Annual Report 2012 - 2013

# Encouraging sustainability
# Empowering lives

HDFC BANK

We understand your world

# Accolades

2012-2013

Asia Money Best Bank Awards

- Best Domestic Bank in India

Businessworld Awards for Banking Excellence

- Most tech-friendly Bank
- Deal of the year (Rupee bonds)

CNBC TV18 India Best Banks and Financial Institutions Awards

- Best Private Sector Bank

CSO Forum Information Technology Award

- Best Information Security Practice

DSCI Information Technology Awards

- Security Leader of the year
- Security in Bank

Dun & Bradstreet Banking Awards

- Overall Best Bank
- Best Private Sector Bank
- Best Asset Quality – Private Sector
- Best Retail Banking – Private Sector

Dun & Bradstreet Corporate Awards – India's Top 500 Companies

- Best Bank in India

Economic Times Awards for Corporate Excellence

- Company of the Year 2012

Financial Express Best Bank Awards

- Best Bank – Private Sector
- Best in Strength and Soundness
- Best Banker – Aditya Puri

IBA Banking Technology Awards

- Best Online Bank
- Best use of Business Intelligence
- Best Customer Relationship Initiative
- Best Risk Management & Security Initiative
- Best use of Mobile Technology in Banking

IDRBT Banking Technology Excellence Awards

- Best Bank in IT for Operational Effectiveness

Mint-Aon Hewitt's India's Best Managed Boards

- HDFC Bank among India's six best managed Boards

Nasscom CNBC-TV18 Innovation Award

- Best IT driven innovation in Banking (Commercial)

National Quality Excellence Awards

- Best Customer Service Result

NDTV Profit Business Leadership Awards

- Best Bank in India

Skoch Foundation Financial Inclusion Awards

- Organisation of the Year

# Highlights

2012-2013

- Net profit: ₹ 6,726 crore. An increase of 30.2% compared to the previous year
- Balance Sheet size: ₹ 400,332 crore. An increase of 18.5% compared to the previous year
- Total Deposits: ₹ 296,247 crore. An increase of 20.1% compared to the previous year
- Total Advances: ₹ 239,721 crore. An increase of 22.7% compared to the previous year
- Capital Adequacy Ratio: 16.8%
- Tier I Capital Ratio: 11.1%
- Gross Non Performing Assets: 0.97% of Gross Advance
- Network:
  - Branches: 3,062
  - ATMs: 10,743
  - Cities/Towns: 1,845

# Empowering lives. Encouraging sustainability.

In keeping with our philosophy of building sustainability by lending more than just a helping hand, the year gone by saw a trebling of loans and an extension of our Sustainable Livelihood Initiatives (SLI) program to 255 locations, in over 20 states.

We have always believed that any business model must take social and environmental aspects into consideration in its decision making process. This year, this belief was hard-wired into our value system. Sustainability has been added as the Bank's fifth value, joining Customer Focus, Operational Excellence, Product Leadership and People.

Our long term commitment to leveraging technology has also helped deliver sustainability benefits on many fronts. Initiatives such as solar powered ATMs, motion sensors in offices, an online platform for electronic tax collection for businesses and use of smaller generators in areas where there is frequent load-shedding; all help save energy and contribute towards a greener future.

Another example is paperless banking. Customers are our partners in this process. Over twenty lakh customers opted to receive e-statements last year. Access to the complete range of alternative transaction channels such as ATMs, PhoneBanking, NetBanking and MobileBanking has resulted in nearly 1 billion transactions now being conducted through these channels last year. This reduces the need to frequently visit branches, providing greater convenience and reducing carbon footprint.

Expansion into rural markets continues at a rapid pace. This year, of the 518 branches and 1830 ATMs opened, 458 branches and 816 ATMs were in semi-urban and rural locations. New format branches were especially created to service the unique requirements of the rural customer including Two and Three Person Branches. We launched the unique

Grameen Banking Officer program under which officers travel up to 25 kilometres daily to service surrounding villages. Our Bharat Credit Card empowered lives of rural agriculturists by providing a modern payment solution. We piloted and rolled out automated systems for streamlining agricultural procurement, ensuring speedy and efficient payment to farmers.

As always, balanced growth and well diversified businesses remain at the core of our institution. We continue to maintain market leadership in various products including Credit Cards, Personal Loans and Cash Management Services. Long-standing customer relationships and a wide distribution network supported by innovative supply chain management and e-commerce solutions, allowed the Wholesale Banking group to sustain growth at a higher rate than the banking system, despite an economic slowdown. The Debt Capital Markets division of the Investment Banking group made a solid start in its first full year of operations by attaining the fourth position, as per PRIME Database, in the arrangement and placement of INR Corporate Bonds.

Our approach towards achieving sustainability through empowering lives has meant greater involvement with communities. We have been active in areas of community concern both at the grass root and local government levels.  Social messaging for themes such as road safety, cleanliness and health are supported by the bank. Today, it is hard to miss HDFC Bank's social messaging in many states across India.

Employees are integral to our sustainability initiatives. Programs like Blood Donation Camps, Payroll Giving, volunteering at orphanages and old age homes saw enthusiastic participation. At HDFC Bank, we understand that our journey to bring about sustainable change through empowering lives starts from within.

# Sustainable Livelihood Initiatives

Our endeavour remains to touch as many lives as possible through our **Sustainable Livelihood Initiative (SLI) program**. SLI has taken its micro finance lending to more than 5174 villages in 20 states this past year. The Bank has covered more than 17 lakh unique households under these initiatives.

In order to support the growth of the nation and provide banking services for all its citizens, the Bank further increased its footprint beyond urban and metro centres. At the end of the financial year, 1111 branches were in semi urban areas and a further 504 were in rural areas, 92 of these are in un-banked rural centres.

Adopting a unique approach of coupling both financial and non-financial services, the Bank's SLI program has enabled the un-banked and under-banked sections of society to take control of their financial life, generate income and save for a better future. All of this ultimately results in their economic upliftment.

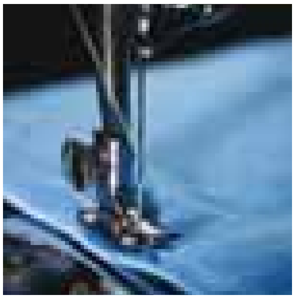
The Bank has also been actively supporting the creation of a savings culture in this segment. Customers are encouraged to open micro recurring deposits which can be started with as little as Rs 100 per month. At the end of the financial year, 91,000 such customers had opened micro recurring deposit accounts with the Bank.

In addition to micro finance and micro recurring deposits, the Bank provides basic savings accounts, micro fixed deposits and micro insurance. These help meet both the immediate and long term needs of many families.

To further support those engaged in agriculture, the Bank in conjunction with a state government has introduced innovative payment solutions that expedite receipt of sales proceeds to farmers. We are now working with other state governments to extend this offering nationwide.

We are also committed to improving financial literacy as part of the SLI program. Non financial services such as pre and post credit counselling sessions for its customers have helped empower people to make better financial decisions. This is supported by livelihood training and marketing support which further helps their income grow.

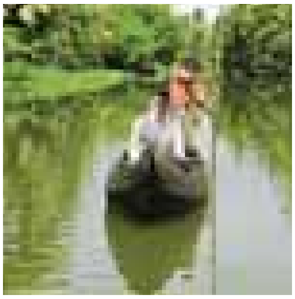
The impact of the SLI program extends not just to women but their families as well. Products tailored for the rural segment such as crop loans and cattle loans have improved the overall standard of living of entire families.



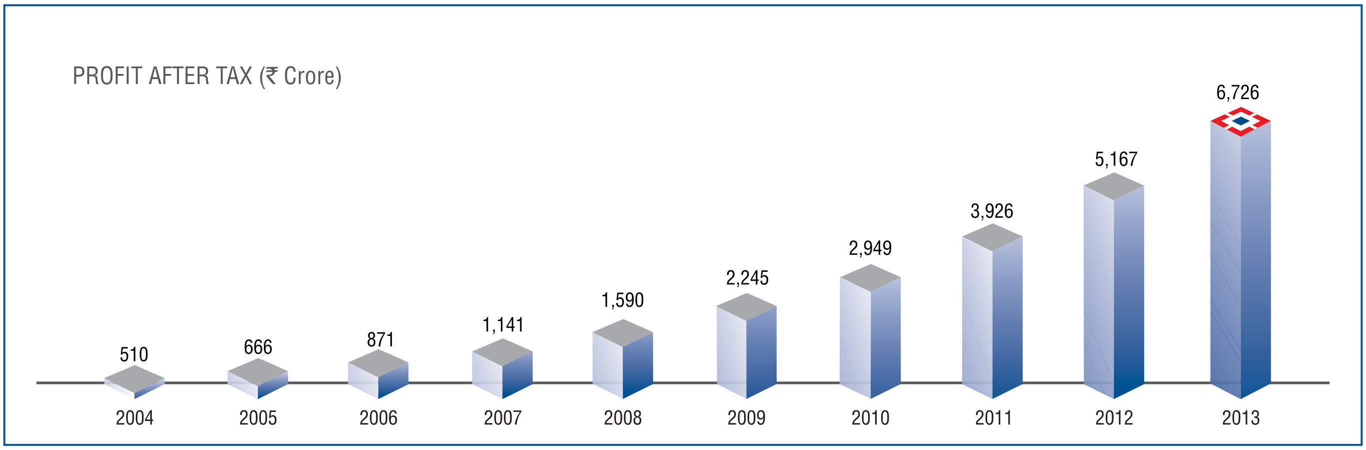
Kalavathi, one of the members of a Self Help Group in Thiruvarur, Tamil Nadu is an expert seamstress. A loan from the Bank helped buy a new sewing machine so she could continue to earn a livelihood. An introduction from the Bank led to orders from the local Social Welfare Department. Kalavathi now has a regular monthly income making school uniforms.

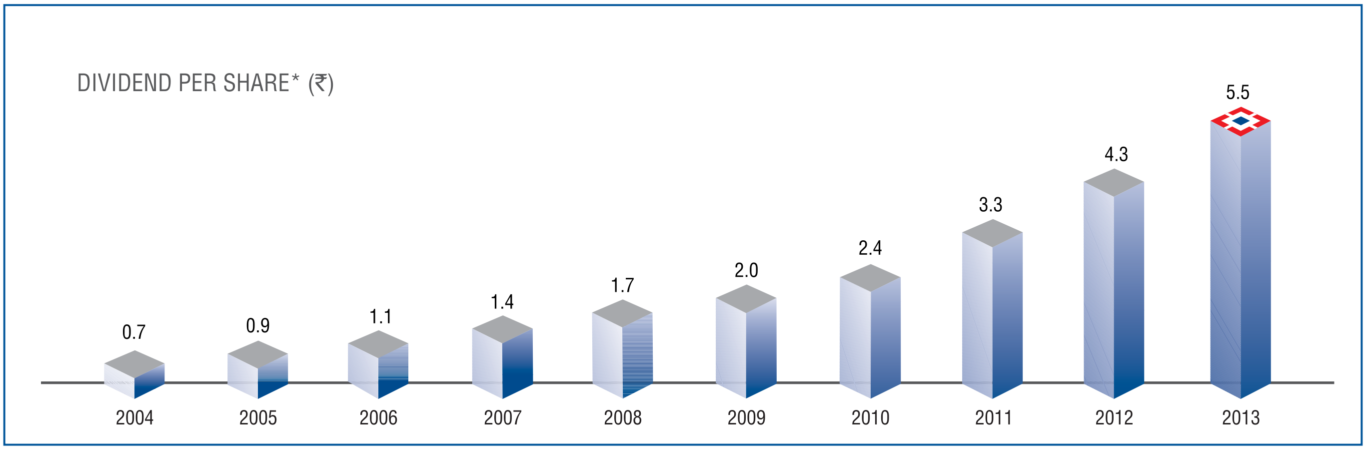
Rekha, from Unnao, Uttar Pradesh had been an SLI client for some time. The burden of carrying the load of an entire family after the sudden death of her husband, led to a default in her loan payment. Understanding her plight, the Bank approached a local leather factory to explore job opportunities for her. Today, Rekha has repaid all her dues to the Bank. She continues to work at a leather factory where she earns a monthly salary.

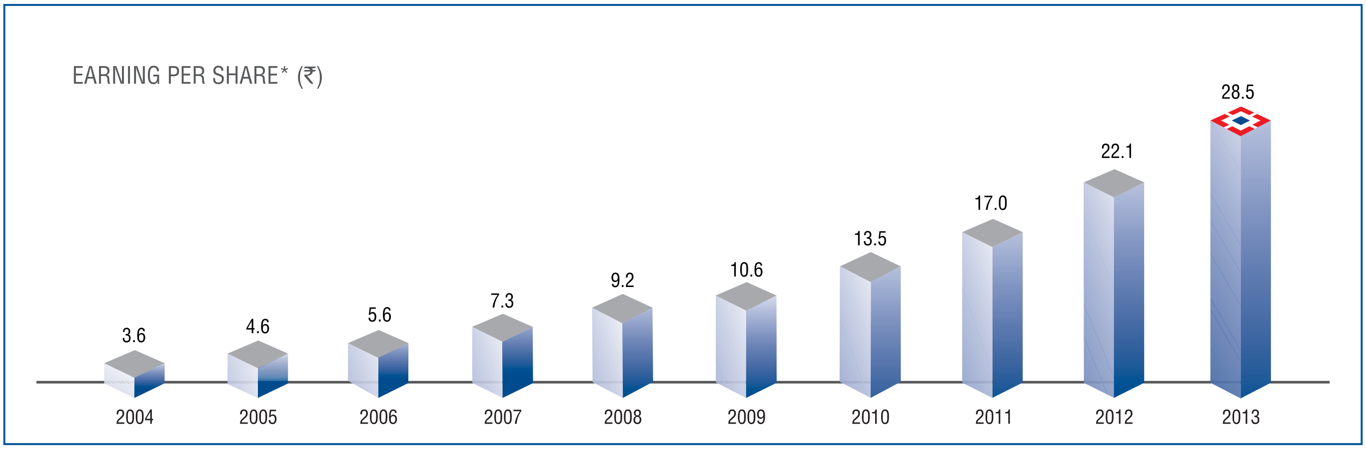
Pushpa, from Udaipur, Rajasthan had a perfect life till she lost her husband, the sole breadwinner in her family. The responsibility of running household expenses and taking care of a young child fell on her shoulders. Her job as a daily labourer meant irregular hours and not enough time to give her child the attention he deserved. Pushpa joined HDFC Bank's Joint Liability Group and took a loan to start a spice vending stall close to her home. Now, she is able to balance both her work and family responsibilities with considerable ease.



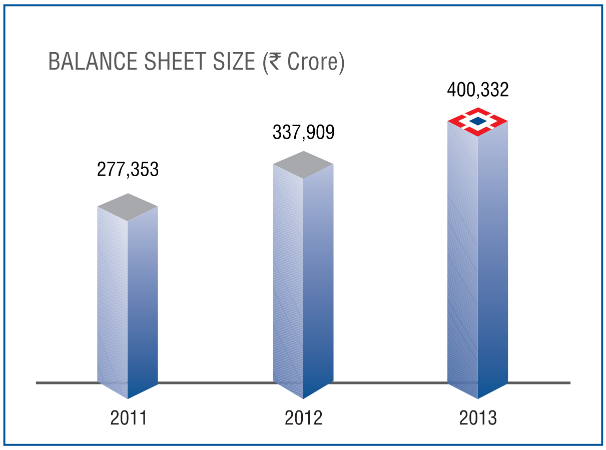
Anuchuthuruthu, meaning five islands, is a small island in Kerala. The only means of transport to the main land for the islanders are vallams, small boats used for fishing and prawn farming which form the main industries. The people of this island are now serviced by HDFC Bank staff that travel to the island on a daily basis to service the 170 households that reside there. 117 of these households now use the services of the Bank.

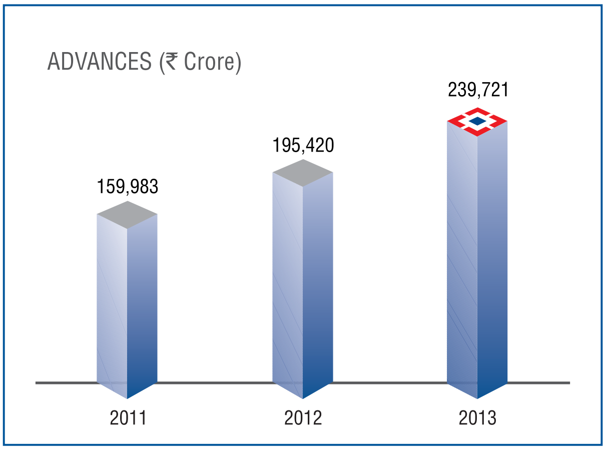


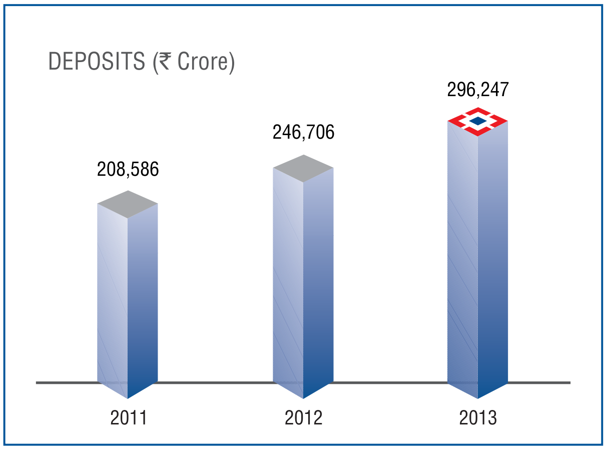



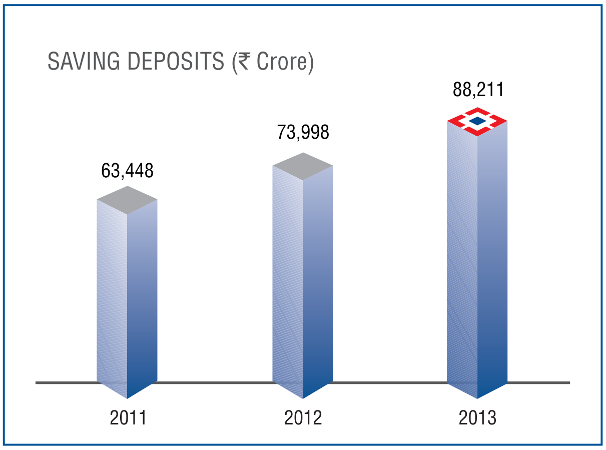



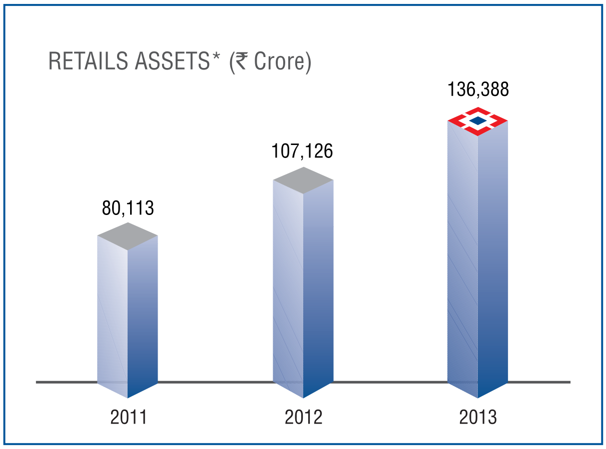

* Previous year figures have been changed to reflect split of shares of FV ₹ 10 per share into FV of ₹ 2 per share

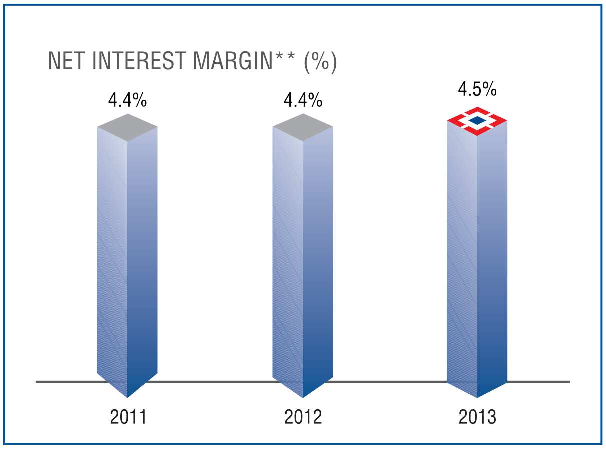


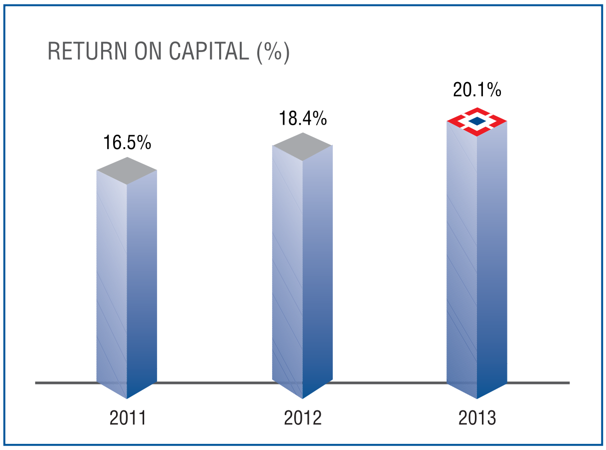



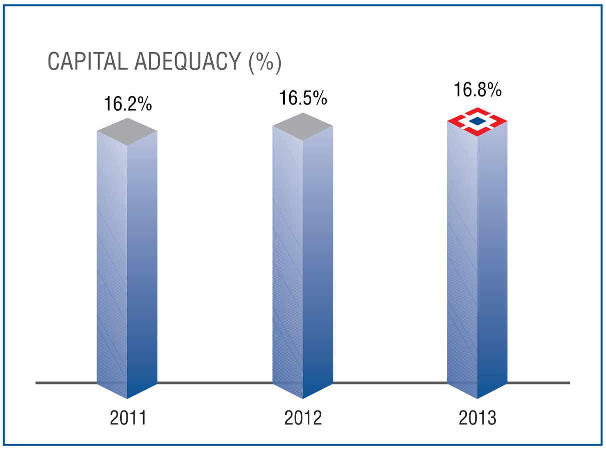



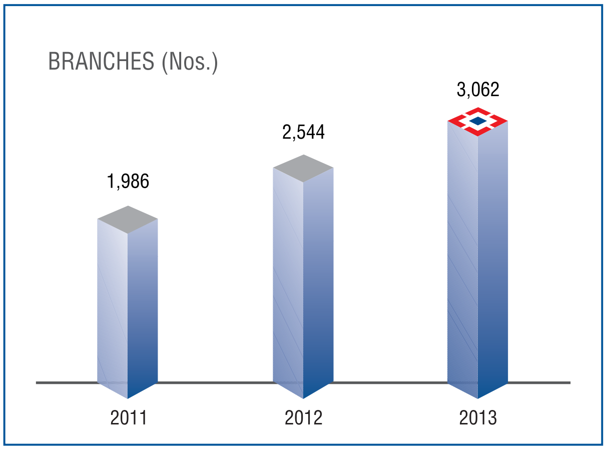



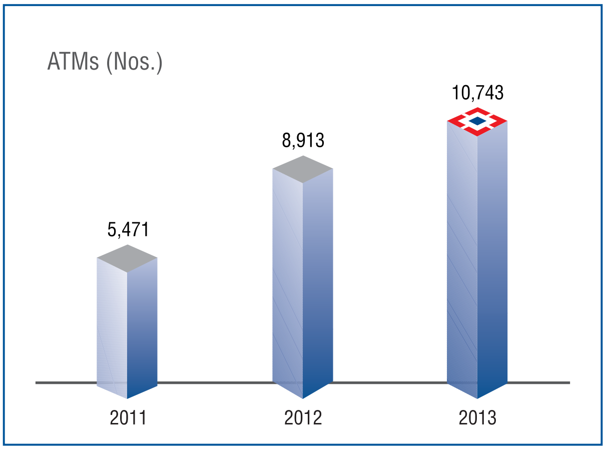



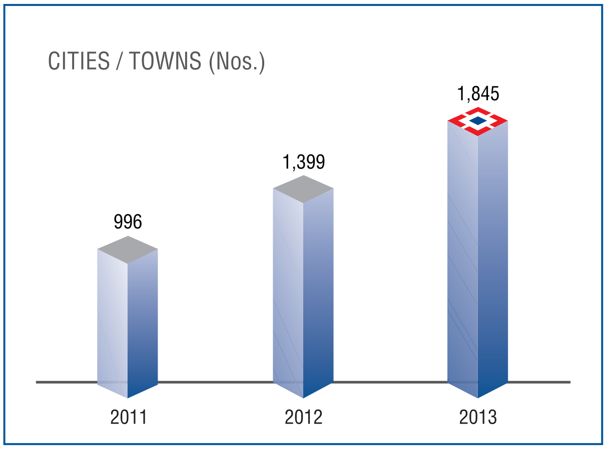

** Denotes the Net Interest Margin post reclassification as mentioned in point number 2 of Sch 18-Notes to accounts

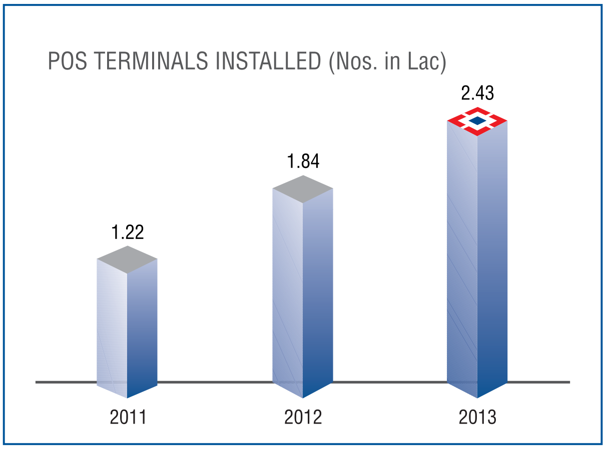

RETURN ON CAPITAL (%)
16.5%
18.4%
20.1%
2011
2012
2013

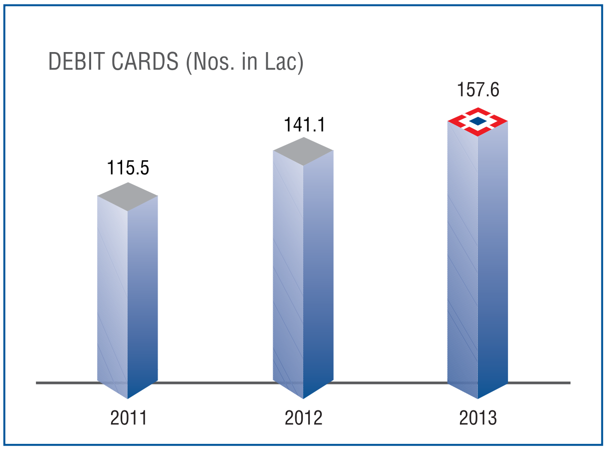

CAPITAL ADEQUACY (%)
16.2%
16.5%
16.8%
2011
2012
2013

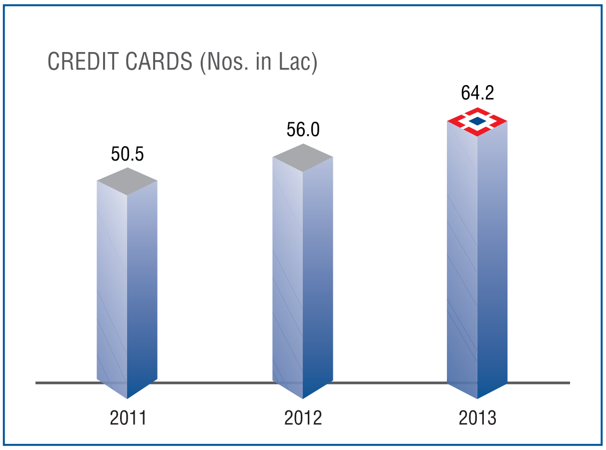

BRANCHES (Nos.)
1,986
2,544
3,062
2011
2012
2013


ATMs (Nos.)
5,471
8,913
10,743
2011
2012
2013

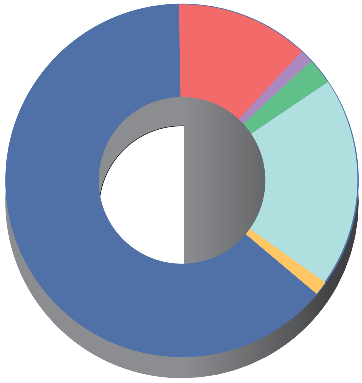

CITIES / TOWNS (Nos.)
996
1,399
1,845
2011
2012
2013


POS TERMINALS INSTALLED (Nos. in Lac)
1.22
1.84
2.43
2011
2012
2013

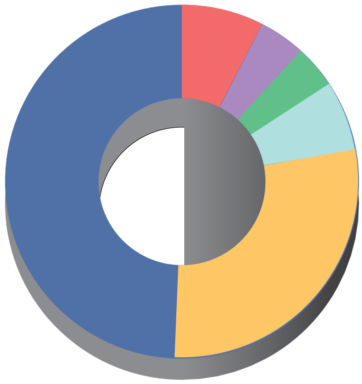



| | RUPEE EARNED |
|---|---|
| Interest from Advances | 63.99% |
| Interest from Investments | 19.04% |
| Commission, Exchange, Brokerage | 12.33% |
| FX & Derivative Income | 2.41% |
| Others | 1.23% |
| Other Interest Income | 1.01% |



| | RUPEE SPENT |
|---|---|
| Interest Expense | 49.14% |
| Operating Expense | 28.67% |
| Tax | 7.72% |
| Transfer to Reserve | 6.27% |
| Provisions for Others | 4.28% |
| Dividend & Tax on Dividend | 3.92% |




HDFC BANK
We understand your world

# Financial Highlights

| | 2003-2004 | 2004-2005 | 2005-2006 |
|---|---|---|---|
| Interest Income * | 2,572.04 | 3,119.78 | 4,547.26 |
| Interest Expense | 1,211.05 | 1,315.56 | 1,929.50 |
| **Net Interest Income** | **1,360.99** | **1,804.22** | **2,617.76** |
| Other Income * | 519.28 | 719.36 | 1,237.08 |
| **Net Revenues** | **1,880.27** | **2,523.58** | **3,854.84** |
| Operating Costs * | 964.82 | 1,369.25 | 2,116.82 |
| **Operating Result** | **915.45** | **1,154.33** | **1,738.02** |
| Provisions and Contingencies | 196.49 | 175.39 | 484.51 |
| Loan Loss Provisions * | 179.04 | 174.74 | 484.21 |
| Others | 17.45 | 0.65 | 0.30 |
| **Profit Before Tax** | **718.96** | **978.94** | **1,253.51** |
| Provision for Taxation | 209.46 | 313.38 | 382.73 |
| **Profit After Tax** | **509.50** | **665.56** | **870.78** |
| **Funds :** | | | |
| Deposits | 30,408.86 | 36,354.25 | 55,796.82 |
| Subordinated Debt | 600.00 | 500.00 | 1,702.00 |
| Stockholders' Equity | 2,691.88 | 4,519.85 | 5,299.53 |
| Working Funds | 42,306.99 | 51,429.00 | 73,506.39 |
| Loans | 17,744.51 | 25,566.30 | 35,061.26 |
| Investments | 19,256.79 | 19,349.81 | 28,393.96 |
| **Key Ratios :** | | | |
| Earnings per Share (₹) ** | 3.59 | 4.58 | 5.58 |
| Return on Average Networth | 20.14% | 20.44% | 17.47% |
| Tier 1 Capital Ratio | 8.03% | 9.60% | 8.55% |
| Total Capital Ratio | 11.66% | 12.16% | 11.41% |
| Dividend per Share (₹) ** | 0.70 | 0.90 | 1.10 |
| Dividend Payout Ratio | 22.15% | 24.00% | 22.55% |
| Book value per Share as at March 31 (₹) ** | 18.90 | 29.17 | 33.85 |
| Market price per Share as at March 31 (₹) *** | 75.75 | 114.73 | 154.85 |
| Price to Earnings Ratio | 21.10 | 25.03 | 27.74 |

₹ 1 Crore = ₹ 10 Million

* Figures for the previous years have been adjusted to reflect the effect of reclassification as mentioned in point number 2 of Sch 18-Notes to accounts

** Figures for the years prior to 2011-2012 have been adjusted to reflect the effect of split of equity shares from nominal value of ₹ 10 each into five equity shares of nominal value of ₹ 2 each.

| 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | (₹ crore) 2012-2013 |
|---|---|---|---|---|---|---|
| 7,055.35 | 10,530.43 | 16,584.01 | 16,467.92 | 20,380.77 | 27,874.19 | 35,064.87 |
| 3,179.45 | 4,887.12 | 8,911.10 | 7,786.30 | 9,385.08 | 14,989.58 | 19,253.75 |
| **3,875.90** | **5,643.31** | **7,672.91** | **8,681.62** | **10,995.69** | **12,884.61** | **15,811.12** |
| 1,679.21 | 2,495.94 | 3,700.65 | 4,573.63 | 4,945.23 | 5,783.62 | 6,852.62 |
| **5,555.11** | **8,139.25** | **11,373.56** | **13,255.25** | **15,940.92** | **18,668.23** | **22,663.74** |
| 2,975.08 | 4,311.03 | 5,950.54 | 6,475.71 | 7,780.02 | 9,277.64 | 11,236.11 |
| **2,580.03** | **3,828.22** | **5,423.02** | **6,779.54** | **8,160.90** | **9,390.59** | **11,427.63** |
| 941.28 | 1,547.59 | 2,123.78 | 2,490.40 | 2,342.24 | 1,877.44 | 1,677.01 |
| 877.13 | 1,278.84 | 1,970.35 | 2,288.74 | 1,198.55 | 1,091.77 | 1,234.21 |
| 64.15 | 268.75 | 153.43 | 201.66 | 1,143.69 | 785.67 | 442.80 |
| **1,638.75** | **2,280.63** | **3,299.24** | **4,289.14** | **5,818.66** | **7,513.15** | **9,750.62** |
| 497.30 | 690.45 | 1,054.31 | 1,340.44 | 1,892.26 | 2,346.08 | 3,024.34 |
| **1,141.45** | **1,590.18** | **2,244.93** | **2,948.70** | **3,926.40** | **5,167.07** | **6,726.28** |
| | | | | | | |
| 68,297.94 | 100,768.60 | 142,811.58 | 167,404.44 | 208,586.41 | 246,706.45 | 296,246.98 |
| 3,282.60 | 3,249.10 | 8,738.58 | 6,353.10 | 7,393.05 | 11,105.65 | 16,586.75 |
| 6,433.15 | 11,497.23 | 14,646.33 | 21,519.58 | 25,376.35 | 29,924.37 | 36,214.15 |
| 91,235.61 | 133,176.60 | 183,270.77 | 222,458.57 | 277,352.59 | 337,909.50 | 400,331.90 |
| 46,944.78 | 63,426.90 | 98,883.05 | 125,830.59 | 159,982.67 | 195,420.03 | 239,720.64 |
| 30,564.80 | 49,393.54 | 58,817.55 | 58,607.62 | 70,929.37 | 97,482.91 | 111,613.60 |
| | | | | | | |
| 7.26 | 9.24 | 10.57 | 13.51 | 17.00 | 22.11 | 28.49 |
| 19.40% | 16.05% | 16.12% | 16.80% | 16.52% | 18.37% | 20.07% |
| 8.58% | 10.30% | 10.58% | 13.26% | 12.23% | 11.60% | 11.08% |
| 13.08% | 13.60% | 15.69% | 17.44% | 16.22% | 16.52% | 16.80% |
| 1.40 | 1.70 | 2.00 | 2.40 | 3.30 | 4.30 | 5.50 **** |
| 22.92% | 22.17% | 22.17% | 21.72% | 22.72% | 22.70% | 22.77% |
| 40.28 | 64.88 | 68.86 | 94.02 | 109.09 | 127.52 | 152.20 |
| 190.83 | 266.25 | 194.68 | 386.70 | 469.17 | 519.85 | 625.35 |
| 26.29 | 28.80 | 18.42 | 28.62 | 27.59 | 23.51 | 21.95 |

***Source : NSE (prices for years prior to 2011-2012 have been divided by five to reflect the sub-division of shares) **** Proposed

## BOARD OF DIRECTORS

Mr. C. M. Vasudev, Chairman

Mrs. Renu Karnad

Mr. Ashim Samanta (upto 18.11.2012)

Dr. Pandit Palande

Mr. Partho Datta

Mr. Bobby Parikh

Mr. A. N. Roy

Mr. Keki Mistry

Mr. Vijay Merchant (appointed on 14.03.2013)

Mr. Aditya Puri, *Managing Director*

Mr. Harish Engineer, *Executive Director*

Mr. Paresh Sukthankar, *Executive Director*

## SENIOR MANAGEMENT TEAM

Mr. A Parthasarthy

Mr. Abhay Aima

Mr. Anil Jaggia

Mr. Anil Nath

Mr. Bhavesh Zaveri

Mr. Jimmy Tata

Mr. Kaizad Bharucha

Mr. Navin Puri

Mr. Rahul Bhagat

Mr. Rajender Sehgal

Mr. Sashi Jagdishan

Mr. V Chakrapani

## EXECUTIVE VICE PRESIDENT (LEGAL) & COMPANY SECRETARY

Mr. Sanjay Dongre

## STATUTORY AUDITORS

BSR & Co.,
*Chartered Accountants*

## REGISTERED OFFICE

HDFC Bank House,
Senapati Bapat Marg,
Lower Parel,
Mumbai 400 013.
Tel: + 91 22 66521000
Fax: + 91 22 24960737
Website: www.hdfcbank.com

## REGISTRARS & TRANSFER AGENTS

**Datamatics Financial Services Ltd**
Plot No. B 5,
Part B Crosslane,
MIDC, Marol, Andheri (East),
Mumbai 400 093.
Tel: + 91 22 66712213-14
Fax: + 91 22 28213404
E-mail: hdinvestors@dfssl.com

## 19th ANNUAL GENERAL MEETING

| | | |
|---|---|---|
| Date | : | June 27, 2013 |
| Day | : | Thursday |
| Time | : | 2.30 p.m. |
| Place | : | Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020 |
| Book Closure for AGM | : | 15th June, 2013 to 27th June, 2013 (both days inclusive) |

# Contents

# To the Members,

Your Directors take great pleasure in presenting the Nineteenth Annual Report on the business and operations of your Bank together with the audited accounts for the year ended March 31, 2013.

