.4
Net income attributable to HDFC Bank Limited	Rs. 24,570.7	Rs. 41,196.9	Rs. 49,783.4	US\$ 978.3
Per share information:				
Earnings per equity share basic	Rs. 11.26	Rs. 17.84	Rs. 21.30	US\$ 0.42
Earnings per equity share diluted	Rs. 11.12	Rs. 17.59	Rs. 21.12	US\$ 0.41
Per ADS information (where 1 ADS represents 3 shares):				
Earnings per ADS basic	Rs. 33.78	Rs. 53.52	Rs. 63.90	US\$ 1.26
Earnings per ADS diluted	Rs. 33.36	Rs. 52.77	Rs. 63.36	US\$ 1.23

See accompanying notes to consolidated financial statements

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Fiscal years ended March 31,			
	2010	2011	2012	2012
	(In millions)			
<b>Cash flows from operating activities:</b>				
Net income before noncontrolling interest	Rs. 24,887.8	Rs. 41,527.3	Rs. 50,008.0	US\$ 982.7
Adjustment to reconcile net income to net cash provided by operating activities				
Provision for credit losses	18,193.9	9,621.9	7,837.3	154.0
Depreciation and amortization	4,133.7	5,138.6	5,588.7	109.8
Amortization of intangibles	3,769.5	2,558.6	2,328.9	45.8
Amortization of deferred acquisition costs	3,664.3	3,986.7	4,608.8	90.6
Amortization of premium (discount) on investments	3,760.6	1,698.5	324.1	6.4
Other than temporary impairment of investment	445.5	186.7	1,299.2	25.5
Provision for deferred income taxes	(1,318.3)	(1,207.1)	(1,950.0)	(38.3)
Share-based compensation expense	3,580.6	3,407.7	3,887.7	76.4
Net realized (gain) loss on sale of available for sale securities	(4,574.9)	(375.7)	1,315.1	25.8
(Gain) loss on disposal of property and equipment, net	(37.9)	8.8	(12.6)	(0.2)
Exchange (gain) loss	1,517.4	485.0	(3,089.5)	(60.6)
Net change in:				
Investments held for trading	7,227.4	(10,058.1)	(43,305.8)	(851.0)
Accrued interest receivable	(525.3)	(5,987.0)	(6,885.6)	(135.3)
Other assets	29,916.1	2,563.2	(59,217.5)	(1,163.8)
Accrued interest payable	(13,261.7)	7,783.3	24,180.8	475.2
Accrued expense and other liabilities	27,685.7	(11,221.8)	50,574.7	993.6
<b>Net cash provided by operating activities</b>	<b>109,064.4</b>	<b>50,116.6</b>	<b>37,492.3</b>	<b>736.6</b>
<b>Cash flows from investing activities:</b>				
Net change in term placements	(23,646.0)	(43,925.1)	(48,174.4)	(946.6)
Activity in available for sale securities:				
Purchases	(231,417.2)	(365,974.2)	(553,510.4)	(10,876.6)
Proceeds from sales	162,692.6	32,172.5	9,078.8	178.4
Maturities, prepayments and calls	82,571.4	176,740.8	363,100.6	7,135.0
Net change in repurchase options and reverse repurchase options	5,497.2	80,000.0	(10,868.3)	(213.6)
Loans purchased	(72,747.8)	(65,074.6)	(57,263.2)	(1,125.2)
Repayments on loans purchased	23,836.4	28,245.7	41,302.5	811.6
Increase in loans originated, net of principal collections	(284,839.6)	(303,115.8)	(379,906.4)	(7,465.1)
Additions to property and equipment	(5,978.6)	(5,836.1)	(7,924.5)	(155.7)
Proceeds from sale or disposal of property and equipment	123.8	90.8	46.0	0.9
<b>Net cash used in investing activities</b>	<b>(343,907.8)</b>	<b>(466,676.0)</b>	<b>(644,119.3)</b>	<b>(12,656.9)</b>





**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

	2010	Fiscal years ended March 31,		2012
		2011	2012	2012
		(In millions)		
<b>Cash flows from financing activities:</b>				
Net increase in deposits	246,365.0	409,794.4	385,202.5	7,569.3
Net increase (decrease) in short-term borrowings	70,763.3	(21,185.6)	38,641.2	759.3
Proceeds from issue of shares by a subsidiary to noncontrolling interests		113.7	12.3	0.2
Proceeds from issuance of long-term debt	10,201.0	22,687.8	88,329.3	1,735.7
Repayment of long-term debt	(936.8)	(5,312.5)	(6,188.1)	(121.6)
Proceeds from issuance of equity shares for options exercised	5,559.7	8,281.6	5,302.8	104.2
Proceeds from issuance of warrants/equity shares on exercise of warrants	36,080.5			
Payment of dividends and dividend tax	(4,985.8)	(6,440.9)	(8,947.6)	(175.8)
Net cash provided by financing activities	363,046.9	407,938.5	502,352.4	9,871.3
Effect of exchange rate changes on cash and cash equivalents	(1,869.4)	(35.5)	3,415.5	67.1
Net change in cash and cash equivalents	126,334.1	(8,656.4)	(100,859.1)	(1,981.9)
Cash and cash equivalents, beginning of year	171,224.4	297,558.5	288,902.1	5,677.0
<b>Cash and cash equivalents, end of year</b>	Rs. 297,558.5	Rs. 288,902.1	Rs. 188,043.0	US\$ 3,695.1
<b>Supplementary cash flow information:</b>				
Interest paid	Rs. 90,981.1	Rs. 86,067.9	Rs. 126,958.1	US\$ 2,494.8
Income taxes paid	Rs. 14,526.2	Rs. 23,206.0	Rs. 28,180.1	US\$ 553.7
<b>Non-cash investment activities</b>				
Payable for purchase of property and equipment	Rs. 221.9	Rs. 533.9	Rs. 311.6	US\$ 6.1