## FINANCIAL PERFORMANCE

(₹ in crore)

| | For the year ended | |
|---|---|---|
| | March 31, 2013 | March 31, 2012 |
| Deposits and Other Borrowings | 329,253.6 | 270,553.0 |
| Advances | 239,720.6 | 195,420.0 |
| Total Income | 41,917.5 | 33,657.8 |
| Profit before Depreciation and Tax | 10,402.3 | 8,055.7 |
| Net Profit | 6,726.3 | 5,167.1 |
| Profit brought forward | 8,399.6 | 6,174.2 |
| Total Profit available for Appropriation | 15,125.9 | 11,341.3 |
| **Appropriations :** | | |
| Transfer to Statutory Reserve | 1,681.6 | 1,291.8 |
| Transfer to General Reserve | 672.6 | 516.7 |
| Transfer to Capital Reserve | 85.8 | - |
| Transfer to / (from) Investment Reserve | 17.7 | (41.7) |
| Proposed Dividend | 1,309.1 | 1,009.1 |
| Tax Including Surcharge and Education cess on Dividend | 222.5 | 163.7 |
| Dividend (including tax / cess thereon) pertaining to previous year paid during the year | 4.5 | 2.1 |
| Balance carried over to Balance Sheet | 11,132.2 | 8,399.6 |

The Bank posted total income and net profit of ₹ 41,917.5 crore and ₹ 6,726.3 crore respectively for the financial year ended March 31, 2013 as against ₹ 33,657.8 crore and ₹ 5,167.1 crore respectively in the previous year.

Appropriations from net profit have been effected as per the table given above.

### DIVIDEND

Your Bank has had a dividend policy that balances the dual objectives of appropriately rewarding shareholders through dividends and retaining capital in order to maintain a healthy capital adequacy ratio to support future growth. It has had a consistent track record of moderate but steady increase in dividend declarations over its history with the dividend payout ratio ranging between 20% and 25%. Consistent with this policy and in recognition of the overall performance during this financial year, your directors are pleased to recommend a dividend of ₹ 5.50 per equity share of ₹ 2 for the year ended March 31, 2013 as against ₹ 4.30 per equity share of ₹ 2 for the previous year ended March 31, 2012. This dividend shall be subject to tax on dividend to be paid by the Bank.

### AWARDS

As in the past years, awards and recognition were conferred on your Bank by leading domestic and international organizations and publications during the financial year ended March 31, 2013.

Some of them are :

Asia Money Best Bank Awards
- Best Domestic Bank in India

Businessworld Awards for Banking Excellence
- Most tech-friendly Bank
- Deal of the year (Rupee bonds)

CNBC TV18 India Best Banks & Financial Institutions Awards
- Best Private Sector Bank

CSO Forum Information Technology Awards
- Best Information Security Practice

DSCI Information Technology Awards
- Security Leader of the year
- Security in Bank

Dun & Bradstreet Banking Awards
- Overall Best Bank
- Best Private Sector Bank
- Best Asset Quality-Private Sector
- Best Retail Banking-Private Sector

Dun & Bradstreet Corporate Awards-India's Top 500 Companies
- Best Bank in India

Economic Times Awards for Corporate Excellence
- Company of the year 2012

Financial Express Best Bank Awards
- Best Bank-Private Sector
- Best in Strength and Soundness
- Best Banker-Mr. Aditya Puri

IBA Banking Technology Awards
- Best Online Bank
- Best use of Business Intelligence
- Best Customer Relationship Initiative
- Best Risk Management & Security initiative
- Best use of Mobility Technology in Banking

IDRBT Banking Technology Excellence Awards
- Best Bank in IT for Operational Effectiveness

Mint Aon Hewitt's India's Best Managed Boards
- HDFC Bank among India's six best managed Boards 2012

Nasscom CNBC-TV18 Innovation Awards
- Best IT driven innovation in Banking (Commercial)

National Quality Excellence Awards
- Best Customer Service Result

NDTV Profit Business Leadership Awards
- Best Bank in India

Skoch Foundation Financial and Inclusion Awards
- Organisation of the Year

**RATINGS**

| Instrument | Rating | Rating Agency | Comments |
|---|---|---|---|
| **Fixed Deposit Program** | CARE AAA (FD) | CARE Ratings | Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk. |
| | tAAA (ind) | India Ratings | Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk. |
| **Certificate of Deposits Program** | CARE A1+ | CARE Ratings | Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk. |
| | A1+ (ind) | India Ratings | Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk. |
| **Long term unsecured, subordinated (Lower Tier 2) Bonds** | CARE AAA | CARE Ratings | Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk |
| | AAA (ind) with a Stable outlook | India Ratings | Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk |
| **Tier 1 Perpetual Bonds** | CARE AAA | CARE Ratings | Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk |
| | AAA Stable | CRISIL | Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk |
| **Upper Tier 2 Bonds** | CARE AAA | CARE Ratings | Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk |
| | AAA stable | CRISIL | Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk |

## ISSUANCE OF EQUITY SHARES

During the year under review, 334.59 lakh shares were allotted to the employees of your Bank pursuant to the exercise of options under the Employee Stock Option Schemes of the Bank. These include the shares allotted under the Employee Stock Option Schemes of the erstwhile Centurion Bank of Punjab.

## EMPLOYEE STOCK OPTIONS

The information pertaining to Employee Stock Options is given in an annexure to this report.

## CAPITAL ADEQUACY RATIO

Your Bank's total Capital Adequacy Ratio (CAR) calculated in line with Basel II framework stood at 16.8%, well above the regulatory minimum of 9.0%. Of this, Tier I CAR was 11.1%.

## SUBSIDIARY COMPANIES

Your Bank has two subsidiaries, HDB Financial Services Limited ('HDBFS') and HDFC Securities Limited ('HSL')

## HDB FINANCIAL SERVICES LIMITED

HDBFS is a non-deposit taking non-bank finance company ('NBFC'). The customer segments being addressed by HDBFS are typically underserviced by larger commercial banks, and thus create a profitable niche for the company. Apart from lending to individuals, the company grants loans to micro, small and medium business enterprises. It also runs call centers for collection services to the Bank's retail loan products.

As on March 31, 2013, HDBFS had 230 branches in 184 cities. During the financial year ended March 31, 2013, the company's total income increased by over 123% to ₹ 963 crore as compared to ₹ 432 crore in the previous year. During the same period the company's net profit after tax was ₹ 102.45 crore as compared to ₹ 51.11 crore in the previous year.

## HDFC SECURITIES LIMITED

HDFC Securities Limited has emerged as a strong player in the broking services space. As of March 31, 2013, the Company grew its distribution network to 194 branches across 150 cities in the country. During the year under review, the Company's total income amounted to ₹ 232.10 crore as against ₹ 210.01 crore in the previous year. The operations have resulted in a net profit after tax of ₹ 66.82 crore.

In terms of the approval granted by the Government of India, the provisions contained under Section 212 (1) of the Companies Act, 1956 shall not apply in respect of the Bank's subsidiaries. Accordingly, a copy of the balance sheet, profit and loss account, report of the Board of Directors and the report of the auditors of HSL and HDBFS have not been attached to the accounts of the Bank for the year ended March 31, 2013.

Shareholders who wish to have a copy of the annual accounts and detailed information on HDBFS and HSL may write to the Bank for the same. Further, the said documents shall also be available for inspection by shareholders at the registered offices of the Bank, HDBFS and HSL.

## MANAGEMENT'S DISCUSSIONS AND ANALYSIS

### Macro-economic and Industry Developments

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 firm inflation, rising interest rates and policy impediments to investment only exacerbated the impact of a shaky global environment on domestic growth. Headline GDP growth as a result is likely to have fallen to 5.0% in FY13 from 6.2% a year ago and 9.3% in FY11.While there was some course correction by way of policy responses both from the government and the central bank their impact will be visible only with a lag. In particular, the government has embraced a path of fiscal consolidation that kept the fiscal deficit target for FY13 below the initial level of 5.1% of GDP and it is likely that the fiscal deficit could drift lower to 4.8% of GDP in FY14.The RBI on the other hand fell back on measured policy easing in FY13 that could gain momentum amidst the prospect of falling inflation amidst weak global commodity prices and subdued domestic demand. That said, macro-stability risks from a large current account deficit which is likely to have reached a record 5.1% of GDP in FY13 and placed the rupee under extreme depreciation pressure could curtail the extent of this easing. On balance, the prospect of some monetary easing going ahead, a normal monsoon and some traction in government capital expenditure could pave the way for a revival in GDP growth to 5.8%-6% in FY14 and could keep India a significant out-performer in the global context.

### Mission, Business Strategy and Approach to Business

Your Bank's mission is to be a 'World Class Indian Bank', benchmarking itself against international standards and best practices in terms of product offerings, technology, service levels, risk management, audit and compliance. The objective is to continue building sound customer franchises across distinct businesses so as to be a preferred provider of banking services for its target retail and wholesale customer segments, and to achieve a healthy growth in profitability, consistent with the Bank's risk appetite.

From inception, your Bank's business philosophy has been based on four core values: Operational Excellence, Customer Focus, Product Leadership and People. During the year, we have added Sustainability as the fifth core value. Based on these cornerstones, it is our aim to build an Indian Bank that meets the financial needs, and provides services of a high quality to its customers across the country.

Your Bank is committed to do this while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance. The Bank understands and respects its fiduciary role and responsibility to all stakeholders and strives to meet their expectations. The cardinal principles of independence, accountability, responsibility, transparency, fair and timely disclosures, etc. serve as the basis of our approach to corporate governance. Your Bank believes that diversity and independence of the Board, transparent disclosures, shareholder communication and effective regulatory compliance are necessary for creating and sustaining shareholder value. Your Bank has infused these principles into all its activities.

Your Bank also has a well-documented Code of Ethics / Conduct Policy which defines the high business responsibility and ethical standards to be adhered to while conducting the business of the Bank and mandates compliance with legal and regulatory requirements. Every employee, including senior management has to affirm annually that they will abide by the conduct rules.

Consistent with the mission and approach, your Bank's business strategy emphasises the following :

- Develop innovative products and services that attract its target customers and address inefficiencies in the Indian financial sector;
- Increase its market share in India's expanding banking and financial services industry by following a disciplined growth strategy focusing on balancing quality and volume growth while delivering high quality customer service;
- Leverage its technology platform and open scalable systems to deliver more products to more customers and to control operating costs;
- Maintain high risk standards for asset quality through disciplined credit risk management;
- Continue to develop products and services that reduce its cost of funds;
- Focus on healthy earnings growth and low volatility; and
- Integrate our activities in community development, social responsibility and environmental responsibility with our business practices and operations

**Financial Performance**

Certain line items of the financial statements have been reclassified pursuant to RBI's instructions received in March 2013. These have been detailed in point No. 2 of schedule 18, Notes to accounts. Figures for the previous periods have accordingly been regrouped / reclassified to conform to the current period's classification. These changes in classifications have no impact on the profit and loss of your Bank.

The financial performance of your Bank during the financial year ended March 31, 2013 remained healthy with total net revenues (net interest income plus other income) increasing by 21.4% to ₹ 22,663.7 crore from ₹ 18,668.2 crore in the previous financial year. Revenue growth was driven by an increase in both, net interest income and other income. Net interest income grew by 22.7% due to acceleration in loan growth to 22.7% coupled with a net interest margin (NIM) of 4.5% for the year ending March 31, 2013.

Other income grew 18.5% over that in the previous year to ₹ 6,852.6 crore during the financial year ended March 31, 2013. This growth was driven primarily by an increase in fees and commissions earned. In the financial year ended March 31, 2013, commission income increased by 19.8% to ₹ 5,166.9 crore with the primary drivers being commissions on debit and credit cards, transactional charges, fees on deposit accounts, processing fees on retail assets and commission on distribution of Insurance products. Foreign exchange and derivatives revenues were ₹ 1,010.1 crore and recoveries from written-off accounts were ₹ 496.5 crore in the financial year ended March 31, 2013.

Operating (non-interest) expenses increased from ₹ 9,277.6 crore in the previous financial year to ₹ 11,236.1 crore in the year under consideration. During the year, your Bank opened 518 new branches and 1,830 ATMs which resulted in higher infrastructure and staffing expenses. Staff expenses also increased on account of annual wage revisions. The ratio of operating cost to net revenues for your Bank was at 49.6% during the financial year ended March 31, 2013.

Total loan loss provisions consisting of specific provisions for non-performing assets and floating provisions increased from ₹ 1,091.8 crore to ₹ 1,234.2 crore for the financial year ended March 31, 2013. Your Bank's provisioning policies for specific loan loss provisions remain higher than regulatory requirements. The coverage ratio based on specific provisions alone without including write-offs was 80%, and including general and floating provisions was 203% as on March 31, 2013. Your Bank made general provisions of ₹ 123.7 crore and floating provision of ₹ 400.0 crore during the financial year ended March 31, 2013.

Your Bank's profit after tax increased by 30.2% from ₹ 5,167.1 crore in the previous financial year to ₹ 6,726.3 crore in the year ended March 31, 2013. Return on average net worth was 20.1% while the basic earnings per share increased from ₹ 22.11 to ₹ 28.49 per equity share.

As at March 31, 2013, your Bank's total balance sheet size exceeded ₹ 4 lakh crore for the first time and was at ₹ 400,332 crore, an increase of 18.5% over ₹ 337,909 crore as at March 31, 2012. Total deposits increased 20.1% from ₹ 246,706 crore as on March 31, 2012 to ₹ 296,247 crore as on March 31, 2013. Savings account deposits grew by 19.2% to ₹ 88,211 crore while current account deposits grew by 15.2% to ₹ 52,310 crore as on March 31, 2013. The proportion of current and savings deposits to total deposits was at 47.4% as on March 31, 2013. During the financial year under review, net advances grew by 22.7% to ₹ 239,721 crore. Your Bank's loan growth was driven by an increase of 27.3% in retail advances to ₹ 136,388 crore, and an increase of 16.9% in wholesale advances to ₹ 104,918 crore. The Bank had a market share of approximately 4.1% and 4.7% in total banking system deposits and advances respectively. Your Bank's Credit Deposit (CD) Ratio was 80.9% as on March 31, 2013.

**Business Segments' Update**

Consistent with its past performance, your Bank has achieved healthy growth across various operating and financial parameters in the last financial year. This performance reflected the strength and diversity of three primary business franchises -retail banking, wholesale banking and treasury and of its disciplined approach to risk-reward management.

**Retail Banking**

Your Bank caters to various customer segments with a wide range of products and services. Your Bank is a 'one stop shop' financial services provider of various deposit products, of retail loans (auto loans, personal loans, commercial vehicle loans, mortgages, business banking, loan against gold jewellery etc.), credit cards, debit cards, depository (custody services), bill payments and several transactional services. Apart from its own products, your Bank distributes third party financial products such as mutual funds and life and general insurance.

The growth in your Bank's retail banking business was robust during the financial year ended March 31, 2013. Your Bank's total retail deposits grew by over 24.2% to ₹ 221,875 crore in the financial year ended March 31, 2013, driven by retail term deposits which grew faster at 29.9% during the same period. Your Bank continued to grow at a healthy pace in almost all the retail loan products that it offers and further consolidated its position amongst the top retail lenders in India. The Bank grew its retail asset portfolio in a well balanced manner focusing on both returns as well as risk. The auto finance business grew at relatively lower pace in line with the general market conditions. The Bank's retail advances grew by 27.3% to ₹ 136,388 crore during the financial year ended March 31, 2013 driven primarily by a growth in business banking, auto loans, personal loans and credit cards.

During this year your Bank expanded its distribution network from 2,544 branches in 1,399 cities / towns as on March 31, 2012 to 3,062 branches in 1,845 cities / towns as on March 31, 2013. Its ATMs increased from 8,913 to 10,743 during the same period. The increase of 518 branches during the year includes 193 micro branches which are primarily two or three member branches to expand and deepen the penetration in rural markets including in unbanked areas. The Bank's focus on semi-urban and under-banked markets continued, with over 88% of the Bank's new branches in semi-urban and rural areas. The Bank's customer base currently stands at 28.7 million customers.

In order to provide its customers greater choices, flexibility and convenience, your Bank continued to make significant headway in its multichannel servicing strategy, offering its customers the use of ATMs, internet, phone and MobileBanking in addition to its expanded branch network to serve their banking needs.

The increase in the Bank's debit card base this year coupled with a growth in its ATM network translated to an increase in ATM transactions by 30%. Your Bank now offers PhoneBanking across all Retail Branch locations. Additionally, PhoneBanking services are available for Non Resident Indian (NRI) customers of your Bank across the globe.

Your Bank's MobileBanking product has been developed keeping in mind data connections which can be either 2G or 3G. The Bank has launched MobileBanking Apps and a MobileBanking browser based site which are optimized to work fast even on a 2G connection. Keeping in mind our vast reach and diverse customer profile, your Bank took the first steps to introduce MobileBanking in a regional language with the launch of our MobileBanking services in Hindi through our Hindi Android App and Hindi SMS Banking. Your Bank is one of the first banks in India to introduce a banking app customised for tablets like Windows Surface and iPad.

The Bank continued its focus on internal customers for its credit cards portfolio with 75% of new cards issued to internal customers. During the year, the Bank launched two variants of co -brand card viz; 'JetPrivilege-HDFC Bank Credit Card', an exclusive range of Credit Cards offering unique benefits and rewards in the form of air miles in partnership with Jet Airways and Times Card, an exclusive, co-branded credit card that provides customers the widest range of discounts and deals on dining, movies and shopping in partnership with the Times of India Group. As part of its strategy to drive usage of its credit cards the Bank also has a significant presence in the 'merchant acquiring' business with the total number of point-of-sale (POS) terminals installed at over 240,000.

In addition to the aforementioned products the Bank does home loans in conjunction with HDFC Limited. Under this arrangement the Bank sells loans provided by HDFC Limited through its branches. HDFC Limited approves and disburses the loans, which are booked in their books, with the Bank receiving a sourcing fee for these loans. The Bank has the option but not an obligation to purchase up to 70% (or 55% in case all the loans purchased qualified for priority sector) of the fully disbursed home loans sourced under this arrangement through either the issue of mortgage backed pass through certificates (PTCs) or by a direct assignment of loans; the balance is retained by HDFC Limited. A fee is paid to HDFC Limited for the administration and servicing of the loans. As required by the current securitization guidelines, the loan assignments bought during the year are without credit enhancement. Your Bank originated an average ₹ 1,000 crore of home loans every month in the financial year ended March 31, 2013, an increase from the ₹ 800 crore per month that it originated in the previous year. During the year, the Bank purchased from HDFC Limited under the "loan assignment" route approximately ₹ 5,100 crore of home loans which also qualified as priority sector advances.

Your Bank also distributes life, general insurance and mutual fund products through its tie-ups with insurance companies and mutual fund houses. Changes in regulations and product mix have adversely impacted fees from these sources, though increase in volumes has offset to some extent the drop in commission rates. Third party distribution income contributes approximately 15% of total fee income.

The Bank's data warehouse, Customer Relationship Management (CRM) and analytics solutions have helped it target existing and potential customers in a cost effective manner and offer them products appropriate to their profile and needs. Apart from reducing costs of acquisition, this has also helped in deepening of customer relationships and greater efficiency in fraud control and collections activities resulting in lower credit losses. The Bank is committed to investing in advanced technology in this area which will provide a cutting edge in the Bank's product and service offerings.

**Wholesale Banking**

Your Bank provides its corporate and institutional clients a wide range of commercial and transactional banking products, backed by high quality service and relationship management. The Bank's commercial banking business covers not only the top end of the corporate sector but also the emerging corporate segments and small and medium enterprises (SMEs). Your Bank has a number of business groups catering to various segments of its wholesale banking customers with a wide range of banking services covering their working capital, term finance, trade services, cash management, foreign exchange and electronic banking requirements.

Your Bank's financial institutions and government business group (FIG) offers commercial and transaction banking products to financial institutions, mutual funds, public sector undertakings, central and state government departments. The main focus for this segment remained the offering of various deposit and transaction banking products to this segment besides deepening these relationships by offering funded, non-funded treasury and foreign exchange products.

The Bank's wholesale deposits grew around 9.3%, while wholesale advances showed a growth of over 16.9%. Your Bank provides its customers both working capital and term financing. Although the Bank witnessed an increase in the proportion of its medium tenor term lending, working capital loans and short tenor term loans continued to account for a large share of its wholesale advances.

During the financial year ended March 31, 2013, growth in the wholesale banking business continued to be driven by new customer acquisition and higher cross-sell with a focus on optimizing yields and increasing product penetration. Your Bank's cash management, vendor and distributor (supply chain) finance products continued to be an important contributor to growth in the corporate banking business. Your Bank further consolidated its position as a leading player in the cash management business (covering all outstation collection, disbursement and electronic fund transfer products across the Bank's various customer segments) with volumes of over ₹ 27 trillion. The Bank also strengthened its market leadership in cash settlement services for major stock exchanges and commodity exchanges in the country. The Bank met the overall priority sector lending requirement of 40% of net bank credit and also strived for healthy growth in the sub-targets such as weaker sections, direct agriculture, and the micro and SME segments.

Your Bank's Investment Banking Group made encouraging progress in both the debt and equity capital markets business. The Bank established itself as a leading player in debt capital markets and is ranked as the 4th largest book runner in INR corporate bonds for year ended March 31, 2013. The group arranged over ₹ 190 bn worth of corporate bonds across public sector undertakings, financial institutions and corporate clients of the Bank. It also successfully rolled out its loan syndication business with closure of large ticket deals across telecom, roads, financial services and other sectors. With the addition of the corporate finance and advisory team during the year, your Bank is now well positioned to offer the entire gamut of investment banking services to its clients.

**International Operations**

Your Bank currently has two overseas branches: a wholesale banking branch in Bahrain and a branch in Hong Kong. Your Bank also has three representative offices in Dubai, Abu Dhabi and Kenya. The Bank also has RBI approval to open a branch at DIFC Dubai and is currently in the process of obtaining local regulator's approval to start the operations in the next financial year. The overseas branches offer multiple banking services including treasury products, trade finance and loans to customers. The representative offices are engaged in offering wealth management products, remittance facilities and marketing deposits to the non-resident Indian (NRI) community. As of March 31, 2013 the combined balance sheet size of both the overseas branches was over USD 2.62 billion. During the year, the Bank raised USD 500 million through its maiden issuance of senior bonds in the international markets under the MTN Program.

**Treasury**

The treasury group is responsible for compliance with reserve requirements, management of liquidity and interest rate risk on the Bank's balance sheet, providing advice and cover deals to customers for foreign exchange and derivative products and earning trading revenues by taking appropriate proprietary positions in the bonds, foreign exchange and derivative markets. On the foreign exchange and derivatives front, revenues are driven primarily by spreads on customer transactions based on trade flows and customers' demonstrated hedging needs. For the financial year ended March 31, 2013, the treasury group recorded ₹ 1,010.1 crore revenues from foreign exchange and derivative transactions. These revenues were distributed across large corporate, emerging corporate, business banking and retail customer segments for plain vanilla foreign exchange products and across primarily large corporate and emerging corporate segments for derivatives. The Bank offers Indian rupee and foreign exchange derivative products to its customers, who use them to hedge their market risks. The Bank enters into foreign exchange and derivative deals with counterparties after it has set up appropriate counterparty credit limits based on its evaluation of the ability of the counterparty to meet its obligations in the event of crystallization of the exposure. Where the Bank enters into foreign currency derivative contracts, not involving the Indian Rupee, with its customers it lays them off in the inter-bank market on a matched basis. For such foreign currency derivatives, the Bank does not have any open positions or assume any market risks but carries only the counterparty credit risk. The Bank also deals in derivatives involving the Indian Rupee on its own account including for the purpose of its own balance sheet risk management. The Bank recognizes changes in the market value of all derivative instruments (other than those designated as hedges) in the profit and loss account in the period of change. Derivative contracts classified as hedge are recorded on an accrual basis.

Given the regulatory requirement of holding government securities to meet the statutory liquidity ratio (SLR) requirement, your Bank maintains a portfolio of government securities. While a significant portion of these SLR securities are held in the 'Held-to-Maturity' (HTM) category, some of these are held in the 'Available for Sale' (AFS) category. The Bank is also a Primary Dealer for government securities. As part of this business, as well as otherwise, the Bank holds fixed income securities in the "Held for Trading" (HFT) category.

**Information Technology**

Your Bank continues to make substantial investments in its technology platform and systems and spread its electronically linked branch network. Your Bank's direct banking platforms continue to be stable and robust, supporting ever increasing transaction volumes as customers adopt newer self-service technologies.

Your Bank successfully and seamlessly upgraded its switch platform which is at the heart of the Bank's ATM, POS and IVR networks. Many additional services have now been made available on your Bank's NetBanking platform, which will enhance usage. The NetBanking services can now be accessed on a wide variety of commonly available handheld phones and devices. With the implementation of micro-ATMs, your Bank has leveraged technology to enable business in the under-banked and unbanked areas, while addressing Financial Inclusion mandates.

Your Bank had initiated an elaborate program to refresh its Retail Core Banking System to the latest technology platform. During the year, 41% of the Retail Accounts have been migrated to this new platform and the remaining accounts will be migrated in the coming months. The new Retail Core Banking System, deployed on a more robust and highly available architecture, has also enabled the Bank to provide more features to its customers and respond faster to business / market needs.

Live switch-over and switch-back drills of major IT applications have successfully been completed, as part of your Bank's Business Continuity and Disaster Recovery management strategy, thereby enhancing your Bank's readiness in responding to emergency situations.

In April 2011, RBI issued Guidelines on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds and provided recommendations for implementation. Your Bank embarked on a program to implement these guidelines and considerable progress has been made. A third-party consultant, engaged to verify compliance, has independently confirmed that your Bank has complied with a significant portion of the guidelines. Your Bank continues to focus on the remediation and enhancements required in this regard.

**Service Quality Initiatives**

Your Bank was one of the few in the country to establish a dedicated team to carry out improvement in service quality. This team, known as the Quality Initiatives Group (QIG) achieves this goal by implementing Lean and Six Sigma methodologies with focus on right origination, cost effective and error free operations and effective complaint resolution.

Your Bank continued its drive towards improvements in service quality across all customer touch points namely branches, ATMs, PhoneBanking, NetBanking and email channels. With a view to ensure comprehensive improvement, your Bank extended its service quality initiatives to the back office support functions. Some of the key elements covered by the QIG team are workplace organization, staff behaviour, lobby management, complaints handling processes, improvement in turn-around times, compliance with the Bank's internal processes as well as regulatory processes pertaining to customer service. Your Bank regularly captures 'voice of customers' and 'voice of employees' and uses those towards simplification of processes to delight customers. Your Bank has also augmented the training and skill development mechanism to empower and equip the employees to deliver improved quality of customer service.

Your Bank has taken various steps to improve the effectiveness of its grievance redressal mechanism across its delivery channels. The effectiveness of grievance handling in particular and overall customer service initiatives are periodically reviewed at different levels including by the Board of Directors of the Bank. All these initiatives have helped in consistent reduction in the total number of customer complaints as well as reduction in escalation of cases to the banking ombudsman.

As a result of the continued focus on customer service, your Bank has not only received written appreciation from some of the Banking Ombudsmen appointed by the Reserve Bank of India, but has also received many accolades e.g. "Quality Excellence Award for Best Customer Service Result" at "The National Quality Excellence Awards", "Qualtech Prize" for "Six Sigma project on Customer Service" and "Winner in Best Customer Relationship Initiative" in "Indian Banks Association Annual Awards" to name a few.

**Risk Management and Portfolio Quality**

Taking on various types of risk is integral to the banking business. Of the various types of risks your Bank is exposed to, the most important are credit risk, market risk and operational risk. The identification, measurement, monitoring and management of risks remain a key focus area for the Bank. Sound risk management and balancing risk-reward trade-offs are critical to the Bank's success. Business and revenue growth are therefore to be weighed in the context of the risks implicit in the Bank's business strategy. The Board of Directors of your Bank endorses the risk strategy and approves the risk policies. The Risk Policy & Monitoring Committee of the Board supervises implementation of the risk strategy. It guides the development of policies, procedures and systems for managing risk. The Committee periodically reviews the portfolio composition and the status of impaired credits as well as approves and reviews the limits for treasury operations.

The Bank has a comprehensive centralized risk management function, independent from the operations and business units of the Bank. For credit risk, distinct policies, processes and systems are in place for the retail and wholesale businesses. In the retail loan businesses, the credit cycle is managed through appropriate front-end credit, operational and collection processes. For each product, programs defining customer segments, underwriting standards, security structure etc., are specified to ensure consistency of credit buying patterns. Given the granularity of individual exposures, retail credit risk is monitored largely on a portfolio basis, across various products and customer segments. The retail credit underwriting unit is ISO 9001: 2008 certified for 28 sites. For wholesale credit exposures, management of credit risk is done through target market definition, appropriate credit approval processes, ongoing post-disbursement monitoring and remedial management procedures. Overall portfolio diversification and periodic as well as proactive reviews facilitate risk mitigation and management.