See accompanying notes to consolidated financial statements

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

	Number of Equity Shares	Equity Share Capital	Additional Paid In Capital	Retained Earnings	Statutory Reserve* (In millions, except for equity shares)	Accumulated Other Comprehensive Income (loss)	Total HDFC Bank Limited Shareholders Equity	Noncontrolling interest	Total Shareholders Equity	Comprehensive income
Balance at March 31, 2009	2,126,920,545	Rs. 4,253.8	Rs. 178,887.7	Rs. 34,845.9	Rs. 22,987.3	Rs. 8,523.0	Rs. 249,497.7	Rs. 555.4	Rs. 250,053.1	
Shares issued upon exercise of warrants	131,001,100	262.0	35,818.5				36,080.5		36,080.5	
Shares issued upon exercise of options	30,794,715	61.6	5,498.1				5,559.7		5,559.7	
Share-based compensation			3,580.6				3,580.6		3,580.6	
Dividends, including dividend tax				(4,985.8)			(4,985.8)		(4,985.8)	
Transfer to statutory reserve				(7,371.7)	7,371.7					
Net income				24,570.7			24,570.7	317.1	24,887.8	Rs. 24,887.8
Unrealized gain classified to earnings [net of tax (s. (1,528.0)]						(3,072.0)	(3,072.0)		(3,072.0)	(3,072.0)
Change in the unrealized gain available for debt securities, net of tax (s. (2,955.3)]						(5,634.3)	(5,634.3)		(5,634.3)	(5,634.3)
Foreign currency translation reserve						(15.4)	(15.4)		(15.4)	(15.4)
Comprehensive income										Rs. 16,166.1
Comprehensive income attributable to HDFC Bank Limited										Rs. 15,849.0
Comprehensive income attributable to noncontrolling interest										317.1
Total comprehensive income										Rs. 16,166.1

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Balance at March 31, 2010	2,288,716,360	Rs. 4,577.4	Rs. 223,784.9	Rs. 47,059.1	Rs. 30,359.0	Rs. (198.7)	Rs. 305,581.7	Rs. 872.5	Rs. 306,454.2
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See accompanying notes to consolidated financial statements

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**Table of Contents****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*	Total HDFC		Noncontrolling interest	Total Shareholders Equity	Comprehensive income
						Accumulated Other Comprehensive Income (loss)	Bank Limited Shareholders Equity			
Balance at March 31, 2010	2,288,716,360	Rs. 4,577.4	Rs. 223,784.9	Rs. 47,059.1	Rs. 30,359.0	Rs. (198.7)	Rs. 305,581.7	Rs. 872.5	Rs. 306,454.2	
Shares issued on exercise of options	37,412,060	74.8	8,206.8				8,281.6		8,281.6	
Share-based compensation			3,407.7				3,407.7		3,407.7	
Dividends, including dividend tax				(6,440.9)			(6,440.9)		(6,440.9)	
Change in ownership interest in subsidiary			(21.5)				(21.5)	21.5		
Shares issued to non-controlling interest								113.7	113.7	
Transfer to statutory reserve				(9,869.0)	9,869.0					
Net income				41,196.9			41,196.9	330.4	41,527.3	Rs. 41,527.3
Realized gain classified to earnings [net of Rs. (320.7)]						(644.8)	(644.8)		(644.8)	(644.8)
Change in the realized net assets on available for sale securities, net of tax Rs. (402.1)]						(4,832.9)	(4,832.9)		(4,832.9)	(4,832.9)
Foreign currency translation reserve						(36.1)	(36.1)		(36.1)	(36.1)
Comprehensive income										Rs. 36,013.5
Comprehensive income attributable to HDFC Bank Limited										Rs. 35,683.0
Comprehensive income attributable to noncontrolling interest										330.5

alance at  
arch 31,  
11

2,326,128,420 Rs. 4,652.2 Rs. 235,377.9 Rs. 71,946.1 Rs. 40,228.0 Rs. (5,712.5) Rs. 346,491.7 Rs. 1,338.1 Rs. 347,829.8

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	Total Shareholders Equity	Comprehensive income
	(In millions, except for equity shares)									
at 31,	2,326,128,420	Rs. 4,652.2	Rs. 235,377.9	Rs. 71,946.1	Rs. 40,228.0	Rs. (5,712.5)	Rs. 346,491.7	Rs. 1,338.1	Rs. 347,829.8	
issued exercise ns	20,559,850	41.2	5,261.6				5,302.8	-	5,302.8	
based sation			3,887.7				3,887.7		3,887.7	
ds, g l tax				(8,947.6)			(8,947.6)		(8,947.6)	
in ship in ry			37.5				37.5	(37.5)		
issued to controlling								12.3	12.3	
to y				(13,020.3)	13,020.3					
ome red loss				49,783.4			49,783.4	224.6	50,008.0	Rs. 50,008.0
ied to [net of 36.5]						76.0	76.0		76.0	76.0
in the ed net										
e for urities, ax Rs.						(1,829.9)	(1,829.9)		(1,829.9)	(1,829.9)
y on						253.6	253.6		253.6	253.6
hensive										Rs. 48,507.7
hensive										
ble to Bank										Rs. 48,507.7
hensive										
ble to controlling										

ensive

Rs. 48

at  
31,

2,346,688,270 Rs. 4,693.4 Rs. 244,564.7 Rs. 99,761.6 Rs. 53,248.3 Rs. (7,212.8) Rs. 395,055.2 Rs. 1,537.5 Rs. 396,592.7

at  
31,

2,346,688,270 US\$ 92.2 US\$ 4,805.8 US\$ 1,960.4 US\$ 1,046.3 US\$ (141.7) US\$ 7,763.0 US\$ 30.2 US\$ 7,793.2 US\$ 953.2

\* 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. The Bank**

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 Regulations Act, 1949. The Bank's shares are listed on the Bombay Stock Exchange Ltd. and The National Stock Exchange of India Ltd., its ADSs are listed on the New York Stock Exchange and its GDRs 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 23.2% of the Bank's equity as of March 31, 2012. The remainder of the Bank's equity is widely held by the public and by foreign and Indian institutional investors.

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.

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 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 Regulations Act 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 and impairment assessment of goodwill.





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**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.

Where management determines that an HTM security's credit rating has been irrevocably downgraded, and continued holding to maturity is likely to result in increased losses, it transfers the security to AFS or sells the security at the best available price.

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

*g. Impairment of securities*

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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.

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**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. Loans are 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 placed on non-accrual status when interest or principal payments are one quarter past due.

*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. 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 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 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 expected amount of losses inherent in such product. In making such estimates, among other factors considered, the Bank stratifies such loans based on the number of days past due and takes into account historical losses for such product, the nature of security available and loan to value ratios. 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

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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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**Table of Contents****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.

In light of the significant growth in the size and diversity of its wholesale loan portfolio, 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*

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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 provision and the net change in the deferred tax asset or liability in the year.

The Bank's policy is to include interest and penalties related to gross unrecognized tax benefits within the provision for income taxes. Interest income or expenses on overpayments and underpayments of income taxes are included as an element of provision for income taxes.

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 carry forwards. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. 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 received 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.

Under FASB ASC 740, 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.

*n. Revenue recognition*

Interest income from loans and from investments is recognized on an accrual basis when earned except in respect of loans or investments placed on non-accrual status, where it is recognized when received. The Bank generally does not charge upfront loan origination fees. Nominal 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 OCI.



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**HDFC BANK LIMITED AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*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.

*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 30.

*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 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.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***v. Goodwill and other intangibles*

Goodwill arising from a business combination is not amortized but 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	Amortization
	(years)	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 January 2010, FASB issued ASU 2010-06 Improving Disclosures about Fair Value Measurements and Disclosures. This ASU, which requires disclosing the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers, was adopted effective April 1, 2010. Additionally, ASU 2010-06 requires disclosures of the gross purchases, sales, issuances and settlements activity in Level 3 fair value measurements for fiscal years beginning after December 15, 2010. The Bank adopted disclosures of the gross purchases, sales, issuance and settlements activity in Level 3 fair value measurements effective April 1, 2011. The adoption of this ASC did not have any impact on the Bank's consolidated financial position, results of operation and cash flows.

In December 2010, the FASB issued ASU 2010-28, Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts ("ASU 2010-28") that amends Topic 350, Intangibles Goodwill and Other, of the FASB Codification. For the reporting units with zero or negative carrying value, an entity is required to perform the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Bank adopted ASU 2010-28 from April 1, 2011. Adoption of ASU 2010-28 did not have a material impact on the Bank's consolidated financial position and results of operations.



**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***x. Recently issued accounting pronouncements not yet effective*

In April 2011, Accounting Standards Update (ASU) 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring* was issued effective for interim and annual periods beginning on or after June 15, 2011. ASU 2011-02 provides evaluation criteria for whether a restructuring constitutes a troubled debt restructuring. Additional disclosures around the nature and extent of modified finance receivables and their effect on the allowance for loan losses may be required under ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses for finance receivables meeting the definition of a troubled debt restructuring in ASU 2011-02*. The adoption of ASU 2011-02 is not expected to have a material impact on the Bank's consolidated financial position, results of operations and cash flows.

In April 2011, FASB issued new accounting guidance that addresses effective control in repurchase agreements and eliminates the requirement for entities to consider whether the transferor (i.e., seller) has the ability to repurchase the financial assets in a repurchase agreement. This new accounting guidance will be effective on a prospective basis to new transactions or modifications for interim or annual periods beginning on or after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial position or results of operations.

In May 2011, FASB issued ASU 2011-04 *Fair Value Measurement* which amends the fair value accounting guidance. The amendments clarify the application of the highest and best use and valuation premise concepts, preclude the application of blockage factors in the valuation of all financial instruments and include criteria for applying the fair value measurement principles to portfolios of financial instruments. The amendments additionally prescribe enhanced financial statement disclosures for Level 3 fair value measurements. The new amendments will be effective for interim or annual periods beginning on or after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial position or results of operations.

In June 2011, FASB issued new accounting guidance on the presentation of comprehensive income in financial statements. The new guidance removes current presentation options and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. In December 2011, FASB amended this guidance to defer the changes relating to the presentation of reclassification adjustments out of accumulated other comprehensive income. This new accounting guidance will be effective for interim or annual periods beginning on or after December 15, 2011. Upon adoption of this guidance, the Bank will change the presentation of comprehensive income. The adoption of this guidance will not have any impact on the Bank's consolidated financial position or results of operations.

In September 2011, FASB issued new Accounting Standards Update 2011-08, *Testing Goodwill for Impairment*, which amends the guidance in ASC 350-20. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The adoption of this guidance is not expected to have a material impact on the Bank's consolidated financial position or results of operations. The new amendments will be effective for the interim or annual periods beginning on or after December 15, 2011.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities (Topic 210)*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013 and should be applied retrospectively for all comparative periods presented. The Bank is evaluating the impact this ASU will have on its financial condition and results of operations.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***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, 2012 have been translated into U.S. dollars at U.S.\$1.00 = Rs. 50.89 as published by the Federal Reserve Board of New York on March 30, 2012. 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, 2011 and 2012 include balances of Rs. 221,028.6 million and Rs. 106,841.3 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 70% 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.105.5 million (US\$ 2.1 million) at March 31, 2012.