Notwithstanding the challenging environment faced by the banking industry in India, in a period that has seen an almost unprecedented level of corporate rating downgrades, debt restructuring and non-performing assets, your Bank has been able to maintain a high quality loan book and come through relatively unscathed across both the retail and wholesale lending businesses. The credit quality in the wholesale segment continued to be stable. Your Bank was largely insulated from credit problems witnessed by the banking system in power, telecom, aviation, and some other sectors due to tighter credit standards, lower exposure to project finance and appropriate credit filters and monitoring systems. Some stress was observed in loans extended to the commercial vehicle and construction equipment segments due to ban on mining activity in many states, low industrial growth and slowdown in investment activity. The credit quality of the retail lending book of the Bank continued to be healthy with actual credit losses lower than expected credit loses for various product portfolios. The Secured and Unsecured retail loan book grew and did not display trends of increase in stress both for its vintage book and fresh sourcing. As of March 31, 2013, your Bank's ratio of gross non-performing assets (NPAs) to gross advances was 0.97%. Net non-performing assets (gross non-performing assets less specific loan loss provisions) were 0.2% of gross advances as of March 31, 2013. Restructured assets including pipeline cases were 0.2% of gross advances as of March 31, 2013. The specific loan loss provisions that the Bank has made for its non-performing assets continue to be more conservative than the regulatory requirement. In addition, the Bank has made general provisions for standard assets which are as per regulatory prescription and dynamic counter cyclical provisions or floating provisions which are made as per Board approved policy. The coverage ratio taking into account specific, general and floating provisions was 203% as of March 31, 2013.

In accordance with RBI's guidelines on Basel II, the Bank is currently on the Standardized Approach for Credit Risk, the Basic Indicator Approach for Operational Risk and the Standardized Approach for Market Risk. Parallely, the Bank is progressing with its initiatives for migrating to the advanced approaches for these risks under Basel II. The framework of the advanced approaches is in harmony with the Bank's objective of adopting best practices in risk management.

## INTERNAL CONTROLS, AUDIT AND COMPLIANCE

Your Bank has always adhered to the highest standards of compliance and governance and has put in place controls and an appropriate structure to ensure this. Segregation of frontline sales activities and back-office operations, and post transaction monitoring processes at the back-end ensure independent checks and balances, and adherence to the laid down policies and procedures of the Bank and to all applicable regulatory guidelines. Further, the monitoring of various transactions by independent surveillance and control units serves as a check to mitigate the risk of non-adherence to regulations, policies or procedures. This system of checks and controls has been robust and held the bank in good stead over the years. Nonetheless, in the light of media reports in March 2013, the Bank has taken steps to further strengthen its internal controls and systems, in particular in the area of KYC / AML. These issues are also the subject of review by the regulator and further measures would be adopted by the Bank as required by them. In addition, your Bank has Internal Audit and Compliance functions which are responsible for independently evaluating the adequacy of all internal controls and ensuring operating and business units adhere to internal processes and procedures as well as to regulatory and legal requirements. The audit function also pro-actively recommends improvements in operational processes and service quality. To ensure independence, the audit department has a reporting line to the Chairman of the Board of Directors and the Audit and Compliance Committee of the Board and only a dotted line to the Managing Director. To mitigate operational risks, the Bank has put in place extensive internal controls including restricted access to the Bank's computer systems, appropriate segregation of front and back office operations and strong audit trails. The Audit and Compliance Committee of the Board also reviews the performance of the audit and compliance functions and reviews the effectiveness of controls and compliance with regulatory guidelines.

## CORPORATE SOCIAL RESPONSIBILITY

For your Bank, 'Corporate Social Responsibility' or 'Sustainability' represents creating a business that creates economic value while contributing to a healthy ecosystem and strong communities. It is your Bank's endeavour to integrate sustainability into its strategy and operations.

Since inception, your Bank's business philosophy has been based on four core values i.e. Customer Focus, Operational Excellence, Product Leadership and People. These values have made your Bank one of India's premier financial institutions. As your Bank has grown and evolved, so has its business philosophy. Sustainable Development has been a part of its corporate strategy for a while, and this year your Bank has recognized and formally incorporated sustainability as its fifth core value, integrating the concept across its business practices.

Your Bank's sustainability vision states that, "We recognise that a long-term sustainable business model must take social and environmental factors into consideration during every decision making process, viewing these aspects as opportunities rather than risks. We are committed to consistently enhancing our performance on these fronts. Our endeavour is to integrate community development, social responsibility and environmental sustainability into our CSR strategy and formalize the integration of sustainability into our business practices."

Your Bank has embarked on the journey towards becoming a truly sustainable organisation by incorporating environmental and social responsibility into its operations through various initiatives.

### Environmental Sustainability

Your Bank is making efforts to ensure that its business decisions and actions protect, preserve and minimise its impact on the environment. Your Bank has leveraged state-of-the art technology to ensure that its customers have multiple banking channels available to them, such as ATMs, PhoneBanking, NetBanking and MobileBanking. These technology-enabled solutions have played a large role in increasing paperless banking and reducing the need to commute to the branches, thereby reducing your Bank's carbon footprint. Your Bank has also launched a pilot program for solar-powered ATMs and hopes to increase the number of such machines over time.

Your Bank has made changes to the way it works, ensuring that many of its major locations have energy-efficient lighting systems in place. Reusable cups and plates are the norm and motion sensors in some locations are able to switch off lights when a room is empty. Employee awareness campaigns are conducted to modify employee behavior and promote sustainable practices. Employees are urged to switch off lights and computers when not in use. These are just some of the examples of the many energy saving measures undertaken by the various stakeholders.

Your Bank has put in place various initiatives to create a paperless environment. Availability of the full bouquet of alternative transaction channels such as ATMs, NetBanking, PhoneBanking and MobileBanking allowed customers to conduct nearly a billion transactions through these channels last year. New functionality was added to enhance these channels. Now customers can add nominees for their accounts, download 5 year account statements in a format of their choice, buy general insurance and more through NetBanking. MobileBanking was made available to a wider cross section of customers through introduction of Apps and SMS banking in Hindi. Remote channels substantially reduce usage of paper by eliminating the need to use application or account opening forms and other administrative paperwork. E-statements have also helped in the reduction of paper usage and your Bank now has more than 66 lakh retail customers subscribing for them. Further, email communication is also used for direct marketing campaigns. Paper based direct communication campaigns are not conducted unless absolutely necessary.

### Social Responsibility

Your Bank has the utmost regard for the values and norms of society and consistently operates in line with society's expectations. Our policies and practices reflect the highest level of Corporate Governance and Ethical Practices and ensure a culture that promotes equal opportunities for all.

Social responsibility stems from the notion that your business should help make the world a better place. This forms the basis of all your Banks' social initiatives, in line with its guiding principle which is: 'Changing Lives by empowering individuals through Finance, Education and Training'. An essential element of your Bank's Corporate Responsibility is its community initiatives which aim at empowering individuals at the bottom of the pyramid not just financially but also through developmental initiatives such as education and livelihood support.

Your Bank undertakes several community projects through the year to create a positive impact on society. These projects take shape in many ways from corporate philanthropy, to employee driven projects. The Bank has partnered with over 15 NGOs to implement projects impacting the twin causes of education and livelihood training reaching out to over 67,000 children and 1,600 youth.

Education forms one of the foundation pillars for the progress of a nation's economy. Your Bank firmly believes in this principle and hence one of the focal points of the CSR strategy has been the promotion of education. Your bank has implemented programs such as 'Galli schools' in Delhi which bring elementary education to the doorsteps of children in slum communities to conducting reading programs for children in 8 schools in Pune. As part of our business responsibility we impart financial literacy to around 63,000 children in 600 schools in Odisha and Andhra Pradesh.

With the aim to mainstreaming destitute children your Bank's projects in Bangalore and Delhi have successfully placed 200 girls in permanent homes and provided financial and mentoring support to 65 others. Under the same program over 900 students were trained in industrial training and vocational training centers to enhance their employability. Your Bank has also supported the education and care of children in shelter homes in Raipur, Bhopal and Srinagar to ensure their holistic development.

After the successful pilot of 'Educational Crisis Scholarship Support (ECSS) program' your Bank successfully launched the same programme this year on a pan India basis soliciting applications from deserving students. ECSS is a special scholarship for students studying in private / government-aided schools, who due to financial constraints, are unable to continue bearing the cost of education and are at risk of dropping out of school. 165 students were provided scholarships under ECSS.

Your Bank's approach towards livelihood support is to primarily provide an opportunity for livelihood to the marginalized and create opportunities through our 'Sustainable Livelihood Initiative' (SLI) where your Bank has reached out to over 17.38 Lakh individuals.

In addition to this your Bank partners NGOs at the grassroots level to provide vocational skills training to increase the employability of marginalized groups. Through a project in Kolar District in Karnataka, your Bank has successfully trained 100 youth in computers, life skill and retail management courses. In another intervention in Giridh district, Jharkhand your Bank aims to train 510 youth in skills such as computer application, medical attendants and mobile repairing. Under Project Jagruti, your Bank has supported training of local small farmers, unemployed youth and women on scientific methods of farming, setting up and operating kitchen gardens etc.

Employees are encouraged and given opportunities to contribute to social causes both financially through the employee payroll Giving Program and by way of volunteering their time and services. This year the annual community programme "Make A Difference" Day saw participation of over 400 employees volunteering for over 1,400 man hours. The activities conducted included tree plantation, signup for eye donation, creating awareness of health and nutrition for rural communities, painting competition among the underprivileged children, sharing experiences with senior citizens at old age homes, etc. Few locations also witnessed massive old clothes collection drive, stationery items, books and toy collection drive and distribution amongst NGOs. Your Bank currently has over 5,300 active employees on the Payroll giving program that allows employees to donate to the causes and NGOs of their choice. During the year 2012-13, employees contributed ₹ 174 lakh and your Bank contributed ₹ 82 lakh towards this programme.

For the past seven years, we have conducted one of India's largest single day blood donation drive. This year, the Blood drive saw 74,379 participants volunteer to donate blood. Your Bank collected 61,611 units of blood by the end of the day. This year, the employees have also taken the initiative to identify and facilitate the setting up of four blood storage centers in various states across India.

Your Bank has recently completed a project in Bankura, where the Bank together with its employees contributed money to construct a toilet in a local girls' schools. This has encouraged enrollment of girls as most of them used to drop out due to lack of this basic facility.

## FINANCIAL INCLUSION

Over the last few years, your Bank has been working on a number of initiatives to promote Financial Inclusion across identified sections of rural and semi urban, under-banked and un-banked consumers. These initiatives target segments of the population that have limited or no access to the formal banking system by building a robust and sustainable model that provides relevant services and viable timely credit that ultimately results in economically uplifting its customers and substitutes borrowings at usurious rates.

Your Bank's initiatives in the rural or deeper geography dovetails into its financial inclusion plans and also complements its Corporate Social Responsibility initiative where the endeavor has been to provide banking services which are viable both for the customer and the Bank.

Your Bank's financial inclusion initiatives have been integrated across its various businesses, and product groups. As of March 31, 2013 your Bank had brought over 6.4 million households who were hitherto excluded from basic banking services, into the banking fold.

### Rural Initiatives

The Bank offers products and services such as savings, current, fixed and recurring deposits, loans, ATM facilities, investment products such as mutual funds and insurance, electronic funds transfers, drafts and remittances etc. in its branches located in rural and under banked locations. The Bank also leverages some of these branches as hubs for other inclusion initiatives such as direct linkages to self-help groups and to promote Joint Liability Group Loans, POS terminals and information technology enabled kiosks. The Bank covers over 8,000 villages in the country through various distribution set ups, which include branches, bank staff reaching out to the villages and business correspondents. Around 40% of the above mentioned villages have a population of less than 2,000 that have largely been financially excluded from the formal banking sector.

A number of retail credit products such as two-wheeler loans, car loans, mortgages etc. that are consumption products in urban centers happen to be means of income generation for rural consumers. Apart from loans directly linked to agriculture such as pre and post harvest credit, there are many other credit products that the Bank uses to aid financial betterment in rural locations. Your Bank has extended provision of its retail loans to large segments of the rural population where the end use of the products acquired (by availing Bank's loans) is used for income generating activities. For example, loans for tractors, commercial vehicles, two wheelers etc. supplement the farmer's income by improving productivity and reducing expenses.

**Basic Banking Saving Deposit and Micro Deposits**

A savings account is the primary requirement for the provision of other banking services; the account promotes the habit of savings, provides security, and inculcates confidence among the target segment in the banking sector.

This product was launched by your Bank with a specific objective to provide customers a platform that enables them to inculcate the habit of savings.

Given the specific segment that is being targeted, namely customers who do not have any other Bank account, this product truly addresses the cause of Financial Inclusion. Additionally the Bank also periodically tracks the behaviour in these accounts to ensure that the accounts opened maintain a balance and are active.

The total number of Basic Banking Saving Deposit accounts opened as on March 2013 was at 15.80 lakh accounts as against 7.60 lakh accounts as on March 2012.

**Sustainable Livelihood Initiative**

Over the last two years, your Bank has accelerated its direct linkage program to self-help groups, where the Bank itself works at the grass root level with women in villages, conducts financial literacy programs, forms groups and then funds these groups for income generating activities. This enables the delivery of viable credit to the rural poor in a sustainable manner and at the same time also inculcates saving and banking habits. Till date your Bank has covered approximately 17.38 Lakh households. Your Bank also disburses loans to its rural customers under the Joint Liability Group product. This product works on the principle of group guarantees and provides clean (not backed by any collateral) loans to the borrowers based on a guarantee by other borrowers. As of March 31, 2013, the Bank has lent to more than 85,000 groups with outstanding balance of ₹ 742 crore.

**Agriculture and Allied Activities**

A large portion of India's un-banked population relies on agriculture as the main source of livelihood. We believe provision of credit to farmers through various methods that your Bank has employed replaces the traditional money lending channel, while simultaneously providing income generating activities. Your Bank provides various loans to farmers through its suite of specifically designed products such as the Kisan Gold Card, tractor and cattle loans etc. In addition, the Bank offers post-harvest cash credit, warehouse receipt financing and bill discounting facilities to mandi (markets for grain and other agricultural produce) participants and farmers. These facilities enable the mandi participants to make timely payments to farmers. The Bank carries out this business through branches that are located in close proximity to mandis.

The Bank targets specific sectors to capture supply chain of certain crops from the production stage to the sales stage. On the basis of these cashflows, your Bank is able to finance specific needs of the farmers. This model has currently been implemented with dairy and sugarcane farmers. The initiative currently underway includes the appointment of dairy societies and sugarcane co-operatives as business correspondents, through whom the Bank opens accounts of individual farmers attached to these societies. The societies route all payments to the farmers through this account.

The use of appropriate technology is necessary to bring about efficiency in the agri value chain. One such technology initiative is the Milk to Money Terminal (MFT) used in Dairy supply chain. The technology captures milk quality and quantity data at a farmer level each time milk is poured by connecting to the fat tester and weighing machine. It converts this data into an accounting entry instantaneously and credits the farmer's account. The MFT contains a cash dispenser that functions as standard ATM, thus the farmer can withdraw the amount from his account immediately if needed. The transparency in the milk collection process benefits both farmers and corporates as they get data at farmer level accurately and quickly, which enables the corporates to improve farmer productivity through their direct intervention.

**Loans against Gold Jewellery**

This offering allows customers a reliable source of credit in times of need. In the absence of this product, customers might be unable to access credit or alternatively might avail of credit at much higher rates in the form of unsecured loans from money lenders. Gold loans provide an alternate source of funds by monetising the household gold. It provides financial independence to small traders, small entrepreneurs and house wives. It also substitutes borrowing at usurious rates, particularly by small borrowers and weaker sections.

**Small and Micro Enterprises**

Your Bank offers complete banking solutions to micro, small and medium scale enterprises across industry segments including manufacturers, retailers, wholesalers / traders and services. The entire suite of financial products including cash credit, overdrafts, term loans, bills discounting, export packing credit, letter of credit, bank guarantees, cash management services and other structured products are made available to these customers. One of the means to financial inclusion is by supporting small and micro enterprises which in turn provide employment opportunities to the financially excluded. Though indirect, we believe this model may in many instances be more effective than providing subsidies that are often unsustainable, or never reach the intended beneficiary.

### Promoting Financial Awareness

In addition to providing various products and services to the financially excluded, your Bank believes that imparting education and training to these target segments is equally essential to ensure transparency and create awareness. To this effect the Bank has put in place various training programs. These are conducted by Bank staff in local languages and cover not only the customers but also various intermediaries such as the Bank's business correspondents. Through these programs your Bank provides credit counseling and information on parameters like savings habit, better utilization of savings, features of savings products, credit utilization, asset creation, insurance, income generation program etc. During the financial year ended March 31, 2013, over 8,550 financial awareness programs covering over 3.4 lakh households were conducted. The Bank also facilitates need based capacity building and market place for the customers with the objective of sustaining their livelihood in holistic manner.

## HUMAN RESOURCES

Constant focus on the Human Resources dimension is an integral part of the Bank's values. Attracting, retaining and developing our workforce to meet the current and future needs of our business is a key focus area. The organisation is committed to achieve the above through comprehensive interventions in training and development, providing career growth opportunities and creating an entrepreneurial culture.

### Employee Development

Performance Management is one of the most critical dimensions pertaining to the management of human resources and the organisation has a comprehensive Performance Management System (PMS) to assess performance. The PMS facilitates the differentiation between the various categories of performance. Higher rewards for higher levels of performance have been a fundamental philosophy of the bank. Apart from rewards, the PMS also allows for identification of training and development needs for employees. Employee development and growth is realized through an array of functional and behavioral programmes that the bank conducts throughout the year as well as on the job training. The bank lays emphasis in rotating key talent for professional development and growth and building a leadership pipeline for the future. Development interventions of the Bank are supplemented by the conducting of Development Centers for high performing mid-level managers.

### Rewards and Recognition

It is the endeavor of the organisation to ensure that employees are competitively positioned vis-à-vis market with respect to both fixed as well as variable pay. In order to align employee efforts to the creation of shareholder value the bank also grants employee stock options to a certain segment of the employee population. Apart from the standard compensation the organisation also has a well institutionalized recognition program called “Star Awards” to recognize outstanding achievement of individuals.

### Employee Engagement

Fun at work is something your Bank feels should be an integral part of every HDFC bank employee's life. Keeping in mind the aforementioned statement, the organisation believes in conducting activities that help individuals showcase their talent or pursue their interests other than work. Your Bank conducted comprehensive sports activities like Josh Unlimited, a multi-city, multi sports event, held across eight cities, a pedometer based race event and online musical classes with an established musical academy. The organisation received a very strong participation for such activities which is a testimony to their success.

## STATUTORY DISCLOSURES

The information required under Section 217(2A) of the Companies Act, 1956 and the rules made thereunder as amended, are given in the annexure appended hereto and forms part of this report. In terms of section 219(1) (iv) of the Act, the Report and Accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered Office of the Bank. The Bank had 69,065 employees as on March 31, 2013. 170 employees employed throughout the year were in receipt of remuneration of more than ₹ 60 lakh per annum and 11 employees employed for part of the year were in receipt of remuneration of more than ₹ 5 lakh per month.

The provisions of Section 217(1)(e) of the Act relating to conservation of energy and technology absorption do not apply to your Bank. The Bank has, however, used information technology extensively in its operations.

The report on Corporate Governance is annexed herewith and forms part of this report.

The Ministry of Corporate Affairs has issued "Corporate Governance Voluntary Guidelines" in December 2009. While these guidelines are recommendatory in nature, the Bank has adopted most of these guidelines as detailed in the Corporate Governance Report. The Bank will examine the possibilities of adopting the remaining guidelines in an appropriate manner.

## BUSINESS RESPONSIBILITY REPORT

SEBI, vide its circular CIR/CFD/DIL/8/2012 dated August 13, 2012, had proposed to mandate inclusion of Business Responsibility Reports as part of the Annual Report for listed entities. According to the proposal, the report should describe measures taken by the listed companies along with key principles enunciated in the ‘National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' framed by the Ministry of Corporate Affairs .This is intended to be adopted by Companies in India to report their Corporate Social Responsibility (CSR) activities and initiatives. Your Bank's Business Responsibility Report is available on its website, www.hdfcbank.com

## RESPONSIBILITY STATEMENT

The Board of Directors hereby state that

i) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

ii) We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as on March 31, 2013 and of the profit of the Bank for the year ended on that date;

iii) We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Bank and for preventing and detecting the fraud and other irregularities;

iv) We have prepared the annual accounts on a going concern basis.

## DIRECTORS

Mr. Bobby Parikh and Mr. A. N Roy will retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

Mr. Ashim Samanta ceased to be a director with effect from November 19, 2012 on completing the permitted tenure of eight years under the Banking Regulation Act, 1949. Your directors wish to place on record their sincere appreciation of the contributions made by Mr. Samanta during his tenure as a director of the Bank.

Mr. Vijay Merchant was appointed as an additional director by the Board during the year and holds office up to the conclusion of the ensuing Annual General Meeting. The Bank has received a notice pursuant to Section 257 of the Companies Act, 1956 from a shareholder proposing the candidature of Mr. Merchant as Director of the Bank at the ensuing Annual General Meeting.

The brief resume / details relating to Directors who are to be re-appointed are furnished in the report on Corporate Governance.

## AUDITORS

The Auditors, M/s. BSR & Co., Chartered Accountants will retire at the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment. Members are requested to consider their re-appointment on an annual remuneration (statutory audit fees) of ₹ 1,05,60,000 (Previous year : ₹ 1,05,60,000) plus service tax as applicable, which is approved by the Audit and Compliance Committee of the Board.

## ACKNOWLEDGEMENT

Your Directors would like to place on record their gratitude for all the guidance and co-operation received from the Reserve Bank of India and other government and regulatory agencies. Your Directors would also like to take this opportunity to express their appreciation for the hard work and dedicated efforts put in by the Bank's employees and look forward to their continued contribution in building a World Class Indian Bank.

**On behalf of the Board of Directors**

**Mr. C. M. Vasudev**
**Chairman**

**Mumbai, April 23, 2013**

## Annexure to Directors' Report for the year ended March 31, 2013

## EMPLOYEES' STOCK OPTIONS

| ESOP Plan | Options Granted | Options Vested | Options Exercised & Shares Allotted | Options Forfeited | Options Lapsed | Total Options in Force as on March 31, 2013 |
|---|---|---|---|---|---|---|
| B - 2003 | - | - | 12,92,400 | - | 43,400 | 6,14,500 |
| C - 2005 | - | - | 26,91,300 | - | 24,800 | 7,05,400 |
| D - 2007 | - | - | 1,44,08,150 | - | 23,000 | 1,20,58,100 |
| E - 2010 | - | 3,39,31,750 | 1,42,21,750 | 8,48,800 | 24,400 | 5,11,75,300 |
| eCBOP Key ESOP Scheme | - | - | 33,595 | - | - | - |
| eCBOP - General ESOP Schemes | - | - | 8,11,855 | - | 6,245 | 8,89,745 |
| **Total** | - | **3,39,31,750** | **3,34,59,050*** | **8,48,800** | **1,21,845** | **6,54,43,045** |

Money realized by exercise of options : The Bank received ₹ 6.7 crore towards share capital and ₹ 1,110.4 crore towards share premium on account of 3,34,59,050 stock options exercised during the year.

*Out of the above 7,28,290 options were exercised during the period 25th March 2013 to 30th March 2013 for which the shares were allotted on 4th April, 2013. The share capital amount of ₹ 14.6 lakh and the share premium amount of ₹ 21.9 crore in respect of these options have been shown under Share Application Money.

No stock options have been granted to the employees during the financial year 2012-13

# Independent Auditor's Report

**To the Members of HDFC Bank Limited**

**Report on the Financial Statements**

1 We have audited the accompanying financial statements of HDFC Bank Limited ('the Bank'), which comprise the Balance Sheet as at 31 March 2013 and the Statement of Profit and Loss and the Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

2 Management is responsible for preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956 and circulars and guidelines issued by the Reserve Bank of India from time to time. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of the Bank including its branches and central processing units in accordance with Standards on Auditing ('the Standards') issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

4 An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

6 In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 1956, in the manner so required for banking companies and give a true and fair view in conformity with accounting principles generally accepted in India :

(a) in the case of the Balance Sheet, of the state of affairs of the Bank as at 31 March 2013;

(b) in the case of the Statement of Profit and Loss, of the profit of the Bank for the year ended on that date; and

(c) in the case of the Cash Flow Statement, of the cash flows of the Bank for the year ended on that date.

**Report on Other Legal and Regulatory Requirements**

7 The Balance Sheet and the Statement of Profit and Loss and the Cash Flow Statement have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.

8 We report that :

(a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;

(b) the transactions of the Bank, which have come to our notice, have been within the powers of the Bank;

(c) during the course of our audit we have visited 23 branches. Since the key operations of the Bank are completely automated and the key applications are integrated with the core banking systems, the audit is carried out centrally as all the necessary records and data required for the purposes of our audit are centrally available therein.

9 In our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent they are not inconsistent with the accounting policies prescribed by the Reserve Bank of India.

10 We further report that :

(i) the Balance Sheet and the Statement of Profit and Loss dealt with by this report are in agreement with the books of account;

(ii) the financial accounting systems of the Bank are centralised and, therefore, accounting returns are not submitted by the branches;

(iii) in our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books;

(iv) on the basis of written representations received from the Directors and taken on record by the Board of Directors, none of the Director is disqualified as on 31 March 2013 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

For **B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

Mumbai
April 23, 2013

# Balance Sheet

## As at March 31, 2013

₹ in '000

| | Schedule | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **CAPITAL AND LIABILITIES** | | | |
| Capital | 1 | **4,758,838** | 4,693,377 |
| Reserves and surplus | 2 | **357,382,646** | 294,550,358 |
| Employees' stock options (grants) outstanding | | **-** | 3,020 |
| Deposits | 3 | **2,962,469,846** | 2,467,064,459 |
| Borrowings | 4 | **330,065,972** | 238,465,086 |
| Other liabilities and provisions | 5 | **348,641,671** | 374,318,690 |
| | **Total** | **4,003,318,973** | 3,379,094,990 |
| **ASSETS** | | | |
| Cash and balances with Reserve Bank of India | 6 | **146,273,990** | 149,910,945 |
| Balances with banks and money at call and short notice | 7 | **126,527,699** | 59,466,318 |
| Investments | 8 | **1,116,135,953** | 974,829,094 |
| Advances | 9 | **2,397,206,432** | 1,954,200,292 |
| Fixed assets | 10 | **27,030,813** | 23,471,940 |
| Other assets | 11 | **190,144,086** | 217,216,401 |
| | **Total** | **4,003,318,973** | 3,379,094,990 |
| Contingent liabilities | 12 | **7,201,224,293** | 8,652,928,262 |
| Bills for collection | | **261,039,630** | 186,924,956 |
| Significant accounting policies and notes to the financial statements | 17 & 18 | | |
| The schedules referred to above form an integral part of the Balance Sheet. | | | |

As per our report of even date.

**For B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

**Mumbai, April 23, 2013**

For and on behalf of the Board

**C. M. Vasudev**
*Chairman*

**Harish Engineer**
*Executive Director*

**Aditya Puri**
*Managing Director*

**Paresh Sukthankar**
*Executive Director*

**Sanjay Dongre**
*Executive Vice President (Legal) &*
*Company Secretary*

**A. N. Roy**
**Bobby Parikh**
**Keki Mistry**
**Partho Datta**
**Renu Karnad**
**Vijay Merchant**
*Directors*

# Statement of Profit and Loss

## For the year ended March 31, 2013

₹ in '000

| | | Schedule | Year Ended 31-Mar-13 | Year Ended 31-Mar-12 |
|---|---|---|---|---|
| **I** | **INCOME** | | | |
| | Interest earned | 13 | **350,648,736** | 278,741,928 |
| | Other income | 14 | **68,526,226** | 57,836,255 |
| | | **Total** | **419,174,962** | 336,578,183 |
| **II** | **EXPENDITURE** | | | |
| | Interest expended | 15 | **192,537,521** | 149,895,780 |
| | Operating expenses | 16 | **112,361,165** | 92,776,403 |
| | Provisions and contingencies | | **47,013,428** | 42,235,093 |
| | | **Total** | **351,912,114** | 284,907,276 |
| **III** | **PROFIT** | | | |
| | Net profit for the year | | **67,262,848** | 51,670,907 |
| | Balance in Profit and Loss account brought forward | | **83,996,470** | 61,742,416 |
| | | **Total** | **151,259,318** | 113,413,323 |
| **IV** | **APPROPRIATIONS** | | | |
| | Transfer to Statutory Reserve | | **16,815,712** | 12,917,726 |
| | Proposed dividend | | **13,090,810** | 10,090,760 |
| | Tax (including cess) on dividend | | **2,224,783** | 1,636,973 |
| | Dividend (including tax / cess thereon) pertaining to previous year paid during the year | | **44,748** | 21,240 |
| | Transfer to General Reserve | | **6,726,285** | 5,167,091 |
| | Transfer to Capital Reserve | | **858,498** | - |
| | Transfer to / (from) Investment Reserve Account | | **176,636** | (416,937) |
| | Balance carried over to Balance Sheet | | **111,321,846** | 83,996,470 |
| | | **Total** | **151,259,318** | 113,413,323 |
| **V** | **EARNINGS PER EQUITY SHARE (Face value ₹ 2 per share)** | | ₹ | ₹ |
| | Basic | | **28.49** | 22.11 |
| | Diluted | | **28.18** | 21.91 |
| | Significant accounting policies and notes to the financial statements | 17 & 18 | | |
| | The schedules referred to above form an integral part of the Statement of Profit and Loss. | | | |

As per our report of even date.

**For B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

**Mumbai, April 23, 2013**

For and on behalf of the Board

**C. M. Vasudev**
*Chairman*

**Harish Engineer**
*Executive Director*

**Aditya Puri**
*Managing Director*

**Paresh Sukthankar**
*Executive Director*

**Sanjay Dongre**
*Executive Vice President (Legal) & Company Secretary*

**A. N. Roy**
**Bobby Parikh**
**Keki Mistry**
**Partho Datta**
**Renu Karnad**
**Vijay Merchant**
*Directors*

# For the year ended March 31, 2013

₹ in '000

| Particulars | Year Ended 31-Mar-13 | Year Ended 31-Mar-12 |
|---|---|---|
| **Cash flows used in operating activities** | | |
| Net profit before income tax | 97,506,268 | 75,131,659 |
| **Adjustments for :** | | |
| Depreciation on fixed assets | 6,516,663 | 5,425,150 |
| (Profit) / loss on revaluation of investments | (348,627) | 897,174 |
| Amortisation of premia on held to maturity investments | 582,183 | 783,012 |
| (Profit) / loss on sale of fixed assets | 10,566 | (15,132) |
| Provision / charge for non performing assets | 13,131,395 | 11,549,076 |
| Provision / charge for diminution in value of investment | 522,145 | 934,030 |
| Floating provisions | 4,000,000 | 7,000,000 |
| Provision for standard assets | 1,237,140 | 1,504,993 |
| Provision for wealth tax | 6,000 | 5,500 |
| Contingency provisions | (1,337,374) | (1,587,844) |
| | **121,826,360** | **101,627,618** |
| **Adjustments for :** | | |
| (Increase) / decrease in investments | (142,070,919) | (268,052,486) |
| (Increase) / decrease in advances | (455,574,678) | (365,964,021) |
| Increase / (decrease) in deposits | 495,405,387 | 381,200,405 |
| (Increase) / decrease in other assets | 33,698,441 | (67,229,825) |
| Increase / (decrease) in other liabilities and provisions | (34,603,665) | 75,079,689 |
| | **18,680,926** | **(143,338,620)** |
| Direct taxes paid (net of refunds) | (37,368,738) | (27,615,921) |
| **Net cash flow used in operating activities** | **(18,687,812)** | **(170,954,541)** |
| **Cash flows used in investing activities** | | |
| Purchase of fixed assets | (8,631,976) | (6,817,318) |
| Proceeds from sale of fixed assets | 43,136 | 45,952 |
| Investment in subsidiaries and / or joint ventures | - | (97,168) |
| **Net cash used in investing activities** | **(8,588,839)** | **(6,868,534)** |

# For the year ended March 31, 2013

₹ in '000

| Particulars | Year Ended 31-Mar-13 | Year Ended 31-Mar-12 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Money received on exercise of stock options by employees | 11,171,000 | 5,306,601 |
| Increase / (decrease) in borrowings (excluding subordinate debt, perpetual debt and upper tier II instruments) | 36,789,886 | 57,398,476 |
| Proceeds from issue of upper & lower Tier II capital instruments | 54,470,000 | 36,500,000 |
| Redemption of subordinated debt | - | (2,000) |
| Dividend paid during the year | (10,130,544) | (7,695,463) |
| Tax on dividend | (1,641,937) | (1,247,276) |
| **Net cash generated from financing activities** | **90,658,405** | **90,260,338** |
| **Effect of exchange fluctuation on translation reserve** | **42,672** | **251,651** |
| **Net increase / (decrease) in cash and cash equivalents** | **63,424,426** | **(87,311,086)** |
| **Cash and cash equivalents as at April 1st** | **209,377,263** | **296,688,349** |
| **Cash and cash equivalents as at March 31st** | **272,801,689** | **209,377,263** |

As per our report of even date.