**5. Investments, held for trading**

The portfolio of trading securities as of March 31, 2011 and 2012 was as follows:

	Amortized Cost	As of March 31, 2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In millions)				
Government of India securities	Rs. 14,222.6	Rs. 63.5	Rs. 0.3	Rs. 14,285.8
Securities issued by Government of India sponsored institutions	848.9	36.2	0.1	885.0
Other corporate/financial institution securities	1,379.8	12.2		1,392.0
Deposit Certificates issued by banks	21,628.1	23.1		21,651.2
<b>Total debt securities</b>	<b>38,079.4</b>	<b>135.0</b>	<b>0.4</b>	<b>38,214.0</b>
Equity securities	3.0		0.1	2.9
<b>Total</b>	<b>Rs. 38,082.4</b>	<b>Rs. 135.0</b>	<b>Rs. 0.5</b>	<b>Rs. 38,216.9</b>

	Amortized Cost	As of March 31, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In millions)				

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Government of India securities	Rs. 41,815.4	Rs. 8.8	Rs. 185.3	Rs. 41,638.9
Securities issued by Government of India sponsored institutions	78.1	1.6		79.7
State government securities	9,379.0	9.4	9.9	9,378.5
Other corporate/financial institution securities	7,079.8	41.5	6.5	7,114.8
Deposit Certificates issued by banks	18,829.1	3.8	1.4	18,831.5
Total debt securities	Rs. 77,181.4	Rs. 65.1	Rs. 203.1	Rs. 77,043.4
Total debt securities	US\$ 1,516.6	US\$ 1.3	US\$ 4.0	US\$ 1,513.9

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**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Investments, available for sale**

The portfolio of available for sale securities at March 31, 2011 and 2012 was as follows:

	Amortized Cost	As of March 31, 2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In millions)				
Government of India securities	Rs. 587,417.8	Rs. 113.7	Rs. 8,772.6	Rs. 578,758.9
Securities issued by Government of India sponsored institutions	290.6	6.0		296.6
State government securities	252.6	1.2	0.5	253.3
Securities issued by state government sponsored institutions	9.8			9.8
Credit substitutes (see note 8)	14,526.6	26.1	61.6	14,491.1
Other corporate/financial institution bonds	1,117.8	51.7	0.1	1,169.4
Certificate of Deposit	27,449.2	67.4	49.6	27,467.0
Debt securities, other than asset and mortgage-backed securities	631,064.4	266.1	8,884.4	622,446.1
Mortgage-backed securities	4,565.9	274.5	9.9	4,830.5
Asset-backed securities	831.9	13.9	2.4	843.4
Other securities	584.9			584.9
Total	Rs. 637,047.1	Rs. 554.5	Rs. 8,896.7	Rs. 628,704.9
Securities with gross unrealized losses				Rs. 558,670.0
Securities with gross unrealized gains				70,034.9
				Rs. 628,704.9

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Amortized Cost	As of March 31, 2012		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In millions)		
Government of India securities	Rs. 764,267.2	Rs. 505.2	Rs. 12,432.3	Rs. 752,340.1
Securities issued by Government of India sponsored institutions	376.7	2.3		379.0
State government securities	251.8		1.6	250.2
Securities issued by state government sponsored institutions	754.9		16.8	738.1
Credit substitutes (see note 8)	11,789.8	47.3	36.6	11,800.5
Other corporate/financial institution bonds	219.7	27.3		247.0
Certificate of Deposit	27,235.0	29.4	55.2	27,209.2
Debt securities, other than asset and mortgage-backed securities	804,895.1	611.5	12,542.5	792,964.1
Mortgage-backed securities	3,094.3	222.9	6.3	3,310.9
Asset-backed securities	485.3	100.0		585.3
Other securities (including mutual funds)	9,557.7	662.4		10,220.1
Total	Rs. 818,032.4	Rs. 1,596.8	Rs. 12,548.8	Rs. 807,080.4
Total	US\$ 16,074.5	US\$ 31.4	US\$ 246.6	US\$ 15,859.3
Securities with gross unrealized losses				Rs. 704,464.5
Securities with gross unrealized gains				102,615.9
				Rs. 807,080.4
				US\$ 15,859.3

AFS investments of Rs. 579,017.2 million and Rs. 752,595.3 million as of March 31, 2011 and March 31, 2012, 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. 535,694.2 million as of March 31, 2011 and Rs. 544,169.2 million (US\$ 10,693.1 million) as of March 31, 2012, 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. 445.5 million, Rs. 186.7 million and Rs. 1,299.2 million (US\$ 25.5 million) as other than temporary impairment in fiscal year 2010, 2011 and 2012, respectively, because the Bank intends to sell the securities before recovery of their amortized cost. The Bank believes that the other unrealized losses on its investments in equity and debt securities as of March 31, 2012 are temporary in nature. The Bank's review of impairment generally entails:



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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, 2011 and March 31, 2012, 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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**Table of Contents****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, 2011 was as follows:

	As of March 31, 2011				Total	
	Less Than 12 Months		12 Months or Greater		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
	(In millions)					
Government of India securities	Rs.345,334.9	Rs.3,702.2	Rs.187,813.4	Rs.5,070.4	Rs.533,148.3	Rs.8,772.6
State government securities	51.5	0.3	11.5	0.2	63.0	0.5
Securities issued by state government sponsored institutions			4.9		4.9	
Credit substitutes (see note 8)	9,416.8	61.6			9,416.8	61.6
Other corporate/financial institution bonds	49.4	0.1			49.4	0.1
Certificate of Deposit	15,436.0	49.6			15,436.0	49.6
Debt securities	370,288.6	3,813.8	187,829.8	5,070.6	558,118.4	8,884.4
Mortgage-backed securities	387.1	9.9			387.1	9.9
Asset-backed securities	164.5	2.4			164.5	2.4
Total	Rs.370,840.2	Rs.3,826.1	Rs.187,829.8	Rs.5,070.6	Rs.558,670.0	Rs.8,896.7

The gross unrealized losses and fair value of available for sale securities at March 31, 2012 was as follows:

	As of March 31, 2012				Total	
	Less Than 12 Months		12 Months or Greater		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
	(In millions)					
Government of India securities	Rs. 197,634.4	Rs. 1,424.1	Rs. 479,755.4	Rs. 11,008.2	Rs. 677,389.8	Rs. 12,432.3
State government securities	2.6	0.1	247.5	1.5	250.1	1.6
Securities issued by state government sponsored institutions	733.3	16.8	4.9		738.2	16.8
Credit substitutes (see note 8)	6,545.0	31.0	794.3	5.6	7,339.3	36.6
Other corporate/financial institution bonds			10.0		10.0	
Certificate of Deposit	18,504.3	55.2			18,504.3	55.2
Debt securities	223,419.6	1,527.2	480,812.1	11,015.3	704,231.7	12,542.5
Mortgage-backed securities	232.8	6.3			232.8	6.3
Total	Rs. 223,652.4	Rs. 1,533.5	Rs. 480,812.1	Rs. 11,015.3	Rs. 704,464.5	Rs. 12,548.8
Total	US\$ 4,394.8	US\$ 30.1	US\$ 9,448.1	US\$ 216.5	US\$ 13,842.9	US\$ 246.6



**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The contractual residual maturity of available for sale debt securities other than asset and mortgage-backed securities as of March 31, 2012 is set out below:

	As of March 31, 2012		
	Amortized Cost	Fair Value (In millions)	Fair Value
Within one year	Rs.258,561.4	Rs.258,395.3	US\$ 5,077.5
Over one year through five years	350,046.1	342,995.9	6,739.9
Over five years through ten years	132,847.7	129,167.7	2,538.2
Over ten years	63,439.9	62,405.2	1,226.3
<b>Total</b>	<b>Rs.804,895.1</b>	<b>Rs.792,964.1</b>	<b>US\$ 15,581.9</b>

Gross realized gains and gross realized losses from sales of available for sale securities and dividends and interest on such securities are set out below:

	Fiscal year ended March 31,			
	2010	2011 (In millions)	2012	2012
Gross realized gains on sale	Rs.5,691.3	Rs.782.6	Rs.87.4	US\$ 1.7
Gross realized losses on sale	(1,116.4)	(406.9)	(1,402.5)	(27.5)
Realized gains (losses), net	4,574.9	375.7	(1,315.1)	(25.8)
Dividends and interest	33,304.6	40,739.8	56,621.0	1,112.6
<b>Total</b>	<b>Rs.37,879.5</b>	<b>Rs.41,115.5</b>	<b>Rs.55,305.9</b>	<b>US\$ 1,086.8</b>

**7. Investments, held to maturity**

There were no HTM securities as of March 31, 2011 and March 31, 2012.

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.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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, 2011 and March 31, 2012 were as follows:

	As of March 31,			
	2011		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In millions)			
Available for sale credit substitute securities:				
Debtentures	Rs. 2,622.2	Rs. 2,584.3	Rs. 4,001.0	Rs. 4,009.5
Commercial paper	11,904.4	11,906.8	7,788.8	7,791.0
Total	Rs. 14,526.6	Rs. 14,491.1	Rs. 11,789.8	Rs. 11,800.5
			US\$ 231.7	US\$ 231.9

The fair values of credit substitutes have been analyzed as follows:

	As of March 31,		
	2011	2012	2012
	(In millions)		
Performing	Rs.14,491.1	Rs.11,800.5	US\$ 231.9
Impaired gross balance	106.7	102.8	2.0
Less: amounts provided for other than temporary impairments	106.7	102.8	2.0
Impaired credit substitutes, net			
Total credit substitutes, net	Rs.14,491.1	Rs.11,800.5	US\$ 231.9

**Impaired credit substitutes**

	As of March 31,		
	2011	2012	2012
	(In millions)		
Gross impaired credit substitutes:			
on accrual status	Rs.	Rs.	US\$
on non-accrual status	106.7	102.8	2.0
Total	Rs. 106.7	Rs. 102.8	US\$ 2.0

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Gross impaired credit substitutes by industry:			
Textiles & Garments	Rs. 101.7	Rs. 53.1	US\$ 1.0
Leather Products		24.1	0.5
Automobile and Auto Ancillary		22.0	0.4
Drugs and Pharmaceuticals	5.0	3.6	0.1
Total	Rs. 106.7	Rs. 102.8	US\$ 2.0
Average impaired credit substitutes	Rs. 53.4	Rs. 51.4	US\$ 1.0
Interest income recognized on impaired credit substitutes	Rs.	Rs.	US\$

As of March 31, 2012, the Bank has no additional funds committed to borrowers whose credit substitutes were impaired.

**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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, 2010, 2011 and 2012. 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, 2011 and March 31, 2012 were nil and Rs. 20,868.3 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, 2011 and March 31, 2012 were Rs. 60,000.0 and Rs. 70,000.0 million, respectively.

**10. Loans**

Loan balances include Rs. 54,698.1 million and Rs. 64,148.4 million as of March 31, 2011 and March 31, 2012, respectively, which have been pledged as collateral for borrowings and are therefore restricted.