**For B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

**Mumbai, April 23, 2013**

For and on behalf of the Board

**C. M. Vasudev**
*Chairman*

**Harish Engineer**
*Executive Director*

**Aditya Puri**
*Managing Director*

**Paresh Sukthankar**
*Executive Director*

**Sanjay Dongre**
*Executive Vice President (Legal) &*
*Company Secretary*

**A. N. Roy**
**Bobby Parikh**
**Keki Mistry**
**Partho Datta**
**Renu Karnad**
**Vijay Merchant**
*Directors*

## As at March 31, 2013

₹ in '000

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **SCHEDULE 1 - CAPITAL** | | | |
| **Authorised capital** | | | |
| 2,75,00,00,000 (31 March, 2012 : 2,75,00,00,000) Equity shares of ₹ 2/- each | | **5,500,000** | 5,500,000 |
| **Issued, subscribed and paid-up capital** | | | |
| 2,37,94,19,030 (31 March, 2012 : 2,34,66,88,270) Equity shares of ₹ 2/- each | | **4,758,838** | 4,693,377 |
| | **Total** | **4,758,838** | 4,693,377 |
| **SCHEDULE 2 - RESERVES AND SURPLUS** | | | |
| I **Statutory reserve** | | | |
| Opening balance | | **53,092,771** | 40,175,045 |
| Additions during the year | | **16,815,712** | 12,917,726 |
| | **Total** | **69,908,483** | 53,092,771 |
| II **General reserve** | | | |
| Opening balance | | **19,402,716** | 14,235,625 |
| Additions during the year | | **6,726,285** | 5,167,091 |
| | **Total** | **26,129,001** | 19,402,716 |
| III **Balance in profit and loss account** | | **111,321,846** | 83,996,470 |
| IV **Share premium account** | | | |
| Opening balance | | **124,261,852** | 118,996,370 |
| Additions during the year | | **10,887,109** | 5,265,482 |
| | **Total** | **135,148,961** | 124,261,852 |
| V **Amalgamation reserve** | | | |
| Opening balance | | **10,635,564** | 10,635,564 |
| Additions during the year | | **-** | - |
| | **Total** | **10,635,564** | 10,635,564 |
| VI **Capital reserve** | | | |
| Opening balance | | **2,954,677** | 2,954,677 |
| Additions during the year | | **858,498** | - |
| | **Total** | **3,813,175** | 2,954,677 |
| VII **Investment reserve account** | | | |
| Opening balance | | - | 416,937 |
| Additions during the year | | **231,802** | 178 |
| Deductions during the year | | **(55,166)** | (417,115) |
| | **Total** | **176,636** | - |
| VIII **Foreign currency translation account** | | | |
| Opening balance | | **206,308** | (45,343) |
| Additions during the year | | **42,672** | 251,651 |
| | **Total** | **248,980** | 206,308 |
| | **Total** | **357,382,646** | 294,550,358 |

## As at March 31, 2013

₹ in '000

| | | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|---|
| **SCHEDULE 3 - DEPOSITS** | | | | |
| **A** | **I** | **Demand deposits** | | |
| | (i) | From banks | **10,385,135** | 9,122,028 |
| | (ii) | From others | **512,717,671** | 444,956,398 |
| | | **Total** | **523,102,806** | 454,078,426 |
| | **II** | **Savings bank deposits** | **882,112,454** | 739,980,381 |
| | **III** | **Term deposits** | | |
| | (i) | From banks | **14,278,854** | 13,839,859 |
| | (ii) | From others | **1,542,975,732** | 1,259,165,793 |
| | | **Total** | **1,557,254,586** | 1,273,005,652 |
| | | **Total** | **2,962,469,846** | 2,467,064,459 |
| **B** | **I** | **Deposits of branches in India** | **2,946,407,245** | 2,457,706,643 |
| | **II** | **Deposits of branches outside India** | **16,062,601** | 9,357,816 |
| | | **Total** | **2,962,469,846** | 2,467,064,459 |
| **SCHEDULE 4 - BORROWINGS** | | | | |
| **I** | | **Borrowings in India** | | |
| | (i) | Reserve Bank of India | **2,750,000** | 400,000 |
| | (ii) | Other banks | **7,246,758** | 8,693,256 |
| | (iii) | Other institutions and agencies | **24,390,200** | 28,182,425 |
| | (iv) | Upper and lower Tier II capital and innovative perpetual debts | **160,439,000** | 105,969,000 |
| | | **Total** | **194,825,958** | 143,244,681 |
| **II** | | **Borrowings outside India*** | **135,240,014** | 95,220,405 |
| | | **Total** | **330,065,972** | 238,465,086 |

** Includes upper Tier II debt of ₹ 542.85 crore (previous year : ₹ 508.75 crore)*
*Secured borrowings included in I & II above : ₹ Nil (previous year : ₹ Nil)*

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS** | | | |
| I | Bills payable | **54,787,708** | 54,657,302 |
| II | Interest accrued | **62,714,315** | 52,070,840 |
| III | Others *(including provisions)* | **205,466,652** | 246,754,935 |
| IV | Contingent provisions against standard assets | **10,357,403** | 9,107,880 |
| V | Proposed dividend *(including tax on dividend)* | **15,315,593** | 11,727,733 |
| | **Total** | **348,641,671** | 374,318,690 |

# As at March 31, 2013

₹ in '000

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA** | | | |
| I | Cash in hand (including foreign currency notes) | **50,077,236** | 43,069,643 |
| II | Balances with Reserve Bank of India : | | |
| | (a) In current accounts | **94,196,754** | 104,841,302 |
| | (b) In other accounts | **2,000,000** | 2,000,000 |
| | **Total** | **96,196,754** | 106,841,302 |
| | **Total** | **146,273,990** | 149,910,945 |
| **SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE** | | | |
| **I** | **In India** | | |
| | (i) Balances with banks : | | |
| | (a) In current accounts | **3,238,144** | 1,638,043 |
| | (b) In other deposit accounts | **46,635,317** | 18,519,848 |
| | **Total** | **49,873,461** | 20,157,891 |
| | (ii) Money at call and short notice : | | |
| | (a) With banks | **17,850,000** | 2,700,000 |
| | (b) With other institutions | **-** | 2,157,684 |
| | **Total** | **17,850,000** | 4,857,684 |
| | **Total** | **67,723,461** | 25,015,575 |
| **II** | **Outside India** | | |
| | (i) In current accounts | **5,876,363** | 1,534,618 |
| | (ii) In deposit accounts | **8,142,750** | 4,070,000 |
| | (iii) Money at call and short notice | **44,785,125** | 28,846,125 |
| | **Total** | **58,804,238** | 34,450,743 |
| | **Total** | **126,527,699** | 59,466,318 |
| **SCHEDULE 8 - INVESTMENTS** | | | |
| **A** | **Investments in India in** | | |
| | (i) Government securities | **849,023,184** | 762,178,489 |
| | (ii) Other approved securities | **-** | 4,919 |
| | (iii) Shares | **1,244,692** | 836,086 |
| | (iv) Debentures and bonds | **17,260,637** | 9,628,460 |
| | (v) Subsidiaries / joint ventures | **7,548,159** | 7,548,159 |
| | (vi) Others (units, CDs / CPs, PTCs, security receipts and NABARD deposits) | **236,028,115** | 194,626,948 |
| | **Total** | **1,111,104,787** | 974,823,061 |
| **B** | **Investments outside India in** | | |
| | Other investments | | |
| | (a) Shares | **9,396** | 6,033 |
| | (b) Debentures and bonds | **5,021,770** | - |
| | **Total** | **5,031,166** | 6,033 |
| | **Total** | **1,116,135,953** | 974,829,094 |

# As at March 31, 2013

₹ in '000

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **C Investments** | | | |
| **(i) Gross value of investments** | | | |
| (a) In India | | **1,113,472,422** | 977,092,379 |
| (b) Outside India | | **5,031,166** | 6,033 |
| | **Total** | **1,118,503,588** | 977,098,412 |
| **(ii) Provision for depreciation** | | | |
| (a) In India | | **2,367,635** | 2,269,318 |
| (b) Outside India | | **-** | - |
| | **Total** | **2,367,635** | 2,269,318 |
| **(iii) Net value of investments** | | | |
| (a) In India | | **1,111,104,787** | 974,823,061 |
| (b) Outside India | | **5,031,166** | 6,033 |
| | **Total** | **1,116,135,953** | 974,829,094 |

## SCHEDULE 9 - ADVANCES

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| A (i) Bills purchased and discounted | | **123,219,205** | 122,124,431 |
| (ii) Cash credits, overdrafts and loans repayable on demand | | **945,869,566** | 686,271,861 |
| (iii) Term loans | | **1,328,117,661** | 1,145,804,000 |
| | **Total** | **2,397,206,432** | 1,954,200,292 |

*Loans with tenor of less than one year are classified under A (ii) above.*

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| B (i) Secured by tangible assets* | | **1,766,063,990** | 1,420,597,632 |
| (ii) Covered by bank / government guarantees | | **61,551,311** | 55,552,871 |
| (iii) Unsecured | | **569,591,131** | 478,049,789 |
| | **Total** | **2,397,206,432** | 1,954,200,292 |

** Including advances against book debts*

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| C I Advances in India | | | |
| (i) Priority sector | | **767,430,252** | 638,630,006 |
| (ii) Public sector | | **84,217,368** | 70,538,519 |
| (iii) Banks | | **917,007** | 3,714,239 |
| (iv) Others | | **1,448,683,315** | 1,182,101,828 |
| | **Total** | **2,301,247,942** | 1,894,984,592 |
| II Advances outside India | | | |
| (i) Due from banks | | **18,469,102** | 18,418,646 |
| (ii) Due from others | | | |
| (a) Bills purchased and discounted | | **409,362** | 35,333 |
| (b) Syndicated loans | | **13,623,839** | 13,166,585 |
| (c) Others | | **63,456,187** | 27,595,136 |
| | **Total** | **95,958,490** | 59,215,700 |
| | **Total** | **2,397,206,432** | 1,954,200,292 |

*Advances are net of provisions*



HDFC BANK
We understand your world

## As at March 31, 2013

₹ in '000

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **SCHEDULE 10 - FIXED ASSETS** | | | |
| A **Premises** (including land) | | | |
| **Gross block** | | | |
| At cost on 31 March of the preceding year | | **10,519,897** | 10,272,964 |
| Additions during the year | | **1,140,440** | 264,145 |
| Deductions during the year | | **(17,718)** | (17,212) |
| | **Total** | **11,642,619** | 10,519,897 |
| **Depreciation** | | | |
| As at 31 March of the preceding year | | **2,488,876** | 2,106,522 |
| Charge for the year | | **443,998** | 394,965 |
| On deductions during the year | | **(15,981)** | (12,611) |
| | **Total** | **2,916,893** | 2,488,876 |
| **Net block** | | **8,725,726** | 8,031,021 |
| B **Other fixed assets** (including furniture and fixtures) | | | |
| **Gross block** | | | |
| At cost on 31 March of the preceding year | | **44,235,581** | 37,622,202 |
| Additions during the year | | **8,990,318** | 6,959,523 |
| Deductions during the year | | **(760,921)** | (346,144) |
| | **Total** | **52,464,978** | 44,235,581 |
| **Depreciation** | | | |
| As at 31 March of the preceding year | | **28,794,662** | 24,082,164 |
| Charge for the year | | **6,074,183** | 5,032,423 |
| On deductions during the year | | **(708,954)** | (319,925) |
| | **Total** | **34,159,891** | 28,794,662 |
| **Net block** | | **18,305,087** | 15,440,919 |
| C **Assets on lease** (plant and machinery) | | | |
| **Gross block** | | | |
| At cost on 31 March of the preceding year | | **4,546,923** | 4,546,923 |
| Additions during the year | | **-** | - |
| | **Total** | **4,546,923** | 4,546,923 |



HDFC BANK
We understand your world

## As at March 31, 2013

₹ in '000

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **Depreciation** | | | |
| As at 31 March of the preceding year | | **4,104,467** | 4,104,467 |
| Charge for the year | | - | - |
| | **Total** | **4,104,467** | 4,104,467 |
| **Lease adjustment account** | | | |
| As at 31 March of the preceding year | | **442,456** | 442,456 |
| Charge for the year | | **-** | - |
| | **Total** | **442,456** | 442,456 |
| **Unamortised cost of assets on lease** | | **-** | - |
| | **Total** | **27,030,813** | 23,471,940 |

### SCHEDULE 11 - OTHER ASSETS

| | | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|---|
| I | Interest accrued | | **39,209,326** | 32,001,760 |
| II | Advance tax / tax deducted at source (net of provisions) | | **15,789,085** | 12,091,296 |
| III | Stationery and stamps | | **165,999** | 165,891 |
| IV | Non banking assets acquired in satisfaction of claims | | - | 311 |
| V | Bond and share application money pending allotments | | **29,333** | - |
| VI | Security deposit for commercial and residential property | | **4,062,868** | 3,819,367 |
| VII | Others* | | **130,887,475** | 169,137,776 |
| | | **Total** | **190,144,086** | 217,216,401 |

** Includes deferred tax asset (net) of ₹1,904.85 crores (previous year : ₹1,448.89 crores)*

### SCHEDULE 12 - CONTINGENT LIABILITIES

| | | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|---|
| I | Claims against the bank not acknowledged as debts - taxation | | **9,349,100** | 13,567,900 |
| II | Claims against the bank not acknowledged as debts - others | | **3,975,400** | 2,876,193 |
| III | Liability on account of outstanding forward exchange contracts | | **4,467,860,687** | 5,648,764,494 |
| IV | Liability on account of outstanding derivative contracts | | **2,292,213,027** | 2,626,390,521 |
| V | Guarantees given on behalf of constituents : | | | |
| | - In India | | **162,354,571** | 133,170,215 |
| | - Outside India | | **3,993,576** | 436,144 |
| VI | Acceptances, endorsements and other obligations | | **220,595,426** | 209,182,124 |
| VII | Other items for which the bank is contingently liable | | **40,882,506** | 18,540,671 |
| | | **Total** | **7,201,224,293** | 8,652,928,262 |

# For the year ended March 31, 2013

₹ in '000

| | | | Year Ended 31-Mar-13 | Year Ended 31-Mar-12 |
|---|---|---|---|---|
| **SCHEDULE 13 - INTEREST EARNED** | | | | |
| I | Interest / discount on advances / bills | | **268,223,935** | 211,244,420 |
| II | Income from investments | | **78,202,586** | 65,045,894 |
| III | Interest on balance with RBI and other inter-bank funds | | **2,816,311** | 1,371,409 |
| IV | Others | | **1,405,904** | 1,080,205 |
| | | **Total** | **350,648,736** | 278,741,928 |
| **SCHEDULE 14 - OTHER INCOME** | | | | |
| I | Commission, exchange and brokerage | | **51,669,046** | 43,120,963 |
| II | Profit / (loss) on sale of investments (net) | | **1,264,352** | (1,061,596) |
| III | Profit / (loss) on revaluation of investments (net) | | **348,627** | (897,174) |
| IV | Profit / (loss) on sale of building and other assets (net) | | **(10,566)** | 15,132 |
| V | Profit on exchange transactions (net) | | **12,317,708** | 12,653,760 |
| VI | Income earned by way of dividends from subsidiaries / companies and / or joint ventures abroad / in India | | **7,693** | 11,655 |
| VII | Miscellaneous income | | **2,929,366** | 3,993,515 |
| | | **Total** | **68,526,226** | 57,836,255 |
| **SCHEDULE 15 - INTEREST EXPENDED** | | | | |
| I | Interest on deposits | | **163,206,243** | 126,896,720 |
| II | Interest on RBI / inter-bank borrowings | | **28,889,728** | 22,528,622 |
| III | Other interest | | **441,550** | 470,438 |
| | | **Total** | **192,537,521** | 149,895,780 |
| **SCHEDULE 16 - OPERATING EXPENSES** | | | | |
| I | Payments to and provisions for employees | | **39,653,843** | 33,999,068 |
| II | Rent, taxes and lighting | | **8,406,573** | 7,161,306 |
| III | Printing and stationery | | **3,108,216** | 2,339,263 |
| IV | Advertisement and publicity | | **1,841,294** | 1,524,816 |
| V | Depreciation on bank's property | | **6,516,663** | 5,425,150 |
| VI | Directors' fees, allowances and expenses | | **7,111** | 4,423 |
| VII | Auditors' fees and expenses | | **14,612** | 11,725 |
| VIII | Law charges | | **509,569** | 317,465 |
| IX | Postage, telegram, telephone etc. | | **4,023,604** | 3,529,781 |
| X | Repairs and maintenance | | **7,665,309** | 6,184,142 |
| XI | Insurance | | **2,877,862** | 2,418,023 |
| XII | Other expenditure* | | **37,736,509** | 29,861,241 |
| | | **Total** | **112,361,165** | 92,776,403 |

** Includes marketing expenses, professional fees, commission to sales agents, travel and hotel charges, entertainment, registrar and transfer agency fees and system management fees.*

# For the year ended March 31, 2013

## Schedule 17 - Significant accounting policies appended to and forming part of the financial statements for the year ended March 31, 2013.

### A BACKGROUND

HDFC Bank Limited ('HDFC Bank' or 'the Bank'), incorporated in Mumbai, India is a publicly held banking company engaged in providing a range of banking and financial services including commercial banking and treasury operations. The Bank is governed by the Banking Regulation Act, 1949. The Bank has overseas branch operations in Bahrain and Hong Kong.

### B BASIS OF PREPARATION

The financial statements have been prepared and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and are in accordance with Generally Accepted Accounting Principles in India ('GAAP'), statutory requirements prescribed under the Banking Regulation Act 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, Accounting Standards notified under the Companies Accounting Standard Rules, 2006 to the extent applicable and current practices prevailing within the banking industry in India.

**Use of estimates**

The preparation of financial statements in conformity with GAAP requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision in the accounting estimates is recognised prospectively in the current and future periods.

### C PRINCIPAL ACCOUNTING POLICIES

**1 Investments**

**Classification :**

In accordance with the RBI guidelines on investment classification and valuation, Investments are classified on the date of purchase into "Held for Trading" ('HFT'), "Available for Sale" ('AFS') and "Held to Maturity" ('HTM') categories (hereinafter called "categories"). Subsequent shifting amongst the categories is done in accordance with the RBI guidelines. Under each of these categories, investments are further classified under six groups (hereinafter called "groups") - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint ventures and Other Investments.

Recording purchase and sale transactions in securities is done following 'Settlement Date' accounting, except in the case of equity shares where 'Trade Date' accounting is followed.

**Basis of classification :**

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category.

Investments which the Bank intends to hold till maturity are classified as HTM securities. Investments in the equity of subsidiaries / joint ventures are categorised as HTM in accordance with the RBI guidelines. Investments which are not classified in the above categories are classified under AFS category.

**Acquisition cost :**

In determining acquisition cost of an investment :

- Brokerage, Commission, etc. paid at the time of acquisition, are charged to revenue.
- Broken period interest on debt instruments is treated as a revenue item.
- Cost of investments is based on the weighted average cost method.

**Disposal of investments :**

Profit / Loss on sale of investments under the aforesaid three categories is recognised in the Statement of Profit and Loss. The profit from sale of investment under HTM category, net of taxes and transfer to statutory reserve is appropriated from Statement of Profit and Loss to "Capital Reserve" in accordance with the RBI Guidelines.

**Short sale :**

The Bank undertakes short sale transactions in Central Government dated securities in accordance with RBI guidelines. The short position is reflected as the amount received on sale and is classified under 'Other Liabilities'. The short position is marked to market and loss, if any, is charged to the Statement of Profit and Loss while gain, if any, is not recognised. Profit / Loss on settlement of the short position is recognised in the Statement of Profit and Loss.


HDFC BANK
We understand your world

**Valuation :**

Investments classified under AFS and HFT categories are marked to market as per the RBI guidelines.

Traded investments are valued based on the trades / quotes on the recognised stock exchanges, price list of RBI or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed Income Money Market and Derivatives Association ('FIMMDA'), periodically.

The market value of unquoted government securities which qualify for determining the Statutory Liquidity Ratio ('SLR') included in the AFS and HFT categories is computed as per the Yield-to-Maturity ('YTM') rates published by FIMMDA.

The valuation of other unquoted fixed income securities (viz. State Government securities, Other approved securities, Bonds and Debentures) and preference shares, wherever linked to the YTM rates, is done with a mark-up (reflecting associated credit and liquidity risk) over the YTM rates for government securities published by FIMMDA. Special Bonds such as Oil Bonds, Fertilizer Bonds etc. which are directly issued by Government of India ('GOI') that do not qualify for SLR are also valued by applying the mark up above the corresponding yield on GOI securities. Unquoted equity shares are valued at the break-up value, if the latest balance sheet is available or at ₹ 1 as per the RBI guidelines. Units of mutual funds are valued at the latest repurchase price / net asset value declared by the mutual fund. Treasury Bills, Commercial Papers and Certificate of Deposits being discounted instruments, are valued at carrying cost. Security receipts are valued as per the Net Asset Value provided by the issuing Asset Reconstruction Company from time to time.

Net depreciation in the value, if any, compared to the acquisition cost, in any of the six groups, is charged to the Statement of Profit and Loss. The net appreciation, if any, in any of the six groups is not recognised except to the extent of depreciation already provided. The valuation of investments includes securities under repo transactions. The book value of individual securities is not changed after the valuation of investments.

Investments classified under HTM category are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortised over the remaining maturity period of the security on a constant yield to maturity basis. Such amortisation of premium is adjusted against interest income under the head "Income from investments" as per the RBI guidelines. Any diminution, other than temporary, in the value of investments in subsidiaries / joint ventures is provided for.

Non-performing investments are identified and depreciation / provision is made thereon based on the RBI guidelines. The depreciation / provision is not set off against the appreciation in respect of other performing securities. Interest on non-performing investments is not recognised in the Profit or Loss Account until received.

**Repo and reverse repo transactions :**

In accordance with the RBI guidelines Repo and Reverse Repo transactions in government securities and corporate debt securities (excluding transactions conducted under Liquidity Adjustment Facility ('LAF') and Marginal Standby Facility ('MSF') with RBI) are reflected as borrowing and lending transactions respectively. Borrowing cost on repo transactions is accounted as interest expense and revenue on reverse repo transactions is accounted as interest income.

In respect of repo transactions under LAF and MSF with RBI, amount borrowed from RBI is credited to investment account and reversed on maturity of the transaction. Costs thereon are accounted for as interest expense. In respect of reverse repo transactions under LAF, amount lent to RBI is debited to investment account and reversed on maturity of the transaction. Revenues thereon are accounted as interest income.

**2 Advances**

**Classification :**

Advances are classified as performing and non-performing based on the RBI guidelines and are stated net of bills rediscounted, specific provisions, interest in suspense for non-performing advances, claims received from Export Credit Guarantee Corporation, provisions for funded interest term loan classified as non-performing advances and provisions in lieu of diminution in the fair value of restructured assets. Interest on non-performing advances is transferred to an interest suspense account and not recognised in the Statement of Profit and Loss until received.

**Provisioning :**

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of wholesale and retail advances, subject to the minimum provisioning level prescribed by the RBI. The specific provision levels for retail non-performing assets are also based on the nature of product and delinquency levels. Specific loan loss provisions in respect of non-performing advances are charged to profit and loss and included under Provisions and Contingencies. Recoveries from bad debts written-off are recognised in the Statement of Profit and Loss and included under Other Income. In relation to non-performing derivative contracts, as per the extant RBI guidelines, the Bank makes provision for the entire amount of overdue and future receivables relating to positive marked to market value of the said derivative contracts.

The Bank maintains general provision for standard assets including credit exposures computed as per the current marked to market values of interest rate and foreign exchange derivative contracts, and gold at levels stipulated by RBI from time to time. Provision for standard assets held by the Bank is not reversed. In the case of overseas branches, general provision on standard advances is maintained at the higher of the levels stipulated by the respective overseas regulator or RBI. Provision for standard assets is included under Other Liabilities.

Provisions made in excess of these regulatory requirements or provisions which are not made with respect to specific non-performing assets are categorised as floating provisions. Creation of further floating provisions is considered by the Bank up to a level approved by the Board of Directors. Floating provisions are not reversed by credit to Statement of Profit and Loss and can be used only for contingencies under extraordinary circumstances for making specific provisions towards impaired accounts after obtaining Board approval and with prior permission of RBI. Floating provisions have been included under Other Liabilities.

Further to the provisions required to be held according to the asset classification status, provisions are held for individual country exposures (other than for home country exposure). Countries are categorised into risk categories as per Export Credit Guarantee Corporation of India Ltd. ('ECGC') guidelines and provisioning is done in respect of that country where the net funded exposure is one percent or more of the Bank's total assets.

In addition to the above, the Bank on a prudential basis makes provisions on advances or exposures which are not NPAs, but has reasons to believe on the basis of the extant environment or specific information, the possible slippage of a specific advance or a group of advances or exposures or potential exposures. These are classified as contingent provisions and included under Other Liabilities.

The Bank considers a restructured account as one where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of the advance / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of installments / rate of interest (due to reasons other than competitive reasons). Restructured accounts are classified as such by the Bank only upon approval and implementation of the restructuring package. Necessary provision for diminution in the fair value of a restructured account is made. Restructuring of an account is done at a borrower level.

**3 Securitisation and transfer of assets**

The Bank securitises out its receivables, subject to the minimum holding period criteria and the minimum retention requirements of RBI, to Special Purpose Vehicles ('SPVs') in securitisation transactions. Such securitised-out receivables are de-recognised in the balance sheet when they are sold (true sale criteria being fully met with) and consideration is received by the Bank. Sales / transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings. In respect of receivable pools securitised-out, the Bank provides liquidity and credit enhancements, as specified by the rating agencies, in the form of cash collaterals / guarantees and / or by subordination of cash flows, not exceeding 20% of the total securitised instruments, in line with RBI guidelines. The Bank also acts as a servicing agent for receivable pools securitised-out.

The Bank also enters into transactions for transfer of standard assets through the direct assignment of cash flows, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by Pass through Certificates ('PTCs'), subject to the RBI prescribed minimum holding period criteria and the minimum retention requirements ('MRR'). The RBI issued addendum guidelines on securitisation of standard assets vide its circular dated May 7, 2012. Accordingly, the Bank does not provide liquidity or credit enhancements on the direct assignment transactions undertaken subsequent to these guidelines.

Pursuant to these guidelines, the Bank amortises any profit received in cash for every individual securitisation or direct assignment transaction at the end of every financial year. This amortisation is calculated as the maximum of either of the three parameters stated below :

- the losses incurred on the portfolio, including marked-to-market losses in case of securitisation transactions, specific provisions, if any, and direct write-offs made on the MRR and any other exposures to the securitisation transaction (other than credit enhancing interest only strip); or
- the amount of unamortised cash profit at the beginning of the year multiplied by the amount of principal amortised during the year as a proportion to the amount of unamortised principal at the beginning of the year; or
- the amount of unamortised cash profit at the beginning of the year divided by residual maturity of the securitisation or the direct assignment transaction.



HDFC BANK
We understand your world

In relation to securitisation transactions undertaken prior to the aforementioned RBI guidelines, including those undertaken through the direct assignment route, the Bank continues to amortise the profit / premium that arose on account of sale of receivables over the life of the securities sold, in accordance with the RBI guidelines on securitisation of standard assets issued vide its circular dated February 1, 2006.

Any loss arising on account of sale of receivables is recognised in the Statement of Profit and Loss for the period in which the sale occurs in accordance with the said RBI guidelines.

The Bank transfers advances through inter-bank participation with and without risk. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances and where the Bank is participating, the aggregate amount of the participation is classified under advances. In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings and where the Bank is participating, the aggregate amount of participation is shown as due from banks under advances.

In accordance with RBI guidelines on sale of non-performing advances, if the sale is at a price below the net book value (i.e., book value less provisions held), the shortfall is charged to the Statement of Profit and Loss. If the sale is for a value higher than the net book value, the excess provision is not reversed but is utilised to meet the shortfall / loss on account of sale of other non-performing advances.

The Bank invests in PTCs issued by other SPVs. These are accounted for at the deal value and are classified as investments. The Bank also buys loans through the direct assignment route which are classified as advances. These are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised based on effective interest rate (EIR) method.

### 4 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation as adjusted for impairment, if any. Cost includes cost of purchase and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is ready to use. Subsequent expenditure incurred on assets put to use is capitalised only when it increases the future benefit / functioning capability from / of such assets.

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The rates of depreciation are not lower than the rates prescribed in Schedule XIV of the Companies Act, 1956. Depreciation rates for certain key fixed assets are given below :

| Asset | Depreciation rate per annum |
|---|---|
| Owned Premises | 1.63% |
| VSATs | 10.00% |
| ATMs | 10.00% |
| Office equipments | 16.21% |
| Computers | 33.33% |
| Motor cars | 25.00% |
| Software and System development expenditure | 20.00% |
| Assets at residences of executives of the Bank | 25.00% |

- Improvements to lease hold premises are charged off over the remaining primary period of lease.
- Items (excluding staff assets) costing less than ₹ 5,000 and point of sale terminals are fully depreciated in the year of purchase.
- All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.
- For assets purchased and sold during the year, depreciation is provided on pro rata basis by the Bank.
- The Bank undertakes assessment of the useful life of an asset at periodic intervals taking into account changes in environment, changes in technology, the utility and efficacy of the asset in use, etc. Whenever there is a revision of the estimated useful life of an asset, the unamortised depreciable amount is charged over the revised remaining useful life of the said asset.

**5 Impairment of assets**

The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired. Impairment loss, if any, is provided in the Statement of Profit and Loss to the extent the carrying amount of assets exceeds their estimated recoverable amount.

**6 Transactions involving foreign exchange**

Foreign currency income and expenditure items of domestic operations are translated at the exchange rates prevailing on the date of the transaction. Income and expenditure items of integral foreign operations (representative offices) are translated at the weekly average closing rates and of non-integral foreign operations (foreign branches) at the monthly average closing rates.

Foreign currency monetary items of domestic and integral foreign operations are translated at the closing exchange rates notified by Foreign Exchange Dealers' Association of India ('FEDAI') as at the balance sheet date and the resulting net valuation profit or loss arising due to a net open position in any foreign currency is recognised in the Statement of Profit and Loss.

Both monetary and non-monetary foreign currency assets and liabilities of non-integral foreign operations are translated at closing exchange rates notified by FEDAI at the balance sheet date and the resulting profit / loss arising from exchange differences are accumulated in the Foreign Currency Translation Account until the disposal of the net investment in the non-integral foreign operations.

Foreign exchange spot and forward contracts outstanding as at the balance sheet date and held for trading, are revalued at the closing spot and forward rates respectively as notified by FEDAI and at interpolated rates for contracts of interim maturities. The contracts for longer maturities i.e. greater than one year are revalued using MIFOR (Mumbai Interbank Forward Offer Rate) and contracts with USD-INR currency pair are valued using USD LIBOR (London Interbank Offered Rate) rates. For other currency pairs, the forward points (as published by FEDAI) are extrapolated. The resulting profit or loss on valuation is recognised in the Statement of Profit and Loss.

Foreign exchange forward contracts not intended for trading, that are entered into to establish the amount of reporting currency required or available at the settlement date of a transaction, and are outstanding at the balance sheet date, are effectively valued at the closing spot rate. The premia or discount arising at the inception of such forward exchange contract is amortised as expense or income over the life of the contract.

Currency futures contracts are marked to market daily using settlement price on a trading day, which is the closing price of the respective futures contracts on that day. While the daily settlement price is computed on the basis of the last half an hour weighted average price of such contract, the final settlement price is taken as the RBI reference rate on the last trading day of the futures contract or as may be specified by the relevant authority from time to time. All open positions are marked to market based on the settlement price and the resultant marked to market profit / loss is daily settled with the exchange.

Contingent Liabilities on account of foreign exchange contracts, currency future contracts, guarantees, letters of credit, acceptances and endorsements are reported at closing rates of exchange notified by FEDAI as at the Balance Sheet date.

**7 Derivative contracts**

The Bank recognises all derivative contracts (other than those designated as hedges) at fair value, on the date on which the derivative contracts are entered into and are re-measured at fair value as at the balance sheet or reporting dates. Derivatives are classified as assets when the fair value is positive (positive marked to market value) or as liabilities when the fair value is negative (negative marked to market value). Changes in the fair value of derivatives other than those designated as hedges are recognised in the Statement of Profit and Loss.

Derivative contracts designated as hedges are not marked to market unless their underlying transaction is marked to market. In respect of derivative contracts that are marked to market, changes in the market value are recognised in the Statement of Profit and Loss in the relevant period. The Bank identifies the hedged item (asset or liability) at the inception of the transaction itself. Hedge effectiveness is ascertained at the time of the inception of the hedge and periodically thereafter. Gains or losses arising from hedge ineffectiveness, if any, are recognised in the Statement of Profit and Loss.

Contingent Liabilities on account of derivative contracts denominated in foreign currencies are reported at closing rates of exchange notified by FEDAI as at the Balance Sheet date.

**8 Revenue recognition**

Interest income is recognised in the Statement of Profit and Loss on an accrual basis, except in the case of non-performing assets where it is recognised upon realisation as per RBI norms.

Interest income on investments in Pass Through Certificates ('PTCs') and loans bought out through the direct assignment route is recognised at their effective interest rate.

Income on non-coupon bearing discounted instruments is recognised over the tenor of the instrument on a constant effective yield basis.

Loan processing fee is recognised as income when due. Syndication / arranger fee is recognised as income when a significant act / milestone is completed.

Gain / loss on sell down of loans is recognised in line with the extant RBI guidelines.

Dividend on equity shares, preference shares and on mutual fund units is recognised as income when the right to receive the dividend is established.