Loans by facility as of March 31, 2011 and March 31, 2012 were as follows:

	2011	As of March 31, 2012 (In millions)	2012
<b>Retail loans:</b>			
Auto loans	Rs. 257,670.2	Rs. 310,822.5	US\$ 6,107.7
Personal loans/ Credit cards	158,283.2	219,137.9	4,306.1
Retail business banking	207,975.5	284,431.5	5,589.1
Commercial vehicle and construction equipment finance	143,962.0	228,751.1	4,495.0
Housing loans	115,322.9	142,897.4	2,808.0
Other retail loans	96,930.8	158,926.4	3,123.0
Subtotal	Rs. 980,144.6	Rs. 1,344,966.8	US\$ 26,428.9
<b>Wholesale loans</b>	Rs. 668,605.7	Rs. 689,314.4	US\$ 13,545.2
Gross loans	1,648,750.3	2,034,281.2	39,974.1
Less: Allowance for credit losses	25,894.3	27,906.9	548.4
Total	Rs. 1,622,856.0	Rs. 2,006,374.3	US\$ 39,425.7

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The contractual residual maturity of gross loans as of March 31, 2012 is set out below:

	Wholesale loans	As of March 31, 2012 Retail Loans (In millions)	Total
<b>Maturity profile of loans:</b>			
Within one year	Rs. 363,954.8	Rs. 442,975.0	Rs. 806,929.8
Over one year through five years	278,063.4	777,220.1	1,055,283.5
Over five years	47,296.2	124,771.7	172,067.9
<b>Total gross loans</b>	<b>Rs. 689,314.4</b>	<b>Rs. 1,344,966.8</b>	<b>Rs. 2,034,281.2</b>
	US\$ 13,545.2	US\$ 26,428.9	US\$ 39,974.1

Gross loans analyzed by performance are as follows:

	2011	As of March 31, 2012 (In millions)	2012
Performing	Rs. 1,628,087.9	Rs. 2,015,246.3	US\$ 39,600.1
Impaired	20,662.4	19,034.9	374.0
<b>Total gross loans</b>	<b>Rs. 1,648,750.3</b>	<b>Rs. 2,034,281.2</b>	<b>US\$ 39,974.1</b>



**Table of Contents****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, 2011 and March 31, 2012.

	As of March 31, 2011			
	31-90 days past due	Impaired / 91 days or more past due	Total current or less than 31 days past due (in millions)	Total
<b>Retail Loans</b>				
Auto loans	Rs. 1,031.6	Rs. 982.6	Rs. 255,656.0	Rs. 257,670.2
Personal loans/Credit card	1,567.0	1,304.9	155,411.3	158,283.2
Retail business banking	1,377.7	5,126.2	201,471.6	207,975.5
Commercial vehicle and construction equipment finance	871.6	730.2	142,360.2	143,962.0
Housing loans	112.2	448.3	114,762.4	115,322.9
Other retail	2,373.8	2,567.3	91,989.7	96,930.8
Wholesale loans	1,774.3	9,502.9	657,328.5	668,605.7
<b>Total</b>	<b>Rs. 9,108.2</b>	<b>Rs. 20,662.4</b>	<b>Rs. 1,618,979.7</b>	<b>Rs. 1,648,750.3</b>

	As of March 31, 2012			
	31-90 days past due	Impaired / 91 days or more past due	Total current or less than 31 days past due (in millions)	Total
<b>Retail Loans</b>				
Auto loans	Rs. 1,081.2	Rs. 952.5	Rs. 308,788.8	Rs. 310,822.5
Personal loans/Credit card	1,376.2	1,087.4	216,674.3	219,137.9
Retail business banking	1,801.9	5,015.4	277,614.2	284,431.5
Commercial vehicle and construction equipment finance	2,087.5	1,589.4	225,074.2	228,751.1
Housing loans	81.3	402.1	142,414.0	142,897.4
Other retail	2,434.4	2,264.5	154,227.5	158,926.4
Wholesale loans	1,256.7	7,723.6	680,334.1	689,314.4
<b>Total</b>	<b>Rs. 10,119.2</b>	<b>Rs. 19,034.9</b>	<b>Rs. 2,005,127.1</b>	<b>Rs. 2,034,281.2</b>
<b>Total</b>	<b>US\$ 198.8</b>	<b>US\$ 374.0</b>	<b>US\$ 39,401.3</b>	<b>US\$ 39,974.1</b>

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 Procedure 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.

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For retail credit the 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. 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 our own experience and industry data, in combination with the judgment of our senior officers. 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.

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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 minimum annually.

**Retail Loans**

Credit quality indicator based on payment activity as of March 31, 2011 and as of March 31, 2012 is given below.

	As of March 31, 2011						
	Auto loans	Personal loans/Credit card	Retail business banking	Commercial vehicle and construction equipment finance (In millions)	Housing Loans	Other retail	Total
Performing	Rs. 256,687.6	Rs. 156,978.3	Rs. 202,849.3	Rs. 143,231.8	Rs. 114,874.6	Rs. 94,363.5	Rs. 968,985.1
Impaired	982.6	1,304.9	5,126.2	730.2	448.3	2,567.3	11,159.5
<b>Total</b>	<b>Rs. 257,670.2</b>	<b>Rs. 158,283.2</b>	<b>Rs. 207,975.5</b>	<b>Rs. 143,962.0</b>	<b>Rs. 115,322.9</b>	<b>Rs. 96,930.8</b>	<b>Rs. 980,144.6</b>
	As of March 31, 2012						
	Auto loans	Personal loans/Credit card	Retail business banking	Commercial vehicle and construction equipment finance (In millions)	Housing Loans	Other retail	Total
Performing	Rs. 309,870.0	Rs. 218,050.5	Rs. 279,416.1	Rs. 227,161.7	Rs. 142,495.3	Rs. 156,661.9	Rs. 1,333,655.5
Impaired	952.5	1,087.4	5,015.4	1,589.4	402.1	2,264.5	11,311.3
<b>Total</b>	<b>Rs. 310,822.5</b>	<b>Rs. 219,137.9</b>	<b>Rs. 284,431.5</b>	<b>Rs. 228,751.1</b>	<b>Rs. 142,897.4</b>	<b>Rs. 158,926.4</b>	<b>Rs. 1,344,966.8</b>
	US\$ 6,107.7	US\$ 4,306.1	US\$ 5,589.1	US\$ 4,495.0	US\$ 2,808.0	US\$ 3,123.0	US\$ 26,428.9