Guarantee commission, commission on Letter of Credit, annual locker rent fees and annual fees for credit cards are recognised on a straight line basis over the period of contract. Other fees and commission income are recognised when due, except in cases where the Bank is uncertain of ultimate collection.

**9 Employee benefits**

**Employee Stock Option Scheme ('ESOS')**

The Employee Stock Option Scheme ('the Scheme') provides for the grant of options to acquire equity shares of the Bank to its employees. The options granted to employees vest in a graded manner and these may be exercised by the employees within a specified period.

The Bank follows the intrinsic value method to account for its stock-based employee compensation plans. Compensation cost is measured by the excess, if any, of the fair market price of the underlying stock over the exercise price as determined under the option plan. The fair market price is the closing price on the stock exchange where there is highest trading volume on the working day immediately preceding the date of grant. Compensation cost, if any is amortised over the vesting period.

**Gratuity**

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payment to vested employees on resignation, retirement, 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. Vesting occurs upon completion of five years of service. The Bank makes contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. In respect of erstwhile Lord Krishna Bank ('eLKB') employees, the Bank makes contribution to a fund set up by eLKB and administered by the board of trustees.

The defined gratuity benefit plans are valued by an independent actuary as at the balance sheet date using the projected unit credit method as per the requirement of AS-15 (Revised 2005), Employee Benefits, to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations, which include assumptions about demographics, early retirement, salary increases and interest rates. Actuarial gain or loss is recognised in the Statement of Profit and Loss.

**Superannuation**

Employees of the Bank, above a prescribed grade, are entitled to receive retirement benefits under the Bank's Superannuation Fund. The Bank contributes a sum equivalent to 13% of the employee's eligible annual basic salary (15% for the Managing Director, Executive Directors and for certain eligible erstwhile Centurion Bank of Punjab ('eCBoP') staff) to insurance companies, which administer the fund. The Bank has no liability for future superannuation fund benefits other than its contribution, and recognises such contributions as an expense in the year incurred, as such contribution is in the nature of defined contribution.

**Provident fund**

In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund. The Bank contributes an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary). Of this, the Bank contributes an amount equal to 8.33% of employee's basic salary up to a maximum salary level of ₹ 6,500/- per month, to the Pension Scheme administered by the Regional Provident Fund Commissioner ('RPFC'). The balance amount is contributed to a fund set up by the Bank and administered by a board of trustees. In respect of eCBoP employees, employer's and employee's share of contribution to Provident Fund till March 2009, was administered by RPFC and from April 2009 onwards, the same is transferred to the fund set up by the Bank and administered by the board of trustees. In respect of eLKB employees, the Bank contributes to a fund set up by eLKB and administered by a board of trustees. The Bank recognises such contributions as an expense in the year in which it is incurred. Interest payable to the members of the trust shall not be lower than the statutory rate of interest declared by the Central Government under the Employees Provident Funds and Miscellaneous Provisions Act 1952 and shortfall, if any, shall be made good by the Bank. The guidance note on implementing AS-15 (revised 2005), Employee Benefits, states that benefits involving employer established provident funds, which require interest shortfalls to be provided, are to be considered as defined benefit plans. Actuarial valuation of this Provident Fund interest shortfall is done as per the guidance note issued in this respect by the Actuary Society of India and provision towards this liability is made.

The overseas branches of the Bank make contributions to the respective relevant government scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due, as such contribution is in the nature of defined contribution.

**Leave encashment / compensated absences**

The Bank does not have a policy of encashing unavailed leave for its employees, except for certain eLKB employees under Indian Banks' Association ('IBA') structure. The Bank provides for leave encashment / compensated absences based on an independent actuarial valuation at the balance sheet date, which includes assumptions about demographics, early retirement, salary increases, interest rates and leave utilisation.

**Pension**

In respect of pension payable to certain eLKB employees under IBA structure, which is a defined benefit scheme, the Bank contributes 10% of basic salary to a pension fund set up by the Bank and administered by the board of trustees and the balance amount is provided based on actuarial valuation as at the balance sheet date conducted by an independent actuary.

In respect of certain eLKB employees who had moved to a Cost to Company ('CTC') driven compensation structure and have completed less than 15 years of service, the contribution which was made until then, is maintained as a fund and will be converted into annuity on separation after a lock-in-period of two years. For this category of employees, liability stands frozen and no additional provision is required except for interest as applicable to Provident Fund, which is provided for.

In respect of certain eLKB employees who moved to a CTC structure and had completed service of more than 15 years, pension would be paid on separation based on salary applicable as on the date of movement to CTC structure. Provision thereto is made based on actuarial valuation as at the balance sheet date conducted by an independent actuary.

**10 Debit and credit cards reward points**

The Bank estimates the probable redemption of debit and credit card reward points and cost per point using an actuarial method by employing an independent actuary, which includes assumptions such as mortality, redemption and spends. Provisions for the said reward points are made based on the actuarial valuation report as furnished by the said independent actuary.

**11 Bullion**

The Bank imports bullion including precious metal bars on a consignment basis for selling to its wholesale and retail customers. The imports are typically on a back-to-back basis and are priced to the customer based on an estimated price quoted by the supplier. The Bank earns a fee on such wholesale bullion transactions. The fee is classified under commission income.

The Bank also sells bullion to its retail customers. The difference between the sale price to customers and actual price quoted by supplier is also reflected under commission income.

The Bank also borrows and lends gold, which is treated as borrowing / lending as the case may be with the interest paid / received classified as interest expense / income.

**12 Lease accounting**

Lease payments including cost escalation for assets taken on operating lease are recognised in the Statement of Profit and Loss over the lease term in accordance with the AS-19, Leases.

**13 Income tax**

Income tax expense comprises current tax provision (i.e. the amount of tax for the period determined in accordance with the Income Tax Act, 1961 and the rules framed there under) and the net change in the deferred tax asset or liability in the year. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carried forward, if any. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates as at the balance sheet date.

Current tax assets and liabilities and deferred tax assets and liabilities are off-set when they relate to income taxes levied by the same taxation authority, when the Bank has a legal right to off-set and when the Bank intends to settle on a net basis.

Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realized in future. In case of unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and appropriately adjusted to reflect the amount that is reasonably / virtually certain to be realized.

**14 Earnings per share**

The Bank reports basic and diluted earnings per equity share in accordance with AS-20, Earnings per Share. Basic earnings per equity share has been computed by dividing net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted to equity during the year. Diluted earnings per equity share are computed using the weighted average number of equity shares and the dilutive potential equity shares outstanding during the period except where the results are anti-dilutive.

**15 Segment information - basis of preparation**

The disclosure relating to segmental classification conforms to the guidelines issued by RBI. Business Segments have been identified and reported taking into account, the target customer profile, the nature of products and services, the differing risks and returns, the organisation structure, the internal business reporting system and the guidelines prescribed by RBI. The Bank operates in the following segments :

**(a) Treasury**

The treasury segment primarily consists of net interest earnings from the Bank's investment portfolio, money market borrowing and lending, gains or losses on investment operations and on account of trading in foreign exchange and derivative contracts.

**(b) Retail Banking**

The retail banking segment serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and provides loans and other services with the help of specialist product groups to such customers. Exposures are classified under retail banking taking into account the status of the borrower (orientation criterion), the nature of product, granularity of the exposure and the quantum thereof.

Revenues of the retail banking segment are derived from interest earned on retail loans, interest earned from other segments for surplus funds placed with those segments, subvention received from dealers and manufacturers, fees from services rendered, foreign exchange earnings on retail products etc. Expenses of this segment primarily comprise interest expense on deposits, commission paid to retail assets sales agents, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses of specialist product groups, processing units and support groups.

**(c) Wholesale banking**

The wholesale banking segment provides loans, non-fund facilities and transaction services to large corporates, emerging corporates, public sector units, government bodies, financial institutions and medium scale enterprises. Revenues of the wholesale banking segment consist of interest earned on loans made to customers, interest / fees earned on the cash float arising from transaction services, earnings from trade services and other non-fund facilities and also earnings from foreign exchange and derivative transactions on behalf of customers. The principal expenses of the segment consist of interest expense on funds borrowed from external sources and other internal segments, premises expenses, personnel costs, other direct overheads and allocated expenses of delivery channels, specialist product groups, processing units and support groups.

**(d) Other banking business**

This segment includes income from para banking activities such as credit cards, debit cards, third party product distribution, primary dealership business and the associated costs.

**(e) Unallocated**

All items which are reckoned at an enterprise level are classified under this segment. This includes capital and reserves, debt classified as Tier I or Tier II capital and other unallocable assets and liabilities such as deferred tax, prepaid expenses, etc.

Segment revenue includes earnings from external customers plus earnings from funds transferred to other segments. Segment result includes revenue less interest expense less operating expense and provisions, if any, for that segment. Segment-wise income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally approved yield curve or at a certain agreed transfer price rate. Transaction charges are levied by the retail-banking segment to the wholesale banking segment for the use by its customers of the retail banking segment's branch network or other delivery channels. Such transaction costs are determined on a cost plus basis. Segment capital employed represents the net assets in that segment.

**Geographic segments**

The geographic segments of the Bank are categorized as Domestic Operations and Foreign Operations. Domestic Operations comprise branches in India and Foreign Operations comprise branches outside India.

**16 Accounting for provisions, contingent liabilities and contingent assets**

In accordance with AS-29, Provisions, Contingent Liabilities and Contingent Assets, the Bank recognises provisions when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

Provisions are determined based on management estimate required to settle the obligation at the balance sheet date, supplemented by experience of similar transactions. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates. In cases where the available information indicates that the loss on the contingency is reasonably possible but the amount of loss cannot be reasonably estimated, a disclosure is made in the financial statements.

Contingent Assets, if any, are not recognised in the financial statements since this may result in the recognition of income that may never be realized.

**17 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice.

# For the year ended March 31, 2013

### Schedule 18 - Notes forming part of the financial statements for the year ended March 31, 2013

Amounts in Notes forming part of the Financial Statements for the year ended March 31, 2013 are denominated in Rupee crore to conform to extant RBI guidelines.

**1 Sub-division of equity shares**

The shareholders of the Bank at the 17th Annual General Meeting held on July 6, 2011 approved sub-division (split) of one equity share of the Bank from nominal value of ₹ 10/- each into five equity shares of nominal value of ₹ 2/- each.

**2 Change in Classification**

- As per market practice, the Bank pays commission to sales agents and also receives front ended subventions / commission / fees from dealers and manufacturers for originating retail asset products. The net commission paid is expensed in the year in which it is incurred. Pursuant to RBI's instructions vide its letter dated March 22, 2013, the Bank has, effective year ended March 31, 2013, classified the net commission as follows :
  - ✓ Commission paid to sales agents for originating fixed tenor retail loans is classified under Operating Expenses and subvention received from dealers and manufacturers is classified under Other Income.
  - ✓ The net commission paid was hitherto reduced from Interest Income. Accordingly, ₹ 738.58 crore (previous year : ₹ 624.44 crore) of commission paid to sales agent is included under Operating Expenses and ₹ 48.42 crore (previous year : ₹ 36.60 crore) of subvention received from dealers and manufacturers is included under Other Income. Figures for the previous year have accordingly been regrouped / reclassified to conform to current year's classification. The above change in classification has no impact on the profit and loss of the Bank for the years ended March 31, 2013 and March 31, 2012.
- The Bank recognises in the Statement of Profit and Loss Account, provision for NPAs, direct charge offs, write back of provision for NPAs and recoveries from written off accounts. Pursuant to RBI's instructions vide its letter dated March 22, 2013, the Bank has, effective year ended March 31, 2013, classified the recoveries from written off accounts under Other Income and the direct charge offs under Operating Expenses. These were hitherto included in the specific loan loss charge under Provisions and Contingencies. Accordingly, ₹ 496.54 crore (previous year : ₹ 503.33 crore) of recoveries from written-off accounts are included under Other Income and ₹ 78.93 crore (previous year : ₹ 63.14 crore) of direct charge offs are included under Operating Expenses. Figures for the previous year have accordingly been regrouped / reclassified to conform to current year's classification. The above change in classification has no impact on the profit and loss of the Bank for the years ended March 31, 2013 and March 31, 2012.

**3 Capital adequacy**

The Bank's Capital to Risk-weighted Asset Ratio ('Capital Adequacy Ratio') is calculated in accordance with the RBI's 'Prudential Guidelines on Capital Adequacy and Market Discipline - Implementation of the New Capital Adequacy Framework' ('Basel II'). Under the Basel II framework, the Bank is required to maintain a minimum capital adequacy ratio of 9% on an ongoing basis for credit risk, market risk and operational risk, with a minimum Tier I capital ratio of 6%. Further, the minimum capital maintained by the Bank as on March 31, 2013 is subject to a prudential floor, which is the higher of the following amounts :

a) Minimum capital required as per the Basel II framework.

b) 80% of the minimum capital required to be maintained under the Basel I framework.

The Bank's capital adequacy ratio, calculated in accordance with the RBI guidelines under both Basel I and Basel II frameworks, is as follows :

**(₹ crore)**

| Particulars | As per Basel I framework | | As per Basel II framework | |
|---|---|---|---|---|
| | March 31, 2013 | March 31, 2012 | March 31, 2013 | March 31, 2012 |
| Tier I capital | 33,928.20 | 28,113.56 | 33,881.13 | 28,067.49 |
| Tier II capital | 17,519.23 | 11,898.97 | 17,519.23 | 11,898.97 |
| Total capital | 51,447.43 | 40,012.53 | 51,400.36 | 39,966.46 |
| Total Risk weighted assets | 322,725.15 | 254,764.29 | 305,878.89 | 241,896.32 |
| Minimum capital required | 29,045.26 | 22,928.79 | 27,529.10 | 21,770.67 |
| **Capital adequacy ratios** | | | | |
| Tier I | 10.51% | 11.04% | 11.08% | 11.60% |
| Tier II | 5.43% | 4.67% | 5.72% | 4.92% |
| Total | 15.94% | 15.71% | 16.80% | 16.52% |

The Bank's capital funds as on March 31, 2013 are higher than the minimum required under the Basel I and Basel II framework.

## For the year ended March 31, 2013

The difference between risk weighted assets under the Basel I and Basel II framework is a net impact of the following key changes :

- Under the Basel II framework, risk weights are applicable to claims on corporates corresponding to their external rating or in the absence of it ranging from 20% to 150%, compared to a uniform 100% under Basel I.
- Exposures qualifying for inclusion in the regulatory retail portfolio under Basel II framework attract a risk weight of 75% as against 100% under Basel I.
- The Basel II framework recognises risk mitigation techniques in the form of eligible financial collaterals such as cash margins, deposits, bonds, gold, debt mutual funds, etc., whilst under Basel I only cash margins and deposits are considered as eligible financial collateral.
- Restructured assets attract a risk weight of 125% under the Basel II framework compared to 100% under Basel I.
- Operational risk is subject to a capital charge under the Basel II framework.
- Under the Basel II framework, capital is subjected to a charge for valuation adjustment for illiquid position of derivative and non-derivative portfolio.

Details of innovative perpetual debt instruments and upper and lower Tier II instruments issued during the year are given below :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Amount raised by issue of Innovative Perpetual Debt Instruments (IPDI) during the year | - | - |
| Amount raised by issue of upper Tier II instruments during the year | - | - |
| Amount raised by issue of lower Tier II instruments during the year | 5,447.00 | 3,650.00 |

Subordinated debt (lower Tier II capital), upper Tier II capital and innovative perpetual debt instruments outstanding as at March 31, 2013 are ₹ 12,428.00 crore (previous year : ₹ 6,981.00 crore), ₹ 3,958.75 crore (previous year : ₹ 3,924.65 crore) and ₹ 200.00 crore (previous year : ₹ 200.00 crore) respectively.

The details of the bonds issued during the year ended March 31, 2013 are given below :

| Particulars | Date of allotment | Coupon rate (%) | Tenure | Amount (₹ crore) |
|---|---|---|---|---|
| Lower Tier II bonds | August 13, 2012 | 9.45% | 15 years[1] | 3,477.00 |
| Lower Tier II bonds | October 31, 2012 | 8.95% | 10 years[2] | 565.00 |
| Lower Tier II bonds | December 28, 2012 | 9.10% | 10 years[3] | 1,405.00 |

[1] *Call option exercisable on August 13, 2022 at par with the prior approval of RBI.*
[2] *Call option exercisable on October 31, 2017 at par with the prior approval of RBI.*
[3] *Call option exercisable on December 28, 2017 at par with the prior approval of RBI.*

The details of the bonds issued during the year ended March 31, 2012 are given below :

| Particulars | Date of allotment | Coupon rate (%) | Tenure | Amount (₹ crore) |
|---|---|---|---|---|
| Lower Tier II bonds | May 12, 2011 | 9.48% | 15 Years[1] | 3,650.00 |

[1] *Call option exercisable on May 12, 2021 at par with the prior approval of RBI.*

Based on the balance term to maturity as at March 31, 2013, 93% (previous year : 93%) of the book value of subordinated debt (lower Tier II capital) and upper Tier II capital is considered as Tier II capital for the purpose of capital adequacy computation.

Reconciliation of accounting capital and regulatory capital under Basel II, as on 31 March, 2013 : (₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| (a) Subscribed capital | 475.88 | 469.34 |
| (b) Reserves and surplus | 35,738.26 | 29,455.04 |
| (c) **Accounting capital (a+b)** | **36,214.14** | **29,924.38** |
| (d) Innovative perpetual debt | 200.00 | 200.00 |
| (e) Adjustments: | | |
| - Deferred tax asset | (1,904.85) | (1,448.89) |
| - Securitisation exposures (50% from Tier I) | (176.74) | (179.49) |
| - Investment in subsidiaries (50% from Tier I) | (361.81) | (361.81) |
| - Valuation adjustment for illiquid positions | (47.07) | (46.07) |
| - Others | (42.54) | (20.63) |
| **Total adjustments** | **(2,533.01)** | **(2,056.89)** |
| (f) Total Tier I capital (c+d+e) | 33,881.13 | 28,067.49 |
| (g) Total Tier II capital | 17,519.23 | 11,898.97 |
| **Total regulatory capital under Basel II (f+g)** | **51,400.36** | **39,966.46** |

## 4 Earnings per equity share

Basic and diluted earnings per equity share have been calculated based on the net profit after taxation of ₹ 6,726.28 crore (previous year : ₹ 5,167.09 crore) and the weighted average number of equity shares outstanding during the year was 2,360,960,867 (previous year : 2,336,704,062).

Following is the reconciliation between basic and diluted earnings per equity share :

| Particulars | For the year ended (₹) | |
|---|---|---|
| | March 31, 2013 | March 31, 2012 |
| Nominal value per share | 2.00 | 2.00 |
| Basic earnings per share | 28.49 | 22.11 |
| Effect of potential equity shares (per share) | (0.31) | (0.20) |
| Diluted earnings per share | 28.18 | 21.91 |

Basic earnings per equity share have been computed by dividing net profit for the year attributable to the equity shareholders by the weighted average number of equity shares outstanding for the year. Diluted earnings per equity share have been computed by dividing the net profit for the year attributable to the equity shareholders by the weighted average number of equity shares and dilutive potential equity shares outstanding during the year, except where the results are anti-dilutive. The dilutive impact is on account of stock options granted to employees by the Bank. There is no impact of dilution on the profits in the current year and previous year.

Following is the reconciliation of weighted average number of equity shares used in the computation of basic and diluted earnings per share :

| Particulars | For the year ended | |
|---|---|---|
| | March 31, 2013 | March 31, 2012 |
| Weighted average number of equity shares used in computing basic earnings per equity share | 2,360,960,867 | 2,336,704,062 |
| Effect of potential equity shares outstanding | 26,076,830 | 21,625,067 |
| Weighted average number of equity shares used in computing diluted earnings per equity share | 2,387,037,697 | 2,358,329,129 |

**5 Reserves and surplus**

**Draw down from reserves**

There has been no draw down from reserves during the year ended March 31, 2013.

**General reserve**

The Bank has made an appropriation of ₹ 672.63 crore (previous year : ₹ 516.71 crore) out of profits for the year ended March 31, 2013 to General Reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

**Investment reserve account**

During the year ended March 31, 2013, the Bank has appropriated ₹ 17.66 crore (net) from Profit and Loss Account to Investment Reserve Account. In the previous year, the Bank transferred ₹ 41.69 crore (net) from Investment Reserve Account to Profit and Loss Account.

**6 Accounting for employee share based payments**

The shareholders of the Bank approved grant of equity share options under Plan "B" in June 2003, Plan "C" in June 2005, Plan "D" in June 2007 and Plan "E" in June 2010. Under the terms of each of these Plans, the Bank may issue Equity Stock Options ('ESOPs') to employees and directors of the Bank, each of which is convertible into one equity share. All the plans were framed in accordance with the SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 as amended from time to time.

Plans B, C, D and E provide for the issuance of options at the recommendation of the Compensation Committee at the closing price on the working day immediately preceding the date when options are granted. For Plan B the price is that quoted on an Indian stock exchange with the highest trading volume during the preceding two weeks, while for Plans C, D and E the price is that quoted on an Indian stock exchange with the highest trading volume as of the working day preceding the date of grant.

Vesting conditions applicable to the options are at the discretion of the Compensation Committee. These options are exercisable on vesting, for a period as set forth by the Compensation Committee at the time of grant. The period in which options may be exercised cannot exceed five years. Modifications, if any, made to the terms and conditions of ESOPs as approved by the Compensation Committee are disclosed separately.

The erstwhile Centurion Bank of Punjab had granted stock options to its employees prior to its amalgamation with the Bank. The options were granted under the following Schemes framed in accordance with the SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 as amended from time to time :

1. Key ESOP
2. General ESOP

The outstanding options granted under each of the above schemes and the grant prices were converted into equivalent HDFC Bank options and prices in the swap ratio of 1:29 i.e. 1 stock option of HDFC Bank for every 29 stock options granted and outstanding of eCBoP as on May 23, 2008, the effective date of the amalgamation, in accordance with Clause 9.9 of the scheme of amalgamation of eCBoP with the Bank. The vesting dates for the said stock options granted in various tranches were revised as per Clause 9.9 of the Scheme. All the aforesaid stock 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 fair market price of the shares. General options were granted at the fair market price. The fair market price was the latest available closing price, prior to the date of meeting of the Board of Directors in which options were granted or shares were issued, on the stock exchange on which the shares of the Bank were listed. If the shares were listed on more than one stock exchange, then the stock exchange where there was highest trading volume on the said date was considered.

Along with approving the sub-division of the Bank's equity shares, the shareholders at the AGM also approved the consequent adjustments to the stock options to employees under its various schemes such that all employee stock options available for grant (including lapsed and forfeited options available for reissue) and those already granted but not exercised as on record date were proportionately converted into options for shares of face value of ₹ 2/- each and the grant price of all the outstanding stock options (vested, unvested and unexercised options) on the record date was proportionately adjusted by dividing the existing grant price by 5. The record date for this purpose was fixed as July 16, 2011.

All the numbers in the tables appearing hereinafter pertaining to stock options are given post sub-division of shares as stated above.

# For the year ended March 31, 2013

*Method used for accounting for shared based payment plan*

The Bank has elected to use intrinsic value method to account for the compensation cost of stock options to employees and directors of the Bank. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the option.

*Activity in the options outstanding under the Employee Stock Options Plan*

- Activity in the options outstanding under the employee stock options plan as at March 31, 2013 :

| Particulars | Options | Weighted average exercise price (₹) |
|---|---|---|
| Options outstanding, beginning of year | 99,872,740 | 389.52 |
| Granted during the year | - | - |
| Exercised during the year* | 33,459,050 | 333.87 |
| Forfeited / lapsed during the year | 970,645 | 433.59 |
| Options outstanding, end of year | 65,443,045 | 417.32 |
| Options exercisable | 56,752,845 | 409.46 |

** includes 728,290 options exercised, pending allotment of equity shares as of March 31, 2013.*

- Activity in the options outstanding under the employee stock options plan as at March 31, 2012 :

| Particulars | Options | Weighted average exercise price (₹) |
|---|---|---|
| Options outstanding, beginning of year | 85,924,615 | 325.27 |
| Granted during the year | 35,603,250 | 468.67 |
| Exercised during the year | 20,559,850 | 257.91 |
| Forfeited / lapsed during the year | 1,095,275 | 381.23 |
| Options outstanding, end of year | 99,872,740 | 389.52 |
| Options exercisable | 56,415,090 | 332.53 |

- Following table summarises the information about stock options outstanding as at March 31, 2013 :

| Plan | Range of exercise price (₹) | Number of shares arising out of options | Weighted average life of options (in years) | Weighted average exercise price (₹) |
|---|---|---|---|---|
| Plan B | 198.97 to 219.74 | 614,500 | 0.53 | 203.50 |
| Plan C | 198.97 to 219.74 | 705,400 | 0.44 | 208.12 |
| Plan D | 219.74 to 340.96 | 12,058,100 | 1.39 | 285.60 |
| Plan E | 440.16 to 508.23 | 51,175,300 | 3.65 | 457.40 |
| Key ESOP | - | - | - | - |
| General ESOP | 107.30 to 251.72 | 889,745 | 1.09 | 210.75 |

- Following table summarises the information about stock options outstanding as at March 31, 2012 :

| Plan | Range of exercise price (₹) | Number of shares arising out of options | Weighted average life of options (in years) | Weighted average exercise price (₹) |
|---|---|---|---|---|
| Plan B | 71.72 to 219.74 | 1,950,300 | 1.16 | 207.68 |
| Plan C | 126.12 to 219.74 | 3,421,500 | 0.93 | 191.41 |
| Plan D | 219.74 to 340.96 | 26,489,250 | 2.12 | 276.03 |
| Plan E | 440.16 to 508.23 | 66,270,250 | 4.55 | 455.47 |
| Key ESOP | 23.20 | 33,595 | 1.04 | 23.20 |
| General ESOP | 88.45 to 251.72 | 1,707,845 | 1.88 | 202.65 |

*Fair value methodology*

The fair value of options used to compute proforma net income and earnings per equity share have been estimated on the dates of each grant using the binomial option-pricing model. The Bank estimated the volatility based on the historical share prices. No options were granted during the year ended March 31, 2013. The various assumptions considered in the pricing model for the ESOPs granted during the year ended March 31, 2012 were :

| Particulars | March 31, 2012 |
|---|---|
| Dividend yield | 0.65% to 0.70% |
| Expected volatility | 29.35% |
| Risk-free interest rate | 8.04% to 8.22% |
| Expected life of the option | 1 to 6 years |

*Impact of fair value method on net profit and earnings per share*

Had the compensation cost for the Bank's stock option plans outstanding been determined based on the fair value approach, the Bank's net profit and earnings per share would have been as per the proforma amounts indicated below :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Net profit (as reported) | 6,726.28 | 5,167.09 |
| Add : Stock based employee compensation expense included in net income | - | - |
| Less : Stock based compensation expense determined under fair value based method (proforma) | 431.62 | 377.83 |
| Net profit (proforma) | 6,294.66 | 4,789.26 |
| | (₹) | (₹) |
| Basic earnings per share (as reported) | 28.49 | 22.11 |
| Basic earnings per share (proforma) | 26.66 | 20.50 |
| Diluted earnings per share (as reported) | 28.18 | 21.91 |
| Diluted earnings per share (proforma) | 26.37 | 20.31 |

**7. Other liabilities**

- The Bank held contingent provisions towards standard assets amounting to ₹ 1,035.74 crore as on March 31, 2013 (previous year : ₹ 910.79 crore). These are included under Other Liabilities.

  In line with RBI guidelines, provision for standard assets is made @ 0.40% except for direct advances to agriculture and small and micro enterprises (SMEs) sectors where provision is made @ 0.25%, for advances to commercial real estate sector where provision is made @ 1%, for restructured standard advances where provision is made @ 2.75% for a prescribed number of years from the date of restructuring or upgradation as the case may be, and for housing loans offered at a comparatively lower rate of interest in the first few years after which rates are reset at higher rates, where provision is made @ 2% until after one year from the date on which the rates are reset at higher rates. Provision for standard assets of overseas branches has been made at higher of rates prescribed by the overseas regulator or RBI.

- The Bank has presented gross unrealised gain on foreign exchange and derivative contracts under other assets and gross unrealised loss on foreign exchange and derivative contracts under other liabilities. Accordingly, other liabilities as on March 31, 2013 include unrealised loss on foreign exchange and derivative contracts of ₹ 7,036.66 crore (previous year : ₹ 12,735.50 crore).

- Other liabilities include share application monies of ₹ 22.15 crore as on March 31, 2013 (previous year : Nil), received on exercise of employee stock options pending allotment of equity shares. These shares were subsequently allotted on April 4, 2013.

**8 Investments**

- **Value of investments** (₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Gross value of investments | | |
| - In India | 111,347.24 | 97,709.24 |
| - Outside India | 503.12 | 0.60 |
| Provisions for depreciation on investments | | |
| - In India | 236.76 | 226.93 |
| - Outside India | - | - |
| Net value of investments | | |
| - In India | 111,110.48 | 97,482.31 |
| - Outside India | 503.12 | 0.60 |

- **Movement in provisions held towards depreciation on investments** (₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Opening balance | 226.93 | 42.46 |
| Add : Provision made during the year | 103.96 | 184.51 |
| Less : Write-off, write back of excess provision during the year | 94.13 | 0.04 |
| Closing balance | 236.76 | 226.93 |

- **Repo transactions**

In accordance with RBI's guidelines, accounting of repo / reverse repo transactions excludes those done with the RBI. Following are the details of repo / reverse repo transactions deals done during the years ended March 31, 2013 and March 31, 2012 :

✓ Details of repo / reverse repo deals (in face value terms) done during the year ended March 31, 2013 : (₹ crore)

| Particulars | Minimum outstanding during the year | Maximum outstanding during the year | Daily average outstanding during the year | Outstanding as at March 31, 2013 |
|---|---|---|---|---|
| **Securities sold under repo** | | | | |
| i. Corporate debt securities | - | - | - | - |
| ii. Government securities | - | 182.25 | 2.51 | - |
| **Securities purchased under reverse repo** | | | | |
| i. Corporate debt securities | - | 110.80 | 20.47 | - |
| ii. Government securities | - | 790.00 | 161.66 | - |

✓ Details of repo / reverse repo deals (in face value terms) done during the year ended March 31, 2012 : (₹ crore)

| Particulars | Minimum outstanding during the year | Maximum outstanding during the year | Daily average outstanding during the year | Outstanding as at March 31, 2012 |
|---|---|---|---|---|
| **Securities sold under repo** | | | | |
| i. Corporate debt securities | - | - | - | - |
| ii. Government securities | - | 9,800.00 | 454.36 | - |
| **Securities purchased under reverse repo** | | | | |
| i. Corporate debt securities | - | 115.80 | 13.55 | 110.80 |
| ii. Government securities | - | 524.00 | 65.16 | - |

✓ Outstanding repo and reverse repo deals with RBI under liquidity adjustment facility / marginal standing facility as of March 31, 2013 were ₹ 20,995.41 crore (previous year : ₹ 7,338.76 crore) and ₹ 7,035.00 crore (previous year : ₹ 2,100.00 crore) respectively.

# For the year ended March 31, 2013

- **Non-SLR investment portfolio**

✓ Issuer-wise composition of non-SLR investments as at March 31, 2013 : **(₹ crore)**

| No. | Issuer | Amount | Extent of private placement# | Extent of "below investment grade" securities# | Extent of "unrated" securities#* | Extent of "unlisted" securities#** |
|---|---|---|---|---|---|---|
| 1 | Public sector undertakings | 151.63 | 100.00 | - | - | - |
| 2 | Financial institutions | 14,930.57 | 14,580.80 | - | - | - |
| 3 | Banks | 1,958.06 | 1,721.20 | - | - | - |
| 4 | Private corporate | 5,676.24 | 5,153.87 | - | 194.52 | 212.80 |
| 5 | Subsidiaries / Joint ventures | 754.82 | 754.82 | - | - | - |
| 6 | Others | 3,472.24 | 775.16 | - | - | - |
| 7 | Provision held towards depreciation | (232.28) | | | | |
| | **Total** | **26,711.28** | **23,085.85** | **-** | **194.52** | **212.80** |

*# Amounts reported under these columns above are not mutually exclusive.*

** Excludes equity shares, units of mutual funds, Rural Infrastructure Development Fund ('RIDF'), Priority Sector Lending ('PSL') and Weaker Section Lending ('WSL') in line with extant RBI guidelines.*

*** Excludes equity shares, units of mutual funds, pass through certificates, security receipts, commercial paper and certificate of deposits in line with extant RBI guidelines.*

✓ Issuer-wise composition of non-SLR Investments as at March 31, 2012 : **(₹ crore)**

| No. | Issuer | Amount | Extent of private placement# | Extent of "below investment grade" securities# | Extent of "unrated" securities#* | Extent of "unlisted" securities#** |
|---|---|---|---|---|---|---|
| 1 | Public sector undertakings | 75.00 | 75.00 | - | - | 75.00 |
| 2 | Financial institutions | 12,800.56 | 12,784.57 | - | - | - |
| 3 | Banks | 4,384.09 | 3,048.09 | - | - | - |
| 4 | Private corporate | 2,060.34 | 1,885.68 | - | 142.49 | 555.75 |
| 5 | Subsidiaries / Joint ventures | 754.82 | 754.82 | - | - | - |
| 6 | Others | 1,370.94 | 374.88 | - | - | - |
| 7 | Provision held towards depreciation | (181.18) | | | | |
| | **Total** | **21,264.57** | **18,923.04** | **-** | **142.49** | **630.75** |

*# Amounts reported under these columns above are not mutually exclusive.*

** Excludes equity shares, units of mutual funds, Rural Infrastructure Development Fund ('RIDF'), Priority Sector Lending ('PSL') and Weaker Section Lending ('WSL') in line with extant RBI guidelines.*

*** Excludes equity shares, units of mutual funds, pass through certificates, security receipts, commercial paper and certificate of deposits in line with extant RBI guidelines.*

✓ Non performing non-SLR investments : **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Opening balance | 112.39 | 17.87 |
| Additions during the year | 97.95 | 94.52 |
| Reductions during the year | 48.38 | - |
| Closing balance | 161.96 | 112.39 |
| **Total provisions held** | **156.78** | **112.09** |

# For the year ended March 31, 2013

- **Details of investments category-wise**

The details of investments held under the three categories viz. Held for Trading ('HFT'), Available for Sale ('AFS') and Held to Maturity ('HTM') is as under : **(₹ crore)**

| Particulars | As at March 31, 2013 | | | | As at March 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | HFT | AFS | HTM | Total | HFT | AFS | HTM | Total |
| Government securities | 12,905.84 | 18,277.50 | 53,718.98 | 84,902.32 | 6,885.52 | 22,417.47 | 46,914.86 | 76,217.85 |
| Other approved securities | - | - | - | - | - | 0.49 | - | 0.49 |
| Shares | - | 125.41 | - | 125.41 | - | 84.21 | - | 84.21 |
| Debentures and bonds | 1,206.73 | 1,021.51 | - | 2,228.24 | 442.81 | 520.04 | - | 962.85 |
| Subsidiary / Joint ventures | - | - | 754.82 | 754.82 | - | - | 754.82 | 754.82 |
| Others | 1,175.29 | 8,156.72 | 14,270.80 | 23,602.81 | 1,954.96 | 4,753.16 | 12,754.57 | 19,462.69 |
| **Total** | **15,287.86** | **27,581.14** | **68,744.60** | **111,613.60** | **9,283.29** | **27,775.37** | **60,424.25** | **97,482.91** |

- **Details of other investments as at the Balance Sheet date is given below :** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Certificate of deposits | 1,862.02 | 4,382.09 |
| Commercial paper | 4,095.66 | 1,039.11 |
| Debt oriented mutual fund units | 2,613.96 | 897.28 |
| Pass through certificates | 711.20 | 338.86 |
| Security receipts issued by reconstruction companies | 49.17 | 50.78 |
| Deposits with NABARD | 10,677.19 | 9,115.48 |
| Deposits with SIDBI and National Housing Bank under the priority / weaker sector lending schemes | 3,593.61 | 3,639.09 |
| **Total** | **23,602.81** | **19,462.69** |

- Investments include securities of Face Value (FV) aggregating ₹ 1,745.00 crore (previous year : FV ₹ 1,345.00 crore) which are kept as margin for clearing of securities, of FV ₹ 12,100.00 crore (previous year : FV ₹ 5,732.27 crore) which are kept as margin for Collateralised Borrowing and Lending Obligation ('CBLO') and of FV aggregating ₹ 40.00 crore (previous year : FV ₹ 65.00 crore) which are kept as margin for Forex Forward segment - Default Fund with the Clearing Corporation of India Ltd.

- Investments include securities of FV aggregating ₹ 6.00 crore (previous year : FV ₹ 6.00 crore) which are kept as margin with National Securities Clearing Corporation of India Ltd. ('NSCCIL'), of FV aggregating ₹ 5.00 crore (previous year : FV ₹ 5.00 crore) which are kept as margin with MCX - SX Clearing Corporation Ltd. and of FV aggregating ₹ 0.30 crore (previous year : FV ₹ 0.30 crore) which are kept as margin with United Stock Exchange for transacting in the currency derivative segment.

- Investments having FV aggregating ₹ 29,376.69 crore (previous year : FV ₹ 25,631.20 crore) are kept as margin towards Real Time Gross Settlement ('RTGS') and those having FV aggregating ₹ 38,188.32 crore (previous year : ₹ 22,698.32 crore) are kept as margin towards liquidity adjustment facility with the RBI.

- The Bank has made investments in certain companies wherein it holds more than 25% of the equity shares of those companies. Such investments do not fall within the definition of a joint venture as per AS-27, Financial Reporting of Interest in Joint Ventures and the said accounting standard is thus not applicable. However, pursuant to RBI guidelines, the Bank has classified these investments as joint ventures.

- During financial year ended March 31, 2013, there has been no sale from, and transfer to / from, HTM category in excess of 5% of the book value of investments held in HTM category at the beginning of the year. In accordance with the RBI guidelines, this excludes :

  ✓ one-time transfer of securities permitted to be undertaken by banks at the beginning of the accounting year with approval of the Board of Directors; and

  ✓ sales to the RBI under pre-announced open market operation auctions.

**9 Derivatives**

- **Forward rate agreements (FRAs) / Interest rate swaps (IRS)** **(₹ crore)**

| S. No. | Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| i) | The total notional principal of swap agreements | 207,507.18 | 235,233.55 |
| ii) | Total losses which would be incurred if counter parties failed to fulfill their obligations under the agreements | 599.87 | 1,178.29 |
| iii) | Concentration of credit risk arising from swaps* | 79.90% | 77.24% |
| iv) | Collateral required by the Bank upon entering into swaps | - | - |
| v) | The fair value of the swap book | (183.28) | (57.09) |

** Concentration of credit risk arising from swaps is with banks as on March 31, 2013 and March 31, 2012.*

*The nature and terms of Rupees IRS as on March 31, 2013 are set out below :*

| Nature | Nos. | Notional principal (₹ crore) | Benchmark | Terms |
|---|---|---|---|---|
| Trading | 21 | 702.00 | INBMK | Fixed receivable v/s Floating payable |
| Trading | 20 | 877.00 | INBMK | Floating receivable v/s Fixed payable |
| Trading | 4 | 1,250.00 | INCMT | Floating receivable v/s Fixed payable |
| Trading | 1 | 50.00 | FIX TO FIX | Fixed receivable v/s Fixed payable |
| Trading | 1,093 | 89,761.10 | OIS | Fixed receivable v/s Floating payable |
| Trading | 1,063 | 80,409.40 | OIS | Floating receivable v/s Fixed payable |
| Trading | 255 | 13,454.00 | MIFOR | Fixed receivable v/s Floating payable |
| Trading | 164 | 8,063.00 | MIFOR | Floating receivable v/s Fixed payable |
| Trading | 16 | 400.00 | MIOIS | Floating receivable v/s Fixed payable |
| | | **194,966.50** | | |

*The nature and terms of foreign currency IRS as on March 31, 2013 are set out below :*

| Nature | Nos. | Notional principal (₹ crore) | Benchmark | Terms |
|---|---|---|---|---|
| Trading | 1 | 14.29 | JPY Libor | Fixed receivable v/s Floating payable |
| Trading | 1 | 14.29 | JPY Libor | Floating receivable v/s Fixed payable |
| Trading | 40 | 1,806.76 | USD Libor | Fixed receivable v/s Floating payable |
| Trading | 124 | 7,991.09 | USD Libor | Floating receivable v/s Fixed payable |
| Hedging | 3 | 2,714.25 | USD Libor | Fixed receivable v/s Floating payable |
| | | **12,540.68** | | |

*The nature and terms of Rupees IRS as on March 31, 2012 are set out below :*

| Nature | Nos. | Notional principal (₹ crore) | Benchmark | Terms |
|---|---|---|---|---|
| Trading | 25 | 860.00 | INBMK | Fixed receivable v/s Floating payable |
| Trading | 25 | 1,085.00 | INBMK | Floating receivable v/s Fixed payable |
| Trading | 4 | 1,250.00 | INCMT | Floating receivable v/s Fixed payable |
| Trading | 1 | 50.00 | FIX TO FIX | Fixed receivable v/s Fixed payable |
| Trading | 1400 | 104,384.88 | OIS | Fixed receivable v/s Floating payable |
| Trading | 1415 | 99,618.45 | OIS | Floating receivable v/s Fixed payable |
| Trading | 280 | 12,122.00 | MIFOR | Fixed receivable v/s Floating payable |
| Trading | 191 | 7,287.00 | MIFOR | Floating receivable v/s Fixed payable |
| Trading | 10 | 250.00 | MIOIS | Floating receivable v/s Fixed payable |
| | | **226,907.33** | | |

*The nature and terms of foreign Currency IRS as on March 31, 2012 are set out below :*

| Nature | Nos. | Notional principal (₹ crore) | Benchmark | Terms |
|---|---|---|---|---|
| Trading | 1 | 17.57 | JPY Libor | Fixed receivable v/s Floating payable |
| Trading | 1 | 17.57 | JPY Libor | Floating receivable v/s Fixed payable |
| Trading | 34 | 1,174.42 | USD Libor | Fixed receivable v/s Floating payable |
| Trading | 128 | 6,836.84 | USD Libor | Floating receivable v/s Fixed payable |
| Trading | 4 | 279.82 | Others | Floating receivable v/s Fixed payable |
| | | **8,326.22** | | |

- **Exchange traded interest rate derivatives** (₹ crore)

| S. No. | Particulars | 2013 | 2012 |
|---|---|---|---|
| i) | The total notional principal amount of exchange traded interest rate derivatives undertaken during the year ended March 31, (instrument-wise) : | | |
| | (a) 91 days Treasury bill | Nil | 0.02 |
| ii) | The total notional principal amount of exchange traded interest rate derivatives outstanding as of March 31, | Nil | Nil |
| iii) | The notional principal amount of exchange traded interest rate derivatives outstanding & not 'highly effective', as of March 31, | Nil | Nil |
| iv) | Mark-to-market value of exchange traded interest rate derivatives outstanding and not 'highly effective', as of March 31, | Nil | Nil |

- **Qualitative disclosures on risk exposure in derivatives**

*Overview of business and processes*

Derivatives are financial instruments whose characteristics are derived from underlying assets, or from interest and exchange rates or indices. These include forwards, swaps, futures and options. The notional amounts of financial instruments such as foreign exchange contracts and derivatives provide a basis for comparison with instruments recognised on the Balance Sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The following sections outline the nature and terms of the derivative transactions generally undertaken by the Bank.

*Interest rate contracts*

**Forward rate agreements** give the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the settlement date). There is no exchange of principal and settlement is effected on the settlement date. The settlement amount is the difference between the contracted rate and the market rate prevailing on the settlement date.

**Interest rate swaps** involve the exchange of interest obligations with the counterparty for a specified period without exchanging the underlying (or notional) principal.

**Interest rate caps and floors** give the buyer the ability to fix the maximum or minimum rate of interest. The writer of the contract pays the amount by which the market rate exceeds or is less than the cap rate or the floor rate respectively. A combination of interest rate caps and floors is known as an interest rate collar.

**Interest rate futures** are standardised interest rate derivative contracts traded on a recognised stock exchange to buy or sell a notional security or any other interest bearing instrument or an index of such instruments or interest rates at a specified future date, at a price determined at the time of the contract.

*Exchange rate contracts*

**Forward foreign exchange** contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on future date. All such instruments are carried at fair value, determined based on either FEDAI rates or on market quotations.



HDFC BANK
We understand your world

**Cross currency swaps** are agreements to exchange principal amounts denominated in different currencies. Cross currency swaps may also involve the exchange of interest payments on one specified currency for interest payments in another specified currency for a specified period.

**Currency options** give the buyer, on payment of a premium, 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. Option premia paid or received is recorded in Statement of Profit and Loss for rupee options at the expiry of the option and for foreign currency options on premium settlement date.

**Currency futures** contract is a standardised contract traded on an exchange, to buy or sell a certain underlying asset or an instrument at a certain date in the future, at a specified price. The underlying instrument of a currency future contract is the rate of exchange between one unit of foreign currency and the INR.

Most of the Bank's derivative transactions relate to sales and trading activities. Sale activities include the structuring and marketing of derivatives to customers to enable them to hedge their market risks (both interest rate and exchange risks), within the framework of regulations as may apply from time to time. The Bank deals in derivatives on its own account (trading activity) principally for the purpose of generating a profit from short term fluctuations in price or yields. The Bank also deals in derivatives to hedge the risk embedded in some of its Balance Sheet assets and liabilities.

*Constituents involved in derivative business*

The Treasury front office enters into derivative transactions with customers and inter-bank counterparties. The Bank has an independent back-office and mid-office as per regulatory guidelines. The Bank has a credit and market risk department that assesses various counterparty risk and market risk limits, within the risk architecture and processes of the Bank.

*Derivative policy*

The Bank has in place a policy which covers various aspects that apply to the functioning of the derivative business. The derivative business is administered by various market risk limits such as position limits, tenor limits, sensitivity limits and value-at-risk limits that are approved by the Board and the Risk Policy and Monitoring Committee ('RPMC'). All methodologies used to assess credit and market risks for derivative transactions are specified by the market risk unit. Limits are monitored on a daily basis by the mid-office.

The Bank has implemented a Board approved policy on Customer Suitability & Appropriateness to ensure that derivative transactions entered into are appropriate and suitable to the customer's nature of business / operations. Before entering into a derivative deal with a customer, the Bank scores the customer on various risk parameters and based on the overall score level it determines the kind of product that best suits its risk appetite and the customer's requirements.

*Classification of derivatives book*

The derivative book is classified into trading and hedging book. Classification of the derivative book is made on the basis of the definitions of the trading and hedging books specified in the RBI guidelines. The trading book is managed within the trading limits approved by the RPMC.

*Hedging policy*

For derivative contracts designated as hedge the Bank documents, at inception, the relationship between the hedging instrument and the hedged item, the risk management objective for undertaking the hedge and the methods used to assess the hedge effectiveness. Hedge effectiveness is ascertained at the time of inception of the hedge and periodically thereafter. Hedge effectiveness is measured by the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

The hedging book consists of transactions to hedge Balance Sheet assets or liabilities. The tenor of hedging instrument may be less than or equal to the tenor of underlying hedged asset or liability. Derivative contracts designated as hedges are not marked to market unless their underlying asset or liability is marked to market. In respect of derivative contracts that are marked to market, changes in the market value are recognised in the Statement of Profit and Loss in the relevant period. Gain or losses arising from hedge ineffectiveness, if any, are recognised in the Statement of Profit and Loss.

- **Provisioning, collateral and credit risk mitigation**

  The Bank enters into derivative transactions with counter parties based on their business ranking and financial position. The Bank sets up appropriate limits upon evaluating the ability of the counterparty to honour its obligations in the event of crystallisation of the exposure. Appropriate credit covenants are stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk.

  The Bank, at the minimum, conforms to the RBI guidelines with regard to provisioning requirements. Overdue receivables representing crystalised positive mark-to-market value of a derivative contract are transferred to the account of the borrower and treated as non-performing assets, if these remain unpaid for 90 days or more. Full provision is made for the entire amount of overdue and future receivables relating to positive marked to market value of non-performing derivative contracts.

- **Quantitative disclosure on risk exposure in derivatives** (₹ crore)

| S. No. | Particulars | Currency derivatives | | Interest rate derivatives | |
|---|---|---|---|---|---|
| | | March 31, 2013 | March 31, 2012 | March 31, 2013 | March 31, 2012 |
| 1 | Derivatives (notional principal amount) | | | | |
| | a) Hedging | 905.51 | 1,074.81 | 2,714.25 | - |
| | b) Trading | 20,265.76 | 26,330.70 | 205,335.78 | 235,233.55 |
| 2 | Marked to Market Positions | | | | |
| | a) Asset (+) | 322.87 | 589.55 | 591.13 | 1,178.29 |
| | b) Liability (-) | (256.21) | (413.58) | (788.17) | (1,235.38) |
| 3 | Credit Exposure | 1,126.74 | 1,225.81 | 2,110.09 | 2,856.75 |
| 4 | Likely Impact of one percentage change in interest rate (100*PV01) | | | | |
| | a) On hedging derivatives | 5.85 | 0.59 | 121.07 | - |
| | b) On trading derivatives | 11.32 | 13.85 | 118.57 | 120.18 |
| 5 | Maximum of 100*PV01 observed during the year | | | | |
| | a) On Hedging | 5.96 | 0.76 | 135.11 | 0.83 |
| | b) On Trading | 16.89 | 15.64 | 159.58 | 151.46 |
| 6 | Minimum of 100*PV01 observed during the year | | | | |
| | a) On Hedging | 0.09 | 0.18 | - | - |
| | b) On Trading | 6.44 | 12.42 | 91.16 | 119.66 |

✓ The notional principal amount of foreign exchange contracts classified as Hedging and Trading outstanding as on March 31, 2013 amounted to ₹ 787.13 (previous year : Nil) and ₹ 445,998.94 crore (previous year : ₹ 564,876.45 crore) respectively.

✓ The notional principal amounts of derivatives reflect the volume of transactions outstanding as at the Balance Sheet date and do not represent the amounts at risk.

✓ For the purpose of this disclosure, currency derivatives include options purchased and sold (including rupee options) and cross currency interest rate swaps.

✓ Interest rate derivatives include interest rate swaps, forward rate agreements and interest rate caps.

✓ The Bank has computed the maximum and minimum of PV01 for the year based on the balances as at the end of every month.

✓ In respect of derivative contracts, the Bank evaluates the credit exposure arising therefrom, in line with RBI guidelines. Credit exposure has been computed using the current exposure method which is the sum of :

  (a) the current replacement cost (marked to market value including accruals) of the contract or zero whichever is higher; and

  (b) the Potential Future Exposure ('PFE'). PFE is a product of the notional principal amount of the contract and a factor that is based on the RBI-Basel II grid of credit conversion factors, which is applied on the basis of the residual maturity and the type of contract.

# For the year ended March 31, 2013

## 10 Asset quality

- **Movements in NPAs (funded)** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| (i) Net NPAs to Net Advances | 0.20% | 0.18% |
| (ii) Movement of NPAs (Gross) | | |
| (a) Opening balance | 1,999.39 | 1,694.34 |
| (b) Additions (fresh NPAs) during the year | 1,859.24 | 1,574.90 |
| (c) Reductions during the year : | 1,523.99 | 1,269.85 |
| - Upgradation | 165.30 | 197.08 |
| - Recoveries (excluding recoveries made from upgraded accounts) | 206.74 | 131.45 |
| - Write-offs | 1,151.95 | 941.32 |
| (d) Closing balance | 2,334.64 | 1,999.39 |
| (iii) Movement of Net NPAs | | |
| (a) Opening balance | 352.33 | 296.41 |
| (b) Additions during the year | 252.21 | 176.47 |
| (c) Reductions during the year | 135.59 | 120.55 |
| (d) Closing balance | 468.95 | 352.33 |
| (iv) Movement of provisions for NPAs (excluding provisions on standard assets) | | |
| (a) Opening balance | 1,647.06 | 1,397.93 |
| (b) Additions during the year | 1,607.03 | 1,398.43 |
| (c) Write-off | 1,151.95 | 941.32 |
| (d) Write-back of excess provisions | 236.45 | 207.98 |
| (e) Closing balance | 1,865.69 | 1,647.06 |

*NPAs include all assets that are classified as non-performing by the Bank.*

- Sector-wise NPAs

| Particulars | Percentage of NPAs to total advances in that sector (%) | |
|---|---|---|
| | March 31, 2013 | March 31, 2012 |
| Agriculture and allied activities | 0.90 | 0.92 |
| Industry (Micro & small, Medium and Large) | 1.04 | 1.30 |
| Services | 0.60 | 0.94 |
| Personal Loans | 0.62 | 0.52 |

- Floating provisions of ₹ 1,835.03 crore (previous year : ₹ 1,435.03 crore) have been included under "Other Liabilities". Movement in floating provision is given below : **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Opening Balance | 1,435.03 | 735.03 |
| Provisions made during the year | 400.00 | 700.00 |
| Draw down made during the year | - | - |
| Closing Balance | 1,835.03 | 1,435.03 |

- **Disclosure on accounts subjected to restructuring**
(as required by RBI guidelines under reference DBOD.BP.BC.No.80/21.04.132/2012-13 dated January 31, 2013) :

**(₹ crore, except numbers)**

| S. No. | Type of Restructuring | | Under Corporate Debt Restructuring (CDR) Mechanism | | | | | Under Small & Medium Enterprises (SME) Debt Restructuring Mechanism | | | | | Others | | | | | Total | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Asset Classification | | Standard | Sub Standard | Doubtful | Loss | Total | Standard | Sub Standard | Doubtful | Loss | Total | Standard | Sub Standard | Doubtful | Loss | Total | Standard | Sub Standard | Doubtful | Loss | Total |
| | Details | | | | | | | | | | | | | | | | | | | | | |
| 1 | Restructured accounts as on April 1, 2012* | No. of borrowers# | 5 | 6 | 6 | 1 | 17 | - | - | - | - | - | 4 | 1 | 3 | - | 8 | 9 | 7 | 9 | 1 | 25 |
| | | Amount outstanding | 145.14 | 302.55 | 120.52 | 10.04 | 578.25 | - | - | - | - | - | 11.33 | 13.92 | 33.80 | - | 59.05 | 156.47 | 316.47 | 154.32 | 10.04 | 637.30 |
| | | Provision thereon | 7.40 | 15.11 | 15.27 | 1.80 | 39.58 | - | - | - | - | - | 0.17 | 0.57 | 0.45 | - | 1.19 | 7.57 | 15.68 | 15.72 | 1.80 | 40.77 |
| 2 | Fresh restructuring during the year | No. of borrowers | - | - | 1 | - | 1 | - | - | - | - | - | 1 | - | 2 | - | 3 | 1 | - | 3 | - | 4 |
| | | Amount outstanding | - | - | 34.67 | - | 34.67 | - | - | - | - | - | 2.20 | - | 17.84 | - | 20.04 | 2.20 | - | 52.51 | - | 54.71 |
| | | Provision thereon | - | - | 0.23 | - | 0.23 | - | - | - | - | - | - | - | 0.05 | - | 0.05 | - | - | 0.28 | - | 0.28 |
| 3 | Upgradations to restructured standard category during the year | No. of borrowers | +1 | -1 | - | - | - | - | - | - | - | - | - | - | - | - | - | +1 | -1 | - | - | |
| | | Amount outstanding | +30.88 | -30.88 | - | - | - | - | - | - | - | - | - | - | - | - | - | +30.88 | -30.88 | - | - | - |
| | | Provision thereon | - | | | | - | - | | | | - | - | | | | - | - | | | | - |
| 4 | Advances not shown as restructured standard advances at the beginning of the next year^ | No. of borrowers | - | | | | - | - | | | | - | - | | | | - | - | | | | - |
| | | Amount outstanding | - | | | | - | - | | | | - | - | | | | - | - | | | | - |
| | | Provision thereon | - | | | | - | - | | | | - | - | | | | - | - | | | | - |
| 5 | Down gradation of restructured accounts during the year | No. of borrowers | -1 | +1-5 | +5 | - | - | - | - | - | - | - | - | - | -1 | +1 | - | -1 | -4 | +4 | +1 | - |
| | | Amount outstanding | -47.62 | +47.62<br>-237.11 | +237.11 | - | - | - | - | - | - | - | - | - | -2.80 | +2.80 | - | -47.62 | -189.49 | +234.31 | +2.80 | - |
| | | Provision thereon | -1.00 | +1.00<br>-5.29 | +5.29 | - | - | - | - | - | - | - | - | - | -0.06 | +0.06 | - | -1.00 | -4.29 | +5.23 | +0.06 | - |
| 6 | Write-offs restructured accounts during the year | No. of borrowers | - | - | 1 | - | 1 | - | - | - | - | - | - | 1 | - | - | 1 | - | 1 | 1 | - | 2 |
| | | Amount outstanding | - | - | 19.38 | - | 19.38 | - | - | - | - | - | - | 12.13 | - | - | 12.13 | - | 12.13 | 19.38 | - | 31.51 |
| 7 | Restructured accounts as on March 31, 2013* | No. of borrowers | 4 | 1 | 10 | 1 | 16 | - | - | - | - | - | 3 | - | 3 | 1 | 7 | 7 | 1 | 13 | 2 | 23 |
| | | Amount outstanding | 73.48 | 47.62 | 356.97 | 13.92 | 491.99 | - | - | - | - | - | 7.63 | - | 25.70 | 2.80 | 36.13 | 81.11 | 47.62 | 382.67 | 16.72 | 528.12 |
| | | Provision thereon | 1.00 | 1.00 | 15.31 | 0.96 | 18.27 | - | - | - | - | - | 0.13 | - | 0.23 | 0.06 | 0.42 | 1.13 | 1.00 | 15.54 | 1.02 | 18.69 |

* Excludes the figures of standard restructured advances which do not attract higher provisioning or risk weight

^ These are restructured standard advances which cease to attract higher provisioning and / or additional risk weight at the end of the year and hence need not be shown as restructured standard advances at the beginning of the next year.

# Particulars of accounts restructured include a borrower whose investment in preference shares is classified as substandard and other performing credit facilities granted to the said borrower are not treated as NPA in accordance with RBI guidelines.

- During the years ended March 31, 2013 and March 31, 2012, no assets were sold to securitisation / reconstruction companies (SC / RC) for asset reconstruction.
- During the years ended March 31, 2013 and March 31, 2012, there were no non-performing financial assets sold.
- During the years ended March 31, 2013 and March 31, 2012, there were no non-performing financial assets that were purchased by the Bank.

**11 Details of exposures to real estate and capital market sectors, risk category-wise country exposures, single / group borrower exposures, unsecured advances and concentration of deposits, advances, exposures and NPAs**

- **Details of exposure to real estate sector**

Exposure is higher of limits sanctioned or the amounts outstanding as at the year end. **(₹ crore)**

| Category | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **(a) Direct exposure :** | **25,241.74** | **20,720.10** |
| (i) Residential mortgages * | 16,890.83 | 14,263.76 |
| (of which housing loans eligible for inclusion in priority sector advances) | 15,831.70 | 12,843.01 |
| (ii) Commercial real estate | 8,115.58 | 6,146.90 |
| (iii) Investments in mortgage backed securities ('MBS') and other securitised exposures : | | |
| (a) Residential | 235.33 | 309.44 |
| (b) Commercial real estate | - | - |
| **(b) Indirect exposure :** | **4,879.73** | **4,300.16** |
| Fund based and non-fund based exposures on National Housing Bank ('NHB') and housing finance companies ('HFC's) | 4,879.73 | 4,300.16 |
| **Total exposure to real estate sector** | **30,121.47** | **25,020.26** |

** includes loans purchased under the direct loan assignment route.*

Of the above, exposure to real estate developers is 0.4% (previous year : 0.4%) of total advances.

- **Details of capital market exposure**

Exposure is higher of limits sanctioned or the amount outstanding as at the year end. **(₹ crore)**

| S. No. | Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| (i) | Investments made in equity shares, convertible bonds, convertible debentures and units of equity oriented mutual funds, the corpus of which is not exclusively invested in corporate debt | 66.31 | 54.97 |
| (ii) | Advances against shares, bonds, debentures or other securities or on clean basis to individuals for investment in shares (including IPO's / ESOP's), convertible bonds, convertible debentures and units of equity oriented mutual funds | 145.34 | 104.27 |
| (iii) | 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 | 1,481.43 | 1,388.77 |
| (iv) | Advances for any other purposes to the extent secured by collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds does not fully cover the advances | 36.09 | 78.41 |
| (v) | Secured and unsecured advances to stock brokers and guarantees issued on behalf of stock brokers and market makers | 4,655.73 | 4,671.30 |
| (vi) | Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources | 1,122.80 | 1,008.10 |
| (vii) | Bridge loans to companies against expected equity flows / issues | - | - |
| (viii) | Underwriting commitments taken up in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds | - | - |
| (ix) | Financing to stock brokers for margin trading | - | - |
| (x) | All exposures to venture capital funds (both registered and unregistered) | 2.10 | 1.70 |
| | **Total exposure to capital market** | **7,509.80** | **7,307.52** |

- Details of risk category wise country exposure **(₹ crore)**

| Risk Category | March 31, 2013 | | March 31, 2012 | |
|---|---|---|---|---|
| | Exposure (net) | Provision held | Exposure (net) | Provision held |
| Insignificant | 8,300.90 | - | 5,684.50 | - |
| Low | 4,141.05 | - | 3,537.80 | - |
| Moderately low | 2,131.08 | - | 400.12 | - |
| Moderate | 611.68 | - | 11.58 | - |
| Moderately high | 42.48 | - | 1.33 | - |
| High | - | - | 0.94 | - |
| Very High | 0.04 | - | - | - |
| **Total** | **15,227.23** | **-** | **9,636.27** | **-** |

- **Details of Single Borrower Limit ('SGL'), Group Borrower Limit ('GBL') exceeded by the Bank**

  During the years ended March 31, 2013 and March 31, 2012, the Bank's credit exposure to single borrowers and group borrowers were within the limits prescribed by RBI.

- **Unsecured advances**

  Advances for which intangible collaterals such as rights, licenses, authority, etc. are charged in favour of the Bank in respect of projects financed by the Bank, are reckoned as unsecured advances under Schedule 9 of the Balance Sheet in line with extant RBI guidelines. There are no such advances outstanding as on March 31, 2013 (previous year : Nil).

- **Inter-bank Participation with risk sharing**

  The aggregate amount of participation issued by the Bank, reduced from advances as per regulatory guidelines, outstanding as of March 31, 2013 was ₹ 2,330.00 crore (previous year : ₹ 2,540.00 crore).

- **Concentration of deposits, advances, exposures and NPAs**

**a) Concentration of deposits** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Total deposits of twenty largest depositors | 23,061.07 | 21,165.79 |
| Percentage of deposits of twenty largest depositors to total deposits of the Bank | 7.8% | 8.6% |

**b) Concentration of advances** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Total advances to twenty largest borrowers | 52,662.79 | 50,459.18 |
| Percentage of advances of twenty largest borrowers to total advances of the Bank | 12.8% | 14.9% |

*Advances comprise credit exposure (funded and non-funded credit limits) including derivative transactions computed as per Current Exposure Method in accordance with RBI guidelines.*

**c) Concentration of exposures** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Total exposure to twenty largest borrowers / customers | 64,001.84 | 59,358.08 |
| Percentage of exposure of twenty largest borrowers / customers to total exposure of the Bank on borrowers / customers | 14.7% | 16.5% |

*Exposures comprise credit exposure (funded and non-funded credit limits) including derivative transactions and investment exposure in accordance with RBI guidelines.*

**d) Concentration of NPAs** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Total gross exposure to top four NPA accounts | 288.30 | 312.93 |

# For the year ended March 31, 2013

## 12 Other fixed assets (including furniture and fixtures)

Other fixed assets includes amount capitalised on software having useful life of five years. Details regarding the same are tabulated below : **(₹ crore)**

| Particulars | | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| **Cost** | | | |
| As at March 31 of the previous year | | 830.10 | 706.33 |
| Additions during the year | | 263.40 | 123.77 |
| Deductions during the year | | (0.01) | - |
| | **Total (a)** | **1,093.49** | **830.10** |
| **Depreciation** | | | |
| As at March 31 of the previous year | | 563.74 | 456.81 |
| Charge for the year | | 147.44 | 106.93 |
| On deductions during the year | | (0.01) | - |
| | **Total (b)** | **711.17** | **563.74** |
| **Net value as at March 31** | **(a-b)** | **382.32** | **266.36** |

## 13 Other assets

- Other assets include deferred tax asset (net) of ₹ 1,904.85 crore (previous year : ₹ 1,448.89 crore). The break-up of the same is as follows : **(₹ crore)**

| Particulars | | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| **Deferred tax asset arising out of :** | | | |
| Loan loss provisions | | 1,453.10 | 926.03 |
| Employee benefits | | 118.80 | 65.06 |
| Others | | 390.90 | 519.81 |
| | **Total (a)** | **1,962.80** | **1,510.90** |
| **Deferred tax liability arising out of :** | | | |
| Depreciation | | (57.95) | (62.01) |
| | **Total (b)** | **(57.95)** | **(62.01)** |
| **Deferred tax asset (net)** | **(a-b)** | **1,904.85** | **1,448.89** |

- Key items under "Others" in Other assets are as under : **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Unrealised gain on foreign exchange and derivative contracts * | 7,463.93 | 13,279.22 |
| Deferred tax assets | 1,904.85 | 1,448.89 |
| Deposits & amounts paid in advance | 1,398.32 | 1,195.70 |
| Accounts receivable | 1,257.02 | 619.68 |
| Margin for LAF with RBI | 1,025.00 | 350.00 |
| Residuary items | 39.63 | 20.29 |
| **Total** | **13,088.75** | **16,913.78** |

** The Bank has presented gross unrealised gain on foreign exchange and derivative contracts under other assets and gross unrealised loss on foreign exchange and derivative contracts under other liabilities.*

# For the year ended March 31, 2013

## 14 Maturity pattern of key assets and liabilities

Assets and liabilities are classified in the maturity buckets as per the guidelines issued by the RBI.