**Wholesale Loans**

We have 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/impaird. Our 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,	
	2011	2012 (In millions)

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Credit quality indicators - Internally assigned grade and payment activity			
Pass	Rs. 658,351.4	Rs. 680,542.4	US\$ 13,372.8
Labeled	751.4	1,048.4	20.6
Impaired	9,502.9	7,723.6	151.8
<b>Total</b>	<b>Rs. 668,605.7</b>	<b>Rs. 689,314.4</b>	<b>US\$ 13,545.2</b>

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. The following table provides details of impaired loans as of March 31, 2011 and March 31, 2012.

	As of March 31, 2011				Finance Receivable on Non Accrual Basis
	Recorded investments	Unpaid principal balance	Related specific allowance (In millions)	Average Recorded investments	
<b>Retail Loans</b>					
Auto loans	Rs. 982.6	Rs. 982.6	Rs. 503.1	Rs. 1,404.0	Rs. 982.6
Personal loans/ Credit card	1,304.9	1,304.9	895.2	1,839.9	1,304.9
Retail business banking	5,126.2	5,126.2	4,396.8	5,007.9	5,126.2
Commercial vehicle and construction equipment finance	730.2	730.2	594.1	1,019.4	730.2
Housing loans	448.3	448.3	237.2	437.2	448.3
Other retail	2,567.3	2,567.3	1,885.9	2,390.4	1,810.5
Wholesale loans	9,502.9	9,502.9	7,577.5	7,863.9	6,321.7
<b>Total</b>	<b>Rs. 20,662.4</b>	<b>Rs. 20,662.4</b>	<b>Rs. 16,089.8</b>	<b>Rs. 19,962.7</b>	<b>Rs. 16,724.4</b>

The Bank holds no recorded impaired loans for which there is no related allowance.

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	Recorded investments		Unpaid principal balance		As of March 31, 2012 Related specific allowance (In millions)		Average Recorded investments		Finance Receivable on Non Accrual Basis	
<b>Retail Loans</b>										
Auto loans	Rs.	952.5	Rs.	952.5	Rs.	461.7	Rs.	967.6	Rs.	952.5
Personal loans/ Credit card		1,087.4		1,087.4		755.9		1,196.2		1,087.4
Retail business banking		5,015.4		5,015.4		4,542.7		5,070.8		5,015.4
Commercial vehicle and construction equipment finance		1,589.4		1,589.4		978.0		1,159.8		1,589.4
Housing loans		402.1		402.1		269.4		425.2		402.1
Other retail		2,264.5		2,264.5		1,875.3		2,415.9		2,264.5
Wholesale loans		7,723.6		7,723.6		6,433.7		8,613.3		7,099.2
<b>Total</b>	<b>Rs.</b>	<b>19,034.9</b>	<b>Rs.</b>	<b>19,034.9</b>	<b>Rs.</b>	<b>15,316.7</b>	<b>Rs.</b>	<b>19,848.8</b>	<b>Rs.</b>	<b>18,410.5</b>
<b>Total</b>	<b>US\$</b>	<b>374.0</b>	<b>US\$</b>	<b>374.0</b>	<b>US\$</b>	<b>301.0</b>	<b>US\$</b>	<b>390.0</b>	<b>US\$</b>	<b>361.8</b>

The Bank holds no recorded impaired loans for which there is no related allowance.

Impaired loans by industry as of March 31, 2011 and March 31, 2012 by facility are as follows:

	2011		As of March 31, 2012 (In millions)		2012	
<b>Gross impaired loans by industry:</b>						
NBFC/Financial Intermediaries	Rs.	2,147.1	Rs.	1,782.7	US\$	35.0
Textiles & Garments		1,410.0		1,430.5		28.1
Wholesale/Retail Trade		2,616.6		907.5		17.8
Others (none greater than 5% of impaired loans)		14,488.7		14,914.2		293.1
<b>Total</b>		<b>Rs. 20,662.4</b>		<b>Rs. 19,034.9</b>		<b>US\$ 374.0</b>

Summary information relating to impaired loans during the years ended March 31, 2010, 2011 and 2012 is as follows:

	2010		Fiscal Year ended March 31, 2011		2012			
	(In millions)							
Average impaired loans, net of allowance	Rs.	5,889.8	Rs.	5,007.6	Rs.	4,145.4	US\$	81.5
Interest income recognized on impaired loans	Rs.	591.4	Rs.	1,292.5	Rs.	1,668.3	US\$	32.8



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Allowance for credit losses as of March 31, 2011 are as follows:

	As of March 31, 2011									
	Auto loans	Personal Loans/ Credit card	Retail business banking	Specific Retail Commercial vehicle and construction equipment finance	Housing loans	Other retail	Wholesale	Unallocated		Total
								Retail	Wholesale	
	(In millions)									
Allowance for credit losses, beginning of the period	Rs. 1,066.6	Rs. 1,650.9	Rs. 3,632.9	Rs. 804.9	Rs. 281.6	Rs. 1,772.6	Rs. 4,610.8	Rs. 8,954.9	Rs. 985.4	Rs. 23,760.6
Write-offs	(1,986.0)	(7,154.6)	(200.2)	(496.0)	(155.5)	(1,185.3)	(668.2)			(11,845.8)
Net allowance for credit losses*	1,422.5	6,398.9	964.1	285.2	111.1	1,298.6	3,634.9	(597.9)	462.1	13,979.5
Allowance for credit losses, end of the period	Rs. 503.1	Rs. 895.2	Rs. 4,396.8	Rs. 594.1	Rs. 237.2	Rs. 1,885.9	Rs. 7,577.5	Rs. 8,357.0	Rs. 1,447.5	Rs. 25,894.3
Allowance for credit losses:										
Allowance individually evaluated for impairment	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs. 7,577.5	Rs.	Rs.	Rs. 7,577.5
Allowance collectively evaluated for impairment	503.1	895.2	4,396.8	594.1	237.2	1,885.9		8,357.0	1,447.5	18,316.8
Loans:										
Loans individually evaluated for impairment							9,502.9			9,502.9
Loans collectively evaluated for impairment	982.6	1,304.9	5,126.2	730.2	448.3	2,567.3		968,985.1	659,102.8	1,639,247.4

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\* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 4,357.6 million.

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Allowance for credit losses as of March 31, 2012 are as follows:

	As of March 31, 2012										Total	Total
	Auto loans	Personal Loans/ Credit card	Retail business banking	Specific Retail Commercial vehicle and construction equipment finance	Housing loans	Other retail (In millions)	Wholesale	Retail	Wholesale	Total		
Allowance for credit losses, beginning of the period	Rs. 503.1	Rs. 895.2	Rs. 4,396.8	Rs. 594.1	Rs. 237.2	Rs. 1,885.9	Rs. 7,577.5	Rs. 8,357.0	Rs. 1,447.5	Rs. 25,894.3	US\$ 508.8	
Write-offs	(1,277.1)	(4,862.7)	(220.6)	(555.8)	(46.3)	(448.7)	(2,818.4)			(10,229.6)	(201.0)	
Net allowance for credit losses*	1,235.7	4,723.4	366.5	939.7	78.5	438.1	1,674.6	3,025.5	(239.8)	12,242.2	240.6	
Allowance for credit losses, end of the period	Rs. 461.7	Rs. 755.9	Rs. 4,542.7	Rs. 978.0	Rs. 269.4	Rs. 1,875.3	Rs. 6,433.7	Rs. 11,382.5	Rs. 1,207.7	Rs. 27,906.9	US\$ 548.4	
Allowance for credit losses:												
Allowance individually evaluated for impairment	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs. 6,433.7	Rs.	Rs.	Rs. 6,433.7	US\$ 126.4	
Allowance collectively evaluated for impairment	461.7	755.9	4,542.7	978.0	269.4	1,875.3	0	11,382.5	1,207.7	21,473.2	422.0	
Loans individually evaluated for impairment							7,723.6			7,723.6	151.8	
Loans collectively evaluated for impairment	952.5	1,087.4	5,015.4	1,589.4	402.1	2,264.5		1,333,655.5	681,590.8	2,026,557.6	39,822.3	

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\* Net allowances for credit losses charged to expense does not include the recoveries against write-off cases amounting to Rs 4,404.9 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.

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**Table of Contents****HDFC BANK LIMITED AND ITS SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Interest on loans by facility are as follows:

	2010	Fiscal years ended March 31,		2012
		2011	2012	
	(In millions)			
Wholesale	Rs. 38,902.5	Rs. 56,634.7	Rs. 69,779.9	US\$ 1,371.2
Retail loans	79,462.0	97,085.0	140,535.8	2,761.6
<b>Total</b>	<b>Rs. 118,364.5</b>	<b>Rs. 153,719.7</b>	<b>Rs. 210,315.7</b>	<b>US\$ 4,132.8</b>

**11. Sales/transfer of receivables**

There were no pre-tax gains on securitizations/other transfers that were completed during the years ended March 31, 2010, March 31, 2011 and March 31, 2012. 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, 2010, March 31, 2011 and March 31, 2012:

	2010	Fiscal years ended March 31,		2012
		2011	2012	
	(In millions)			
<b>Cash flow information</b>				
Collections against securitized receivables/transfers	Rs. 9,967.8	Rs. 7,048.6	Rs. 3,692.6	US\$ 72.6
Payments made	9,515.3	6,543.9	3,430.3	67.4
Cash flows on retained interests	Rs. 41.5	Rs. 394.0	Rs. 220.4	US\$ 4.3

Other key disclosures are as follows:

	2011	As of March 31,	2012
		(In millions)	
Transferred receivables with continuing involvement*	Rs. 7,593.5	Rs. 4,985.1	US\$ 98.0
Delinquencies	352.7	643.6	12.6
Credit losses	282.9	389.3	7.6
Retained interest in sold receivables	359.7	247.9	4.9

\* Includes Rs. 2.4 million held by SPEs as of March 31, 2011 and which is less than Rs 0.1 million as of March 31, 2012.

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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, 2011 and March 31, 2012 to immediate 10% and 20% changes in those assumptions:

	2011	As of March 31, 2012 (In millions)	2012
<b>Fair value of retained interests</b>			
Annual prepayment rate:			
Impact of 10% adverse change	Rs. 30.1	Rs. 17.4	US\$ 0.3
Impact of 20% adverse change	57.0	32.9	0.6
Expected credit losses:			
Impact of 10% adverse change	22.3	7.9	0.2
Impact of 20% adverse change	44.5	15.7	0.3

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.