(₹ crore)

| As at March 31, 2013 | 1 day | 2 to 7 days | 8 to 14 days | 15 to 28 days | 29 days to 3 months | Over 3 months to 6 months | Over 6 months to 12 months | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Loans & advances | 5,160.79 | 4,770.92 | 4,617.22 | 6,939.38 | 22,673.07 | 22,676.59 | 25,700.78 | 110,569.48 | 18,146.42 | 18,465.99 | 239,720.64 |
| Investments | 4,397.94 | 13,865.75 | 2,429.28 | 2,692.10 | 7,566.13 | 7,183.02 | 7,752.56 | 34,347.67 | 5,051.12 | 26,328.03 | 111,613.60 |
| Deposits | 4,667.75 | 10,306.01 | 7,730.10 | 7,288.12 | 18,957.09 | 20,887.03 | 17,959.52 | 126,568.53 | 5,224.33 | 76,658.50 | 296,246.98 |
| Borrowings | 239.53 | 1,435.14 | 504.35 | 565.12 | 2,980.61 | 4,029.55 | 999.08 | 4,028.92 | 6,474.45 | 11,749.85 | 33,006.60 |
| Foreign currency assets | 1,360.66 | 5,030.23 | 1,360.79 | 1,288.74 | 5,855.24 | 5,119.54 | 1,117.90 | 2,588.78 | 1,404.62 | 106.48 | 25,232.98 |
| Foreign currency liabilities | 293.96 | 1,074.45 | 549.93 | 777.62 | 3,683.12 | 4,636.29 | 2,224.74 | 3,005.35 | 4,623.94 | 576.69 | 21,446.09 |

(₹ crore)

| As at March 31, 2012 | 1 day | 2 to 7 days | 8 to 14 days | 15 to 28 days | 29 days to 3 months | Over 3 months to 6 months | Over 6 months to 12 months | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Loans & advances | 4,590.86 | 3,897.12 | 3,436.29 | 5,602.93 | 21,689.00 | 15,679.94 | 21,102.35 | 87,736.25 | 15,087.02 | 16,598.27 | 195,420.03 |
| Investments | 19,151.21 | 2,747.12 | 1,531.68 | 2,120.47 | 4,589.17 | 6,118.01 | 5,404.05 | 30,283.24 | 3,822.34 | 21,715.62 | 97,482.91 |
| Deposits | 2,425.80 | 5,810.52 | 7,032.17 | 6,707.56 | 21,192.10 | 19,813.10 | 9,623.67 | 109,965.96 | 864.61 | 63,270.96 | 246,706.45 |
| Borrowings | 1,340.40 | 1,528.96 | 211.57 | 168.03 | 4,623.94 | 1,736.01 | 1,017.50 | 2,474.43 | 2,501.92 | 8,243.75 | 23,846.51 |
| Foreign currency assets | 744.14 | 3,304.88 | 529.40 | 1,074.89 | 3,649.66 | 3,892.58 | 730.47 | 2,146.96 | 1,340.15 | 333.02 | 17,746.15 |
| Foreign currency liabilities | 1,558.13 | 499.86 | 263.39 | 414.03 | 2,632.30 | 2,075.80 | 1,735.10 | 3,273.15 | 381.12 | 508.75 | 13,341.63 |

## 15 Provisions, contingent liabilities and contingent assets

Given below is the movement in provisions and a brief description of the nature of contingent liabilities recognised by the Bank.

### a) Provision for credit card and debit card reward points

(₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Opening provision for reward points | 85.80 | 59.33 |
| Provision for reward points made during the year | 109.35 | 55.10 |
| Utilisation / write back of provision for reward points | (62.65) | (22.10) |
| Effect of change in rate for accrual of reward points | 14.11 | (6.53) |
| Effect of change in cost of reward points | (16.54) | - |
| Closing provision for reward points | 130.07 | 85.80 |

### b) Provision for legal and other contingencies

(₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Opening provision | 286.03 | 316.60 |
| Movement during the year (net) | 26.63 | (30.57) |
| Closing provision | 312.66 | 286.03 |

### c) Description of contingent liabilities

| S. No. | Contingent liability* | Brief description |
|---|---|---|
| 1 | Claims against the Bank not acknowledged as debts - taxation | The Bank is a party to various taxation matters in respect of which appeals are pending. The Bank expects the outcome of the appeals to be favorable based on decisions on similar issues in the previous years by the appellate authorities, based on the facts of the case and the provisions of Income Tax Act, 1961. |
| 2 | Claims against the Bank not acknowledged as debts - others | The Bank is a party to various legal proceedings in the normal course of business. The Bank does not expect the outcome of these proceedings to have a material adverse effect on the Bank's financial conditions, results of operations or cash flows. |
| 3 | Liability on account of forward exchange and derivative contracts | The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps and interest rate swaps with inter-bank participants on its own account and for customers. 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 / principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts of financial instruments such as foreign exchange contracts and derivatives provide a basis for comparison with instruments recognised on the Balance Sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. |
| 4 | Guarantees given on behalf of constituents, acceptances, endorsements and other obligations | As a part of its commercial banking activities, the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of credit enhance the credit standing of the Bank's customers. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations. |
| 5 | Other items for which the Bank is contingently liable | These include : a) Credit enhancements in respect of securitized-out loans; b) Bills rediscounted by the Bank; c) Capital commitments; d) Underwriting commitments |

** Also refer Schedule -12 - Contingent Liabilites*

### 16 Business ratios / information

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Interest income as a percentage to working funds[1] | 9.91% | 9.57% |
| Net interest income as a percentage to working funds | 4.47% | 4.43% |
| Non-interest income as a percentage to working funds | 1.94% | 1.99% |
| Operating profit[2] as a percentage to working funds | 3.23% | 3.22% |
| Return on assets (average) | 1.90% | 1.77% |
| Business[3] per employee (₹ in crore) | 7.50 | 6.54 |
| Profit per employee[4] (₹ in crore) | 0.10 | 0.08 |
| Gross non-performing assets to gross advances[5] | 0.97% | 1.02% |
| Gross non-performing advances to gross advances | 0.85% | 0.92% |
| Percentage of net non-performing assets[6] to net advances[7] | 0.20% | 0.18% |
| Percentage of net non-performing assets to customer assets[8] | 0.19% | 0.18% |
| Provision coverage ratio[9] | 79.91% | 82.38% |

*Definitions of Certain items in Business Ratios / Information :*

1. *Working funds is the daily average of total assets during the year.*
2. *Operating profit is net profit for the year before provisions and contingencies.*
3. *"Business" is the total of net advances and deposits (net of inter-bank deposits).*
4. *Productivity ratios are based on average employee numbers.*
5. *Gross advances are net of bills rediscounted and interest in suspense.*
6. *Net NPAs are non-performing assets net of interest in suspense, specific provisions, ECGC claims received, provisions for funded interest term loans classified as NPAs and provisions in lieu of diminution in the fair value of restructured assets classified as NPAs.*
7. *Net advances are equivalent to gross advances net of specific loan loss provisions, ECGC claims received, provision for funded interest term loans classified as NPA and provisions in lieu of diminution in the fair value of restructured assets.*
8. *Customer assets include net advances, credit substitutes like debentures, commercial papers and loans and investments in securitised assets bought in.*
9. *Provision coverage ratio does not include assets written off.*

## For the year ended March 31, 2013

### 17 Interest income

Interest income under the sub-head Income from Investments includes dividend received during the year ended March 31, 2013 on units of mutual funds, equity and preference shares amounting to ₹ 180.35 crore (previous year : ₹ 299.61 crore).

### 18 Earnings from standard assets securitised-out

There are no Special Purpose Vehicles ('SPV's) sponsored by the Bank for securitisation transactions. During the years ended March 31, 2013 and March 31, 2012, there were no standard assets securitised-out by the Bank.

*Form and quantum of services and liquidity provided by way of credit enhancement*

The Bank has provided credit and liquidity enhancements in the form of cash collaterals / guarantees / subordination of cash flows etc., to the senior pass through certificates ('PTC's) as well as on loan assignment transactions. The RBI issued addendum guidelines on securitisation of standard assets vide its circular dated May 7, 2012. Accordingly, the Bank does not provide liquidity or credit enhancements on the direct assignment transactions undertaken subsequent to these guidelines. The total value of credit enhancement outstanding in the books as at March 31, 2013 was ₹ 353.47 crore (previous year : ₹ 358.97 crore), and liquidity enhancement was ₹ 8.10 crore (previous year : ₹ 8.10 crore). Outstanding servicing liability was ₹ 0.27 crore (previous year : ₹ 0.40 crore).

### 19 Other income

- **Commission, exchange and brokerage income**
  - ✓ Commission, exchange and brokerage income is net of correspondent bank charges.
  - ✓ Commission income for the year ended March 31, 2013 includes fees (net of service tax) of ₹ 469.21 crore (previous year : ₹ 453.63 crore) in respect of life insurance business and ₹ 125.47 crore (previous year : ₹ 109.50 crore) in respect of general insurance business.
- **Miscellaneous income**

Miscellaneous income is comprised of the following : **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Recoveries from written off accounts | 496.54 | 503.33 |
| Derivative income / (loss) | (221.64) | (126.53) |
| Other | 18.04 | 22.55 |
| **Total** | **292.94** | **399.35** |

### 20 Other expenditure

Other expenditure includes outsourcing fees amounting to ₹ 530.26 crore (previous year : ₹ 516.40 crore) and commission paid to sales agents amounting to ₹ 963.30 crore (previous year : ₹ 774.56 crore), exceeding 1% of the total income of the Bank.

### 21 Provisions and contingencies

The break-up of provisions and contingencies included in the Statement of Profit and Loss is given below : **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Provision for income tax | | |
| - Current | 3,275.76 | 2,606.25 |
| - Deferred | (251.42) | (260.18) |
| Provision for wealth tax | 0.60 | 0.55 |
| Provision for NPAs | 1,234.21 | 1,091.78 |
| Provision for diminution in value of non-performing investments | 52.21 | 93.40 |
| Provision for standard assets | 123.71 | 150.50 |
| Other provisions and contingencies* | 266.27 | 541.22 |
| **Total** | **4,701.34** | **4,223.52** |

** Includes (write-back) / provisions for tax, legal and other contingencies ₹ (133.21) crore (previous year : ₹ (164.49) crore), floating provisions ₹ 400.00 crore (previous year : ₹ 700.00 crore), provisions for securitised-out assets ₹ 5.92 crore (previous year : ₹ 9.84 crore) and standard restructured assets ₹ (6.44) crore (previous year : ₹ (4.13) crore).*



HDFC BANK
We understand your world

## 22 Employee benefits

**Gratuity** (₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **Reconciliation of opening and closing balance of the present value of the defined benefit obligation** | | |
| Present value of obligation as at April 1 | 166.30 | 136.08 |
| Interest cost | 13.06 | 11.57 |
| Current service cost | 38.73 | 28.36 |
| Benefits paid | (11.76) | (9.14) |
| Actuarial (gain) / loss on obligation : | | |
| Experience adjustment | 2.72 | 1.25 |
| Assumption change | (2.77) | (1.82) |
| **Present value of obligation as at March 31** | **206.28** | **166.30** |
| **Reconciliation of opening and closing balance of the fair value of the plan assets** | | |
| Fair value of plan assets as at April 1 | 91.86 | 66.00 |
| Expected return on plan assets | 8.88 | 6.31 |
| Contributions | 39.24 | 29.62 |
| Benefits paid | (11.76) | (9.14) |
| Actuarial gain / (loss) on plan assets : | | |
| Experience adjustment | 2.00 | (0.93) |
| Assumption change | - | - |
| **Fair value of plan assets as at March 31** | **130.22** | **91.86** |
| **Amount recognised in Balance Sheet** | | |
| Fair value of plan assets as at March 31 | 130.22 | 91.86 |
| Present value of obligation as at March 31 | (206.28) | (166.30) |
| **Asset / (liability) as at March 31** | **(76.06)** | **(74.44)** |
| **Expenses recognised in Statement of Profit and Loss** | | |
| Interest cost | 13.06 | 11.57 |
| Current service cost | 38.73 | 28.36 |
| Expected return on plan assets | (8.88) | (6.31) |
| Net actuarial (gain) / loss recognised in the year | (2.04) | 0.36 |
| **Net cost** | **40.87** | **33.98** |
| Actual return on plan assets | 10.88 | 5.39 |
| Estimated contribution for the next year | 30.96 | 41.01 |
| **Assumptions** | | |
| Discount rate | 8.1% per annum | 8.8% per annum |
| Expected return on plan assets | 8.0% per annum | 8.0% per annum |
| Salary escalation rate | 8.5% per annum | 9.0% per annum |

**Experience adjustment** (₹ crore)

| Particulars | Years ended March 31 | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Plan assets | 130.22 | 91.86 | 66.00 | 51.74 | 45.38 |
| Defined benefit obligation | 206.28 | 166.30 | 136.08 | 99.20 | 72.57 |
| Surplus / (deficit) | (76.06) | (74.44) | (70.08) | (47.46) | (27.19) |
| Experience adjustment gain / (loss) on plan assets | 2.00 | (0.93) | 0.01 | 7.40 | (3.68) |
| Experience adjustment (gain) / loss on plan liabilities | 2.72 | 1.25 | 9.56 | (5.02) | (8.53) |

Expected rate of return on investments is determined based on the assessment made by the Bank at the beginning of the year with regard to its existing portfolio. Major categories of plan assets as a percentage of fair value of total plan assets as of March 31, 2013 are given below :

| Category of Plan assets | % of fair value to total plan assets |
|---|---|
| Government securities | 33.5% |
| Debenture and bonds | 33.2% |
| Equity shares | 26.4% |
| Others | 6.9% |
| **Total** | **100.0%** |

**Pension** (₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **Reconciliation of opening and closing balance of the present value of the defined benefit obligation** | | |
| Present value of obligation as at April 1 | 56.85 | 57.38 |
| Interest cost | 4.18 | 4.61 |
| Current service cost | 1.32 | 1.51 |
| Benefits paid | (11.09) | (10.09) |
| Actuarial (gain) / loss on obligation : | | |
| Experience adjustment | 6.12 | 1.36 |
| Assumption change | 0.81 | 2.08 |
| **Present value of obligation as at March 31** | **58.19** | **56.85** |
| **Reconciliation of opening and closing balance of the fair value of the plan assets** | | |
| Fair value of plan assets as at April 1 | 51.14 | 43.35 |
| Expected return on plan assets | 4.00 | 3.78 |
| Contributions | 6.41 | 15.39 |
| Benefits paid | (11.09) | (10.09) |
| Actuarial gain / (loss) on plan assets : | | |
| Experience adjustment | (1.58) | (1.29) |
| Assumption change | - | - |
| **Fair value of plan assets as at March 31** | **48.88** | **51.14** |
| **Amount recognised in Balance Sheet** | | |
| Fair value of plan assets as at March 31 | 48.88 | 51.14 |
| Present value of obligation as at March 31 | (58.19) | (56.85) |
| **Asset / (liability) as at March 31** | **(9.31)** | **(5.71)** |
| **Expenses recognised in Statement of Profit and Loss** | | |
| Interest cost | 4.18 | 4.61 |
| Current service cost | 1.32 | 1.51 |
| Expected return on plan assets | (4.00) | (3.78) |
| Net actuarial (gain) / loss recognised in the year | 8.51 | 4.73 |
| **Net cost** | **10.01** | **7.07** |
| Actual return on plan assets | 2.42 | 2.49 |
| Estimated contribution for the next year | 9.48 | 6.28 |
| **Assumptions** | | |
| Discount rate | 8.1% per annum | 8.8% per annum |
| Expected return on plan assets | 8.0% per annum | 8.0% per annum |
| Salary escalation rate | 8.5% per annum | 9.0% per annum |

**Experience adjustment** (₹ crore)

| Particulars | Years ended March 31 | | | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **2010** | **2009** |
| Plan assets | 48.88 | 51.14 | 43.35 | 38.78 | 36.90 |
| Defined benefit obligation | 58.19 | 56.85 | 57.38 | 40.70 | 34.60 |
| Surplus / (deficit) | (9.31) | (5.71) | (14.03) | (1.92) | 2.30 |
| Experience adjustment gain / (loss) on plan assets | (1.58) | (1.29) | 2.85 | 2.78 | (2.69) |
| Experience adjustment (gain) / loss on plan liabilities | 6.12 | 1.36 | 18.50 | 2.12 | (8.06) |

Expected rate of return on investments is determined based on the assessment made by the Bank at the beginning of the year with regard to its existing portfolio. Major categories of plan assets as a percentage of fair value of total plan assets as of March 31, 2013 are given below :

| Category of Plan assets | % of fair value to total plan assets |
|---|---|
| Government securities | 6.5% |
| Debenture and bonds | 66.7% |
| Others | 26.8% |
| **Total** | **100.0%** |

**Provident fund**

The guidance note on AS-15, Employee Benefits, states that employer established provident funds, where interest is guaranteed are to be considered as defined benefit plans and the liability has to be valued. The Actuary Society of India ('ASI') has issued a guidance note on valuation of interest rate guarantees on exempt provident funds. The actuary has accordingly valued the same and the Bank holds a provision of ₹ 9.57 crore as on March 31, 2013 (previous year : ₹ 9.77 crore) towards the present value of the guaranteed interest benefit obligation. The actuary has followed Deterministic approach as prescribed by the guidance note.

**Assumptions :**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Discount rate (GOI security yield) | 8.0% per annum | 8.8% per annum |
| Expected guaranteed interest rate | 8.6% per annum | 8.3% (1 year) & average 8.6% thereafter |

The guidance note on valuation of interest rate guarantee embedded in provident fund issued by ASI is effective from April 1, 2011. In the absence of any valuation guidance for the earlier periods, the obligation has not been valued for the earlier years.

The Bank does not have any unfunded defined benefit plan. The Bank contributed ₹ 129.54 crore (previous year : ₹ 116.54 crore) to the provident fund and ₹ 37.33 crore (previous year : ₹ 32.71 crore) to the superannuation plan.

**Compensated absences**

The actuarial liability of compensated absences of accumulated privileges and sick leaves of the employees of the Bank is given below :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Privileged leaves | 211.25 | 169.98 |
| Sick leave | 40.50 | 34.98 |
| **Total actuarial liability** | **251.75** | **204.96** |
| **Assumptions** | | |
| Discount rate | 8.1% per annum | 8.8% per annum |
| Salary escalation rate | 8.5% per annum | 9.0% per annum |

**23 Disclosures on remuneration**

**Qualitative Disclosures**

**A Information relating to the composition and mandate of the Remuneration Committee**

**Composition of the Remuneration Committee**

The Board of Directors of the Bank has constituted the Remuneration Committee (hereinafter, the 'Committee') for overseeing and governing the compensation policies of the Bank. The Committee is comprised of four independent directors and is chaired by the Chairman of the Board of Directors of the Bank. Further, two members of the Committee are also members of the Risk Policy and Monitoring Committee ('RPMC') of the Board.

The Committee is comprised of the Chairman, Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. Partho Datta and Mr. Bobby Parikh. Further, Mr. C. M. Vasudev and Mr. Partho Dutta are also members of the RPMC.

**Mandate of the Remuneration Committee**

The primary mandate of the Committee is to oversee the implementation of compensation policies of the Bank.

The Committee periodically reviews the overall compensation policy of the Bank with a view to attract, retain and motivate employees. In this capacity it is required to review and approve the design of the total compensation framework, including compensation strategy programs and plans, on behalf of the Board of Directors. The compensation structure and pay revision for Whole Time Directors is also approved by the Committee. The Committee co-ordinates with the RPMC to ensure that compensation is aligned with prudent risk taking.

**B Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy**

**I Key Features and Objectives of Remuneration Policy**

The Bank's Compensation Policy (hereinafter, the 'Policy') is aligned to business strategy, market dynamics, internal characteristics and complexities within the Bank. The ultimate objective of the Policy is to provide a fair and transparent structure that helps in retaining and acquiring the talent pool critical to build competitive advantage and brand equity. The Policy has been designed basis the principles for sound compensation practices in accordance with regulatory requirements and provides a framework to create, modify and maintain appropriate compensation programs and processes with adequate supervision and control.

The Bank's performance management system provides a sound basis for assessing employee performance holistically. The Bank's compensation framework is aligned with the performance management system and differentiates pay appropriately amongst its employees based on degree of contribution, skill and availability of talent owing to competitive market forces by taking into account factors such as role, skills, competencies, experience and grade / seniority.

The compensation structure for both the categories of employees is determined by the Committee and ensures that :

(a) the compensation is adjusted for all types of prudent risk taking;

(b) compensation outcomes are symmetric with risk outcomes;

(c) compensation payouts are sensitive to the time horizon of risk; and

(d) the mix of cash, equity and other forms of compensation are aligned with risk.

**II Design and Structure of Remuneration**

**(a) Fixed Pay**

The Committee ensures that the fixed component of the compensation is reasonable, taking into account all relevant factors including industry practice.

*Elements of Fixed Pay*

The fixed pay component of the Bank's compensation structure typically consists of elements such as base salary, allowances, perquisites, retirement and other employee benefits. Perquisites extended are in the nature of company car, hard furnishing, company leased accommodation, club membership and such other benefits or allowances in lieu of such perquisites / benefits. Retirement benefits are comprised of contributions to provident fund, superannuation fund (for certain job bands) and gratuity. The Bank also provides pension to certain employees of the erstwhile Lord Krishna Bank ('eLKB') under the Indian Banks' Association ('IBA') structure.

*Determinants of Fixed Pay*

The fixed pay is primarily determined by taking into account factors such as the job size, performance, experience, location, market competitiveness of pay and is designed to meet the following key objectives of :

(a) fair compensation given the role complexity and size;

(b) fair compensation given the individual's skill, competence, experience and market pay position;

(c) sufficient contribution to post retirement benefits; and

(d) compliance with all statutory obligations.

For Whole Time Directors additional dimensions such as prominence of leadership among industry leaders, consistency of the Bank's performance over the years on key parameters such as profitability, growth and asset quality in relation to its own past performance and that of its peer banks would be considered. The quantum of fixed pay for Whole Time Directors is approved by the Committee as well as the Board and is subject to the approval of the RBI.

**(b) Variable Pay**

The performance management system forms the basis for variable pay allocation of the Bank. The Bank ensures that the performance management system is comprehensive and considers both, quantitative and qualitative performance measures.

*Whole Time Directors*

The bonus for Whole Time Directors will not exceed 70% of the fixed pay in a year, thereby ensuring that there is a balance between the fixed and variable pays. The variable pay for Whole Time Directors is approved by the Committee as well as the Board and is subject to the approval of the RBI. The variable pay component is paid out subject to the following conditions :

- Where the variable pay constitutes 50% or more of the fixed pay, a portion of the same would be deferred as per the schedule mentioned in the table below :

| Portion of Variable Pay | Timelines |
|---|---|
| 60.00% | Payable effective April 1 of the financial year immediately following the performance year, subject to RBI approval. |
| 13.33% | As on the start date of the subsequent financial year immediately following the reference performance year. |
| 13.33% | As on the start date of the second financial year immediately following the reference performance year. |
| 13.33% | As on the start date of the third financial year immediately following the reference performance year. |

- The Bank has devised appropriate malus and claw back clauses as a risk mitigant for any negative contributions of the Bank and / or relevant line of business in any year. Under the malus clause the incumbent foregoes the vesting of the deferred variable pay in full or in part. Under the claw back clause the incumbent is obligated to return all the tranches of payout received of bonus amounts pertaining to the relevant performance year.

*Employees Other Than Whole Time Directors*

The Bank has formulated the following variable pay plans :

- Annual Bonus Plan

  The quantum of variable payout is a function of the performance of the Bank, performance of the individual employee, job band of the employee and the functional category. Basis these key determinants and due adjustment for risk alignment, a payout matrix for variable pay is developed. Market trends for specific businesses / functions along with inputs from compensation surveys may also be used in finalising the payout.

  Bonus pools are designed to meet specific business needs therefore resulting in differentiation in both the quantum and the method of payout across functions. Typically higher levels of responsibility receive a higher proportion of variable pay vis-à-vis fixed pay. The Bank ensures that the time horizon for risk is assessed and the deferment period, if any, for bonus is set accordingly. Employees on the annual bonus plan are not part of the incentive plans. The following is taken into account while administering the annual bonus :

  ✓ In the event the proportion of variable pay to fixed pay is substantially high (typically variable pay exceeding 50% of fixed pay), the Bank may devise an appropriate deferment schedule after taking into consideration the nature of risk, time horizon of risk, and the materiality of risk.

  ✓ In cases of deferment of variable pay the Bank makes an assessment prior to the due date for payment of the deferred portion for any negative contribution. The criteria for negative contribution are decided basis pre-defined financial benchmarks. The Bank has in place appropriate methods for prevention of vesting of deferred variable pay or any part thereof, on account of negative contribution. The Bank also has in place claw back arrangements in relation to amounts already paid in the eventuality of a negative contribution.

- Incentive Plans

  Incentive Plans are formulated for sales personnel who are given origination / sales targets but have limited impact on risk since credit decisions are exercised independent of the sales function. Most incentive plans have quarterly payouts and are based on the framework of a balanced scorecard. In alignment with the principles of prudent risk management, a portion of the incentive payouts are deferred till the end of the year and are linked to attainment of targets for the full year.

*Risk, Control and Compliance Staff*

The Bank has separated the Risk, Control and Compliance functions from the Business functions in order to create a strong culture of checks and balances thereby ensuring good asset quality and to eliminate any possible conflict of interest between revenue generation and risk management and control. Accordingly, the overall variable pay as well as the annual salary increment of the employees in the Risk, Control and Compliance functions is based on their performance, functional objectives and goals. The Bank ensures that the mix of fixed to variable compensation for these functions is weighted in favour of fixed compensation.

**(c) Guaranteed Bonus**

Guaranteed Bonuses may not be consistent with sound risk management or pay for performance principles of the Bank and therefore do not form an integral part of the general compensation practice.

For critical hiring for some select strategic roles, the Bank may consider granting of a sign-on bonus as a prudent way to avoid loading the entire cost of attraction into the fixed component of the compensation which could have a long term cost implication for the Bank. For such hiring, the sign-on bonus is generally decided by taking into account appropriate risk factors and market conditions.

For hiring at levels of Whole Time Directors / Managing Director a sign-on bonus, if any, is limited to the first year only and is in the form of Employee Stock Options.

**(d) Employee Stock Option Plan (‘ESOP’s)**

The Bank considers ESOPs as a vehicle to create a balance between short term rewards and long term sustainable value creation. ESOPs play a key role in the attraction and retention of key talent. The Bank grants equity share options to its Whole time Directors and other employees above a certain grade. All plans for grant of options are framed in accordance with the SEBI guidelines, 1999 as amended from time to time and are approved by the shareholders of the Bank. These plans provide for the grant of options post approval by the Committee.

The grant of options is reviewed and approved by the Committee. The number of options granted varies at the discretion of the Committee after considering parameters such as the incumbent’s grade and performance rating, and such other appropriate relevant factors as may be deemed appropriate by the Committee. Equity share options granted to the Whole Time Directors are subject to the approval of the Committee, the Board and the RBI.

**(e) Severance Pay**

The Bank does not grant severance pay other than accrued benefits (such as gratuity, pension) except in cases where it is mandated by any statute.

**(f) Hedging**

The Bank does not provide any facility or fund or permit its Whole Time Directors and employees to insure or hedge their compensation structure to offset the risk alignment effects embedded in their compensation arrangement.

**III Remuneration Processes**

**Fitment at the time of Hire**

Pay ranges of the Bank are set basis the job size, experience, location and the academic and professional credentials of the incumbent.

The compensation of new hires is in line with the existing pay ranges and consistent with the compensation levels of the existing employees of the Bank at similar profiles. The pay ranges are subject to change basis market trends and the Bank's talent management priorities. While the Bank believes in the internal equity and parity as a key determinant of pay, it does acknowledge the external competitive pressures of the talent market. Accordingly, there could be certain key profiles with critical competencies which may be hired at a premium and treated as an exception to the overall pay philosophy. Any deviation from the defined pay ranges is treated as a hiring exception requiring approval with appropriate justification.

**Increment / Pay Revision**

It is the endeavor of the Bank to ensure external competitiveness as well as internal equity without diluting the overall focus on optimizing cost. In order to enhance our external competitiveness the Bank participates in an annual salary survey of the banking sector to understand key market trends as well as get insights on relative market pay position compared to peers. The Bank endeavors to ensure that most employees progress to the median of the market in terms of fixed pay over time. This coupled with key internal data indicators like performance score, job family, experience, job grade and salary budget form the basis of decision making on revisions in fixed pay.

Increments in fixed pay for majority of the employee population are generally undertaken effective April 1 every year. However promotions, confirmations and change in job dimensions could also lead to a change in the fixed pay during other times of the year.

The Bank also makes salary corrections and adjustments during the year for those employees whose compensation is found to be below the market pay and who have a good performance track record. However such pay revisions are done on an exception basis.

**C Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks**

The Bank takes into account all types of risks in its remuneration processes. The Bank takes into consideration the fact that a portion of the Bank's profits are directly attributable to various types of risks the Bank is exposed to, such as credit risk, market risk, operational risk and other quantifiable risks. Based on the surplus available post adjustment of the cost of capital to cover all such risks and factoring the impact of bonus payout on operating costs an appropriate bonus pool is arrived at.

The Bank also provides for deferment of bonus in the event the proportion of variable pay as compared to fixed pay is substantially high. The Bank has also devised appropriate malus and claw back clauses as a risk mitigant for any negative contributions of the Bank and / or relevant line of business in any year. Under the malus clause, the incumbent foregoes the vesting of the deferred variable pay in full or in part. Under the claw back clause, the incumbent is obligated to return all the tranches of payout received of bonus amounts pertaining to the relevant performance year.

**D Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration**

Levels of remuneration in the Bank are linked to the performance of the individual employees and the respective business functions. The performance driven pay culture is briefly described below :

*Fixed Pay*

At the conclusion of every financial year the Bank reviews the fixed pay portion of the compensation structure basis merit-based increments and market corrections. These are based on a combination of performance rating, job band and the functional category of the individual employee. For a given job band, the merit increment is directly related to the performance rating. The Bank strives to ensure that most employees progress to the median of the market in terms of fixed pay over time. All other things remaining equal, the correction percentage is directly related to the performance rating of the individual.

*Variable Pay*

Basis the individual performance, role, and function, the Bank has formulated the following variable pay plans :

- Annual Bonus Plan

  The Bank's annual bonus is computed as a multiple of the standardised gross salary for every job band. The bonus multiple is based on performance rating, job band and the functional category of the individual employee. All other things remaining equal, for a given job band, the bonus multiple is directly related to the performance rating. The proportion of variable pay to fixed pay increases with job band. Employees on the annual bonus plan are not part of the incentive plans.

- Incentive Plans

  The Bank has formulated incentive plans for its sales personnel who are given origination / sales targets. All incentive payouts are subject to the achievement of individual targets enumerated in the respective scorecards of the employees. A portion of the incentive payouts are deferred till the end of the year and are linked to attainment of targets for the full year.

**E A discussion of the Bank's policy on deferral and vesting of variable remuneration and a discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting**

*Whole Time Directors*

The bonus for Whole Time Directors will not exceed 70% of the fixed pay in a year, thereby ensuring that there is a balance between the fixed and variable pay. The variable pay for Whole Time Directors is approved by the Committee as well as the Board and is subject to the approval of the RBI. The variable pay component is paid out subject to the following conditions :

- Where the variable pay constitutes 50% or more of the fixed pay, an appropriate portion thereof is deferred and vests as per the schedule mentioned in the table below :

| Portion of Variable Pay | Timelines |
|---|---|
| 60.00% | Payable effective April 1 of the financial year immediately following the performance year, subject to RBI approval. |
| 13.33% | As on the start date of the subsequent financial year immediately following the reference performance year. |
| 13.33% | As on the start date of the second financial year immediately following the reference performance year. |
| 13.33% | As on the start date of the third financial year immediately following the reference performance year. |

- The Bank has devised appropriate malus and claw back clauses as a risk mitigant for any negative contributions of the Bank and / or relevant line of business in any year.

  ✓ Malus Clause

  Under the malus clause the incumbent foregoes the vesting of the deferred variable pay in full or in part. In the event there is a deterioration in specific performance criteria (such as criteria relating to profit or asset quality) that are laid down by the Committee, then the Committee would review the deterioration in the performance taking into consideration the macro economic environment as well as internal performance indicators and accordingly decide whether any part of the deferred tranche pertaining to that financial year merits a withdrawal.

  ✓ Claw back Clause

  Under the claw back clause the incumbent is obligated to return all the tranches of payout received of bonus amounts pertaining to the relevant performance year. In the event there is any act attributable to the concerned Whole Time Director / Managing Director resulting in an incident of willful and deliberate misinterpretation / misreporting of financial performance (inflating the financials) of the Bank, for a financial year, which comes to light in the subsequent three years, the incumbent is obligated to return all the tranches of payout received of bonus amounts pertaining to the relevant performance year.

  The specific criteria on the applicability of malus and claw back arrangements are reviewed by the Committee annually.

*Employees Other Than Whole Time Directors*

The Bank has formulated the following variable pay plans :

- Annual Bonus Plan

  The quantum of variable payout is a function of the performance of the Bank, performance of the individual employee, job band of the employee and the functional category. Basis these key determinants and due adjustment for risk alignment, a payout matrix for variable pay is developed. Market trends for specific businesses / functions along with inputs from compensation surveys may also be used in finalising the payout.

  Bonus pools are designed to meet specific business needs therefore resulting in differentiation in both the quantum and the method of payout across functions. Typically higher levels of responsibility receive a higher proportion of variable pay vis-à-vis fixed pay. The Bank ensures that the time horizon for risk is assessed and the deferment period, if any, for bonus is set accordingly. Employees on the annual bonus plan are not part of the incentive plans. The following is taken into account while administering the annual bonus :

  ✓ In the event the proportion of variable pay to fixed pay is substantially high (typically variable pay exceeding 50% of fixed pay), the Bank may devise an appropriate deferment schedule after taking into consideration the nature of risk, time horizon of risk, and the materiality of risk.

  ✓ In cases of deferment of variable pay the Bank makes an assessment prior to the due date for payment of the deferred portion for any negative contribution. The criteria for negative contribution are decided basis pre-defined financial benchmarks. The Bank has in place appropriate methods for prevention of vesting of deferred variable pay or any part thereof, on account of negative contribution. The Bank also has in place claw back arrangements in relation to amounts already paid in the eventuality of a negative contribution.

- Incentive Plans

  Incentive Plans are formulated for sales personnel who are given origination / sales targets but have limited impact on risk since credit decisions are exercised independent of the sales function. Most incentive plans have quarterly payouts. In alignment with the principles of prudent risk management, a portion of the incentive payouts are deferred till the end of the year and are linked to attainment of targets for the full year.

**F Description of the different forms of variable remuneration (i.e. cash, shares, ESOPs and other forms) that the Bank utilizes and the rationale for using these different forms.**

The Bank recognises the importance of variable pay in reinforcing a pay for performance culture. Variable pay stimulates employees to stretch their abilities to exceed expectations.

- Annual Bonus Plan

  These are paid to reward performance for a given financial year. This covers all employees and excludes employees receiving incentives. This is based on performance rating, job band and functional category of the individual.

- Incentive Plan

  These are paid to frontline sales staff for the achievement of specific sales targets but limited impact on risk as credit decisions are exercised independent of the sales function. Further, it has been the endeavor of the Bank to ensure that the objectives set are based on the principles of a balanced scorecard rather than just the achievement of financial numbers. Incentives are generally paid every quarter. A portion of the incentive payouts are deferred till the end of the year and are linked to attainment of targets for the full year.

- Employee Stock Option Plan

  This is to reward for contribution of employees in creating a long term, sustainable earnings and enhancing shareholder value. Only employees in a certain job band and with a specific performance rating are eligible for Stock Options. Performance is the key criteria for granting stock options.

**Quantitative Disclosures**

The quantitative disclosures cover the Bank's Whole Time Directors and Key Risk Takers. Key Risk Takers are individuals who can materially set, commit or control significant amounts of the Bank's resources, and / or exert significant influence over its risk profile. The Bank's Key Risk Takers include Whole Time Directors, Group Heads, Business Heads directly reporting to the Managing Director and select roles in the Bank's Treasury and Investment Banking functions.

| S. No. | Subject | March 31, 2013 | March 31, 2012 |
|---|---|---|---|
| (a) | Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members | Number of meetings : 5<br>Remuneration paid : ₹ 0.04 crore | Number of meetings : 3<br>Remuneration paid : ₹ 0.02 crore |
| (b) (i) | Number of employees having received a variable remuneration award during the financial year | 22 employees | 21 employees |
| (b) (ii) | Number and total amount of sign on awards made during the financial year | None | There was 1 employee who was given ESOPs under ESOP scheme XVII as part of joining commitment. Total number of options granted were 1,25,000 |
| (b) (iii) | Details of guaranteed bonus, if any, paid as joining / sign on bonus | None | There was 1 employee who was paid bonus subject to confirmation as part of joining commitment.<br>Total amount paid: ₹ 0.25 crore |
| (b) (iv) | Details of severance pay, in addition to accrued benefits, if any | None | None |
| (c) (i) | Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms | Total amount of outstanding deferred remuneration (cash bonus) was ₹ 1.81 crore | Nil |
| (c) (ii) | Total amount of deferred remuneration paid out in the financial year | Nil | Total amount of deferred remuneration (bonus) paid out : ₹ 0.30 crore |
| (d) | Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred | ₹ 31.81 crore (Fixed*)<br>₹ 9.82 crore (Variable pay pertaining to financial year ended March 31, 2012, in relation to employees where there was no deferment of pay) ₹ 4.53 crore (Variable pay pertaining to financial year ended March 31, 2012, in relation to employees where there was deferment of pay), of which ₹ 1.81 crore was deferred and ₹ 2.72 crore was non-deferred. | ₹ 27.52 crore (Fixed*)<br>₹ 10.53 crore (Variable pertaining to financial year ended March 31, 2011)<br>Nil (Deferred)<br>₹ 10.53 crore (Non-deferred) |
| (e) (i) | Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments. | Total amount of outstanding deferred remuneration (cash bonus) was ₹ 1.81 crore | Nil |
| (e) (ii) | Total amount of reductions during the financial year due to ex-post explicit adjustments. | Nil | Nil |
| (e) (iii) | Total amount of reductions during the financial year due to ex-post implicit adjustments | Nil | Nil |

** Excludes gratuity benefits, since the same is computed at Bank level.*



HDFC BANK
We understand your world

# For the year ended March 31, 2013

## 24 Segment reporting

Segment reporting for the year ended 31 March 2013 is given below :
Business Segments : (₹ crore)

| S. No. | Particulars | Treasury | Retail banking | Wholesale banking | Other banking operations | Total |
|---|---|---|---|---|---|---|
| 1 | Segment revenue | 9,711.02 | 34,919.65 | 17,633.82 | 3,902.56 | 66,167.05 |
| 2 | Unallocated revenue | | | | | 112.77 |
| 3 | Less: Inter-segment revenue | | | | | 24,362.33 |
| 4 | Income from operations (1) + (2) - (3) | | | | | 41,917.49 |
| 5 | Segment results | 225.00 | 4,424.15 | 4,751.96 | 1,564.12 | 10,965.23 |
| 6 | Unallocated expenses | | | | | 1,214.61 |
| 7 | Income tax expense (including deferred tax) | | | | | 3,024.34 |
| 8 | Net profit (5) - (6) - (7) | | | | | 6,726.28 |
| 9 | Segment assets | 139,459.18 | 138,001.73 | 107,109.05 | 11,331.21 | 395,901.17 |
| 10 | Unallocated assets | | | | | 4,430.73 |
| 11 | Total assets (9) + (10) | | | | | 400,331.90 |
| 12 | Segment liabilities | 24,652.79 | 234,968.21 | 82,810.62 | 1,016.26 | 343,447.88 |
| 13 | Unallocated liabilities | | | | | 20,669.88 |
| 14 | Total liabilities (12) + (13) | | | | | 364,117.76 |
| 15 | Capital employed (9) - (12) | 114,806.39 | (96,966.48) | 24,298.43 | 10,314.95 | 52,453.29 |
| 16 | Unallocated (10) - (13) | | | | | (16,239.15) |
| 17 | Total (15) + (16) | | | | | 36,214.14 |
| 18 | Capital expenditure | 100.80 | 629.46 | 165.92 | 116.90 | 1,013.08 |
| 19 | Depreciation | 52.20 | 426.34 | 94.44 | 78.69 | 651.67 |

Geographic segments : (₹ crore)

| Particulars | Domestic | International |
|---|---|---|
| Revenue | 41,529.43 | 388.06 |
| Assets | 386,064.61 | 14,267.29 |

Segment reporting for the year ended March 31, 2012 is given below :
Business segments : (₹ crore)

| S. No. | Particulars | Treasury | Retail banking | Wholesale banking | Other banking operations | Total |
|---|---|---|---|---|---|---|
| 1 | Segment revenue | 7,823.56 | 27,532.72 | 15,808.41 | 3,020.97 | 54,185.66 |
| 2 | Unallocated revenue | | | | | 96.48 |
| 3 | Less: Inter-segment revenue | | | | | 20,624.33 |
| 4 | Income from operations (1) + (2) - (3) | | | | | 33,657.81 |
| 5 | Segment results | 381.99 | 3,486.82 | 3,271.85 | 1,277.54 | 8,418.20 |
| 6 | Unallocated expenses | | | | | 905.05 |
| 7 | Income tax expense (including deferred tax) | | | | | 2,346.08 |
| 8 | Net profit (5) - (6) - (7) | | | | | 5,167.07 |
| 9 | Segment assets | 121,349.00 | 112,840.91 | 92,710.51 | 7,521.95 | 334,422.37 |
| 10 | Unallocated assets | | | | | 3,487.12 |
| 11 | Total assets (9) + (10) | | | | | 337,909.49 |
| 12 | Segment liabilities | 26,142.72 | 189,990.26 | 76,404.04 | 727.56 | 293,264.58 |
| 13 | Unallocated liabilities | | | | | 14,720.53 |
| 14 | Total liabilities (12) + (13) | | | | | 307,985.11 |
| 15 | Capital employed (9) - (12) | 95,206.28 | (77,149.35) | 16,306.47 | 6,794.39 | 41,157.79 |
| 16 | Unallocated (10) - (13) | | | | | (11,233.41) |
| 17 | Total (15) + (16) | | | | | 29,924.38 |
| 18 | Capital expenditure | 43.29 | 539.74 | 78.93 | 60.41 | 722.37 |
| 19 | Depreciation | 36.54 | 365.44 | 75.09 | 65.45 | 542.52 |

Geographic segments : (₹ crore)

| Particulars | Domestic | International |
|---|---|---|
| Revenue | 33,430.55 | 227.26 |
| Assets | 329,216.10 | 8,693.39 |

**25 Related party disclosures**

As per AS-18, Related Party Disclosure, the Bank's related parties are disclosed below :

**Promoter**

Housing Development Finance Corporation Limited

**Enterprises under common control of the promoter**

- HDFC Asset Management Company Limited
- HDFC Developers Limited
- HDFC Investments Limited
- GRUH Finance Limited
- HDFC ERGO General Insurance Company Limited
- HDFC Ventures Trustee Company Limited
- Griha Investments
- HDFC Education and Development Services Private Limited
- HDFC Property Ventures Limited
- HDFC Life Pension Fund Management Company Limited
- HDFC Standard Life Insurance Company Limited
- HDFC Holdings Limited
- HDFC Trustee Company Limited
- HDFC Realty Limited
- HDFC Venture Capital Limited
- HDFC Sales Private Limited
- Credila Financial Services Private Limited
- HDFC Asset Management Company (Singapore) Pte. Limited
- Griha Pte Limited
- H T Parekh Foundation

**Subsidiaries**

HDFC Securities Limited

HDB Financial Services Limited

**Associates**

Atlas Documentary Facilitators Company Private Limited

HBL Global Private Limited

Centillion Solutions and Services Private Limited (ceased to be an associate from December 31, 2011)

International Asset Reconstruction Company Private Limited

**Welfare trust of the Bank**

HDB Employees Welfare Trust

**Key management personnel**

Aditya Puri, Managing Director

Paresh Sukthankar, Executive Director

Harish Engineer, Executive Director

**Related parties to key management personnel**

Salisbury Investments Private Limited, Anita Puri, Amit Puri, Amrita Puri, Adishwar Puri, Aarti Sood, Sangeeta Sukthankar, Dattatraya Sukthankar, Shubhada Sukthankar, Akshay Sukthankar, Ankita Sukthankar, Madhavi Lad, Sudha Engineer, Shreematiben Engineer, Nikhil Engineer, Uma Engineer, Mahesh Engineer.

In accordance with paragraph 5 of AS-18, the Bank has not disclosed certain transactions with relatives of Key Management Personnel as they are in the nature of banker-customer relationship.

The significant transactions between the Bank and related parties for year ended March 31, 2013 are given below. A specific related party transaction is disclosed as a significant related party transaction wherever it exceeds 10% of all related party transactions in that category :

- Interest paid : Housing Development Finance Corporation Limited ₹ 9.79 crore (previous year : ₹ 7.55 crore); Atlas Documentary Facilitators Company Private Limited ₹ 4.08 crore (previous year : ₹ 4.04 crore).
- Interest received : HDB Financial Services Limited ₹ 55.43 crore (previous year : ₹ 44.09 crore).
- Rendering of services : Housing Development Finance Corporation Limited ₹ 139.59 crore (previous year : ₹ 106.97 crore); HDFC Standard Life Insurance Company Limited ₹ 472.33 crore (previous year : ₹ 456.37 crore); HDFC ERGO General Insurance Company Limited ₹ 126.31 crore (previous year : ₹ 110.44 crore)
- Receiving of services : HBL Global Private Limited ₹ 464.56 crore (previous year : ₹ 360.40 crore); Atlas Documentary Facilitators Company Private Limited ₹ 393.48 crore (previous year : ₹ 324.43 crore).
- Dividend paid : Housing Development Finance Corporation Limited ₹ 169.08 crore (previous year : ₹ 129.76 crore); HDFC Investments Limited ₹ 64.50 crore (previous year : ₹ 49.50 crore)

# For the year ended March 31, 2013

The Bank's related party balances and transactions for the year ended March 31, 2013 are summarized as follows : **(₹ crore)**

| Items / related party | Promoter | Enterprises under common control of the promoter | Subsidiaries | Associates | Key management personnel | Total |
|---|---|---|---|---|---|---|
| Deposits taken | 1,985.17 | 566.11 | 281.82 | 44.13 | 5.67 | 2,882.90 |
| | (3,193.25) | (729.10) | (369.08) | (48.97) | (6.61) | (4,347.01) |
| Deposits placed | 0.15 | - | 9.76 | 38.45 | 2.22 | 50.58 |
| | (0.15) | - | (9.76) | (38.45) | (2.22) | (50.58) |
| Advances given | - | - | 643.71 | 7.98 | 0.73 | 652.42 |
| | - | - | (643.71) | (17.93) | (0.73) | (662.37) |
| Fixed assets purchased from | - | - | - | - | - | - |
| Fixed assets sold to | - | - | - | - | - | - |
| Interest paid to | 9.79 | 12.77 | 2.88 | 4.12 | 0.41 | 29.97 |
| Interest received from | - | - | 55.46 | 1.87 | 0.04 | 57.37 |
| Income from services rendered to | 139.59 | 668.68 | 18.15 | 20.95 | - | 847.37 |
| Expenses for receiving services from | 47.94 | 111.07 | 67.62 | 858.04 | 0.60 | 1,085.27 |
| Equity / other investments | - | - | 723.62 | 46.86 | - | 770.48 |
| | - | - | (748.62) | (52.50) | - | (801.12) |
| Dividend paid to | 169.08 | 68.83 | - | - | 1.15 | 239.06 |
| Dividend received from | - | - | 0.76 | 0.01 | - | 0.77 |
| Receivable from | 13.97 | 101.74 | 0.32 | 2.42 | - | 118.45 |
| | (13.97) | (101.74) | (1.59) | (2.42) | - | (119.72) |
| Payable to | - | - | 12.71 | 66.87 | - | 79.58 |
| | (8.12) | - | (12.95) | (107.23) | - | (128.30) |
| Guarantees given | 0.10 | 0.13 | 0.05 | - | - | 0.28 |
| | (0.10) | (0.13) | (0.05) | - | - | (0.28) |
| Remuneration paid | - | - | - | - | 11.95 | 11.95 |
| Loans purchased from | 5,164.40 | - | 27.72 | - | - | 5,192.12 |

*Figures in bracket indicate maximum balance outstanding during the year based on comparison of the total outstanding balances at each quarter-end. Remuneration paid excludes value of employee stock options exercised during the year.*

The Bank being an authorised dealer, deals in foreign exchange and derivative transactions with certain parties which includes the promoter and related group companies. The foreign exchange and derivative transactions are undertaken in line with the RBI guidelines. The notional principal amount of foreign exchange and derivative contracts transacted with the promoter that were outstanding as on March 31, 2013 is ₹ 250.00 crore (previous year : ₹ 250.00 crore). The contingent credit exposure pertaining to these contracts computed in line with the extant RBI guidelines on exposure norms is ₹ 7.42 crore (previous year : ₹ 15.23 crore).

During the year ended March 31, 2013, the Bank purchased securities from HDFC Standard Life Insurance Company Limited ₹ 294.24 crore (previous year : ₹ 23.97 crore) and from HDB Financial Services Limited ₹ 180.00 crore (previous year : Nil). During the year ended March 31, 2013, the Bank sold securities to HDFC Standard Life Insurance Company Limited with book values aggregating ₹ 650.02 crore (previous year : ₹ 227.92 crore), to HDFC ERGO General Insurance Company Limited ₹ 217.16 crore (previous year : ₹ 230.59 crore) and to Key Management Personnel ₹ 5.26 crore (previous year : Nil).

As of March 31, 2013, investment of HDFC Standard Life Insurance Company Limited in the Bank's tier II bonds amounted to ₹ 61 crore (previous year : ₹ 11 crore) and that of HDFC ERGO General Insurance Company Limited amounted to ₹ 5 crore (previous year : Nil).

During the year ended March 31, 2013, the Bank paid rent of ₹ 0.66 crore (previous year : ₹ 0.66 crore) to parties related to the Bank's key management personnel in relation to residential accommodation. As at March 31, 2013, the security deposit outstanding was ₹ 4.28 crore (previous year : ₹ 4.28 crore).

The deposit outstanding from HDB Employees Welfare Trust as of March 31, 2013 was ₹ 49.66 crore (previous year : ₹ 44.59 crore). The Bank also paid interest on deposit from HDB Employees Welfare Trust aggregating to ₹ 4.55 crore (previous year : ₹ 2.85 crore). During the previous year ended March 31, 2012, the Bank purchased 685,161 shares of HDFC Securities Limited for ₹ 9.87 crore from HDB Employees Welfare Trust.

The Bank's related party balances and transactions for the year ended March 31, 2012 are summarized as follows : **(₹ crore)**

| Items / related party | Promoter | Enterprises under common control of the promoter | Subsidiaries | Associates | Key management personnel | Total |
|---|---|---|---|---|---|---|
| Deposits taken | 2,110.77 | 360.10 | 141.44 | 45.71 | 10.83 | 2,668.85 |
| | (2,110.77) | (360.10) | (171.46) | (45.71) | (10.83) | (2,698.87) |
| Deposits placed | 0.15 | - | 9.76 | 30.95 | 2.22 | 43.08 |
| | (0.15) | - | (9.76) | (77.60) | (2.22) | (89.73) |
| Advances given | - | - | 518.22 | 27.90 | 0.73 | 546.85 |
| | - | - | (518.22) | (34.36) | (0.73) | (553.31) |
| Fixed assets purchased from | - | - | - | 0.20 | - | 0.20 |
| Fixed assets sold to | - | - | 0.14 | 0.13 | - | 0.27 |
| Interest paid to | 7.55 | 2.36 | 1.38 | 4.15 | 0.43 | 15.87 |
| Interest received from | - | - | 44.09 | 1.39 | 0.03 | 45.51 |
| Income from services rendered to | 106.97 | 619.73 | 10.52 | 20.93 | - | 758.15 |
| Expenses for receiving services from | 24.79 | 36.62 | 57.08 | 685.50 | 0.60 | 804.59 |
| Equity / Other | - | - | 723.62 | 66.13 | - | 789.75 |
| Investments | - | - | (723.62) | (66.58) | - | (790.20) |
| Dividend paid to | 129.76 | 49.50 | - | - | 0.90 | 180.16 |
| Dividend received from | - | - | 0.57 | 0.01 | - | 0.58 |
| Receivable from | 13.65 | 77.32 | 0.26 | - | - | 91.23 |
| | (13.65) | (77.32) | (1. 21) | (7.15) | - | (99.33) |
| Payable to | 8.35 | - | 6.31 | 50.89 | - | 65.55 |
| | (8.35) | - | (6.63) | (63.32) | - | (78.30) |
| Remuneration paid | - | - | - | - | 9.98 | 9.98 |
| Loans purchased from | 4,977.62 | - | 28.40 | - | - | 5,006.02 |

*Figures in bracket indicate maximum balance outstanding during the year based on comparison of the total outstanding balances at each quarter-end. Remuneration paid excludes value of employee stock options exercised during the year.*

## 26 Leases

Operating leases primarily comprise office premises, staff residences and Automated Teller Machines ('ATM's), which are renewable at the option of the Bank. The details of maturity profile of future operating lease payments are given below :

**(₹ crore)**

| Period | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Not later than one year | 611.59 | 515.21 |
| Later than one year and not later than five years | 2,076.89 | 1,743.06 |
| Later than five years | 1,021.66 | 731.13 |
| **Total** | **3,710.14** | **2,989.40** |
| The total of minimum lease payments recognised in the Statement of Profit and Loss for the year | 700.61 | 538.20 |
| Total of future minimum sub-lease payments expected to be received under non-cancellable sub-leases | 64.30 | 66.47 |
| Sub-lease payments recognised in the Statement of Profit and Loss for the year | 24.22 | 24.17 |
| Contingent (usage based) lease payments recognized in the Statement of Profit and Loss for the year | 105.55 | - |

The Bank has sub-leased certain of its properties taken on lease.

The terms of renewal and escalation clauses are those normally prevalent in similar agreements. There are no undue restrictions or onerous clauses in the agreements.

**27 Penalties levied by the RBI**

No penalties were levied by the RBI during the year ended March 31, 2013.

**28 Dividend in respect of shares to be allotted on exercise of stock options**

Any allotment of shares after the Balance Sheet date but before the book closure date pursuant to exercise of options will be eligible for full dividend, if approved at the ensuing Annual General Meeting.

**29 Disclosure for customer complaints / unimplemented awards of Banking Ombudsman**

- **Customer complaints**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| (a) No. of complaints pending at the beginning of the year | 1,436 | 1,124 |
| (b) No. of complaints received during the year | 135,145 | 138,769 |
| (c) No. of complaints redressed during the year | 134,277 | 138,457 |
| (d) No. of complaints pending at the end of the year | 2,304 | 1,436 |

During the year ended March 31, 2013, the Bank received from its customers a total of 155,918 transaction failures on account of their use of other banks' ATMs (previous year : 158,555). While these typically arise due to external factors like network issues, the Bank follows industry laid down guidelines for resolving such transaction failures.

- **Unimplemented awards of Banking Ombudsmen**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| (a) No. of unimplemented awards at the beginning of the year | Nil | Nil |
| (b) No. of awards passed by the BO during the year | 2 | 1 |
| (c) No. of awards implemented during the year | 2 | 1 |
| (d) No. of unimplemented awards at the end of the year | Nil | Nil |

- **Top areas of customer complaints**

The average number of customer complaints per branch was 4 per month during the year ended March 31, 2013 (previous year : 5 per month). For the year ended March 31, 2013, retail branch banking segment accounted for 74.12% of the total complaints (an increase from 71.18% for the previous year) followed by credit cards at 12.99% of the total complaints (a reduction from 14.90% for the previous year), retail assets at 6.9% of the total complaints (a reduction from 7.42% for the previous year), while other segments accounted for 5.99% of total complaints (as against 7.31% in the previous year). The top 10 areas of customer complaints for the year ended March 31, 2013 accounted for 37.08% of total complaints as against 38.51% for the year ended March 31, 2012. The top 5 areas of customer complaints on which the Bank is working towards root cause remediation are – 'instant account not activated - personal details not updated', 'address change request given at branch not done', 'cheque deposited at branch not credited/delayed', 'delay in closure of account' and 'cash not dispensed or less cash dispensed in the Bank's ATMs'.

- **Position of BO complaints as per RBI annual report**

As per a report published by the RBI for the year ended June 30, 2012, the number of BO complaints per branch for the Bank was 2.28 as against the industry average of 3.21. The number of BO complaints other than credit cards per 1,000 accounts was at 0.15 for the Bank as against the industry average of 0.24. The number of BO complaints (credit card related) per 1,000 cards was at 0.06 for the Bank as against the industry average of 0.17.

**30 Disclosure of Letter of Comforts ('LoC's) issued by the Bank**

The Bank has not issued any Letter of Comfort during the years ended March 31, 2013 and March 31, 2012.

**31 Small and micro industries**

Under the Micro, Small and Medium Enterprises Development Act, 2006 which came into force from October 2, 2006, certain disclosures are required to be made relating to Micro, Small and Medium enterprises. There have been no reported cases of delays in payments to micro and small enterprises or of interest payments due to delays in such payments.

# For the year ended March 31, 2013

**32 Overseas assets, NPAs and revenue** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Total Assets | 14,267.29 | 8,693.39 |
| Total NPAs | Nil | Nil |
| Total Revenue | 388.06 | 227.26 |

**33 Off-Balance sheet SPVs**

There are no Off-Balance Sheet SPVs sponsored by the Bank, which need to be consolidated as per accounting norms.

**34 Credit Default Swaps**

The Bank has not transacted in credit default swaps during the year ended March 31, 2013 (previous year : Nil).

**35 Comparative figures**

Figures for the previous year have been regrouped and reclassified wherever necessary to conform to the current year's presentation.

As per our report of even date.

**For B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

**Mumbai, April 23, 2013**

For and on behalf of the Board

**C. M. Vasudev**
*Chairman*

**Harish Engineer**
*Executive Director*

**Aditya Puri**
*Managing Director*

**Paresh Sukthankar**
*Executive Director*

**Sanjay Dongre**
*Executive Vice President (Legal) & Company Secretary*

**A. N. Roy**
**Bobby Parikh**
**Keki Mistry**
**Partho Datta**
**Renu Karnad**
**Vijay Merchant**
*Directors*

HDB FINANCIAL SERVICES

HDB Financial Services (HDB) is a leading Non Banking Finance Company (NBFC) that caters to the growing needs of an increasingly affluent middle market, serving both Retail and Commercial clients.

A strong, well capitalised business, it enjoys a CARE AAA and CRISIL AAA rating for its long term debt and Bank facilities, and an A1+ rating for short term debt and commercial paper.

**Lending Services:**
HDB caters to small and emerging businesses in the manufacturing, trading and service sectors. HDB services diverse customer segments including Retail (Salaried and Self Employed individuals) and Commercial (Small and Medium Enterprises) clients.

With its expertise in loan origination and servicing, it structures credit and investment solutions based on customer needs. Local knowledge and experience are its competitive edge. HDB offers a wide range of secured, unsecured Loans and Asset Finance.

HDB has more than 230 branches across 184 towns with a strong presence outside the large Metros.

**Collections BPO:**
The Collections BPO line of business is an end to end specialised Collections service provider with domain expertise in Collections Telecalling, Recovery Management, Collections Analytics and Cash Reconciliation Management. The infrastructure consists of call centers with over 1800 workstations backed with fulfillment capabilities in over 200 towns. The Collections BPO offers best-in-class performance and is Debt Recovery Accreditation (DRA) certified.

## 1 Scope of Application :

***Top bank in the group***

The New Capital Adequacy Framework (Basel II) is applicable to HDFC Bank Limited (hereinafter referred to as the 'Bank') and its two subsidiaries (HDFC Securities Limited and HDB Financial Services Limited) which together constitute the Group in line with the Reserve Bank of India ('RBI') guidelines on the preparation of consolidated prudential reports.

***Accounting and regulatory consolidation***

For the purpose of financial reporting, the Bank consolidates its subsidiaries in accordance with Accounting Standard ('AS') 21, Consolidated Financial Statements, on a line-by-line basis by adding together like items of assets, liabilities, income and expenditure. Investments in associates are accounted for by the equity method in accordance with AS-23, Accounting for Investments in Associates in Consolidated Financial Statements.

For the purpose of consolidated prudential regulatory reporting, the consolidated Bank includes all group entities under its control, except group companies which are engaged in insurance business and businesses not pertaining to financial services. Details of subsidiaries and associates of the Bank along with the consolidation status for accounting and regulatory purposes are given below :

| Name of entity | Brief description and consolidation status |
|---|---|
| HDFC Securities Limited (HSL) | HSL is a subsidiary engaged in stock broking and is consolidated in accordance with AS-21, Consolidated Financial Statements. |
| HDB Financial Services Limited (HDBFS) | HDBFS is a subsidiary engaged in retail asset financing and is consolidated in accordance with AS-21, Consolidated Financial Statements. |
| HDB Employee Welfare Trust (HDBEWT) | HDBEWT is a trust established for providing general welfare measures such as medical relief and educational assistance to the employees of the Bank and their dependants. It is consolidated in accordance with AS-21, Consolidated Financial Statements. However, it is not consolidated for capital adequacy purpose. |
| Atlas Documentary Facilitators Company Private Limited (ADFC) | ADFC is an associate engaged in back-office processing and is accounted for by equity method in the Consolidated Financial Statements of the Group. It is not consolidated for capital adequacy purpose. |
| HBL Global Private Limited (HBL) | HBL is an associate engaged in providing the Bank with direct sales support for certain products of the Bank and is accounted for by equity method in the Consolidated Financial Statements of the Group. It is not consolidated for capital adequacy purpose. |
| International Asset Reconstruction Company Private Limited (IARCL) | IARCL is an associate engaged in securitisation and asset reconstruction and is accounted for by equity method in the Consolidated Financial Statements of the Group. It is not consolidated for capital adequacy purpose. |

For the purpose of standalone regulatory capital computation, the Bank's investment in its subsidiaries is deducted from Tier I capital and Tier II capital in equal proportion, whilst its investment in associate entities is risk weighted.

***Capital deficiency in subsidiaries***

There is no capital deficiency in the subsidiaries of the Bank as of March 31, 2013.

***Investment in insurance entities***

As of March 31, 2013, the Bank does not have investment in any insurance entity.

## 2 Capital Structure :

***Main features of capital instruments***

Capital funds are classified into Tier I capital and Tier II capital under the capital adequacy framework. Tier I capital includes paid-up equity capital, statutory reserves, other disclosed free reserves, capital reserves and eligible innovative perpetual debt instruments (Tier I bonds) as per prescribed regulatory guidelines.

Elements of Tier II capital include revaluation reserve, if any, investment reserve, general provision on standard assets,



HDFC BANK
We understand your world

floating provisions, upper tier II instruments and subordinated debt instruments (lower Tier II bonds) eligible for inclusion in Tier II capital. The Bank has issued debt instruments that form part of Tier I and Tier II capital. The terms and conditions of these instruments comply with the stipulated regulatory requirements.

Tier I bonds are perpetual in nature with a call option after 10 years from the date of allotment. Interest on Tier I bonds is payable semi-annually and is not cumulative. There is a step-up clause of 100 basis points (bps) on the interest coupon in conjunction with the call option.

The upper tier II bonds have an original maturity of minimum 15 years with call option after 10 years from the date of allotment. These Tier II bonds have a step-up clause ranging from 50 bps to 100 bps on the interest coupon in conjunction with the call option. The interest on upper tier II bonds is payable either annually or semi-annually.

The lower Tier II bonds have an original maturity of up to 15 years. Bonds issued during the year ended March 31, 2013 having a call option at the end of 5 years or 10 years from the date of allotment as per the terms and conditions of the respective issuances aggregated to ₹ 5,447.00 crore (previous year : ₹ 3,650.00 crore). The interest on lower tier II capital instruments is payable annually.

Details of debt instruments outstanding as on March 31, 2013 are given below : **(₹ crore)**

| Type of instrument | Currency | Year of issue | Year of maturity | Year of call | Amount |
|---|---|---|---|---|---|
| Perpetual Debt | INR | 2006-07 | - | 2016-17 | 200.00 |
| Upper Tier II | INR | 2006-07 | 2021-22 | 2016-17 | 300.00 |
| Upper Tier II | INR | 2006-07 | 2021-22 | 2016-17 | 300.00 |
| Upper Tier II | INR | 2006-07 | 2021-22 | 2016-17 | 35.90 |
| Upper Tier II* | USD | 2006-07 | 2021-22 | 2016-17 | 542.85 |
| Upper Tier II | INR | 2007-08 | 2022-23 | 2017-18 | 100.00 |
| Upper Tier II | INR | 2008-09 | 2023-24 | 2018-19 | 578.00 |
| Upper Tier II | INR | 2008-09 | 2023-24 | 2018-19 | 200.00 |
| Upper Tier II | INR | 2008-09 | 2023-24 | 2018-19 | 797.00 |
| Upper Tier II | INR | 2010-11 | 2025-26 | 2020-21 | 1,105.00 |
| Lower Tier II | INR | 2003-04 | 2014-15 | - | 395.00 |
| Lower Tier II | INR | 2003-04 | 2017-18 | - | 5.00 |
| Lower Tier II | INR | 2004-05 | 2014-15 | - | 15.00 |
| Lower Tier II | INR | 2004-05 | 2014-15 | - | 4.00 |
| Lower Tier II | INR | 2005-06 | 2015-16 | - | 414.00 |
| Lower Tier II | INR | 2005-06 | 2015-16 | - | 231.00 |
| Lower Tier II | INR | 2005-06 | 2015-16 | - | 257.00 |
| Lower Tier II | INR | 2005-06 | 2015-16 | - | 300.00 |
| Lower Tier II | INR | 2006-07 | 2016-17 | - | 169.00 |
| Lower Tier II | INR | 2006-07 | 2016-17 | - | 241.00 |
| Lower Tier II | INR | 2008-09 | 2018-19 | - | 1,150.00 |
| Lower Tier II | INR | 2008-09 | 2018-19 | - | 150.00 |
| Lower Tier II | INR | 2011-12 | 2026-27 | 2021-22 | 3,650.00 |
| Lower Tier II | INR | 2012-13 | 2027-28 | 2022-23 | 3,477.00 |
| Lower Tier II | INR | 2012-13 | 2022-23 | 2017-18 | 565.00 |
| Lower Tier II | INR | 2012-13 | 2022-23 | 2017-18 | 1,405.00 |
| Lower Tier II | INR | 2012-13 | 2022-23 | - | 250.00 |
| Lower Tier II | INR | 2012-13 | 2022-23 | - | 150.00 |
| Lower Tier II | INR | 2012-13 | 2022-23 | - | 200.00 |
| **Total** | | | | | **17,186.75** |

* The Rupee equivalent of the Upper Tier II U.S. Dollar debt of US$ 100 million, is considered at the translation rate of ₹ 54.285 = US $ 1.00

***Tier I capital of the Bank*** **(₹ crore)**

| Type of Instrument | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Paid-up share capital | 475.88 | 469.34 |
| Reserves and surplus | 36,094.87 | 29,692.93 |
| Innovative perpetual debt | 200.00 | 200.00 |
| **Gross Tier I [sub-total (a)]** | **36,770.75** | **30,362.27** |
| Deductions : | | |
| Deferred tax assets | (1,913.06) | (1,465.34) |
| Securitisation exposures* | (177.87) | (179.49) |
| Market risk charge on account of valuation adjustment for illiquid positions of derivatives and non-derivative portfolio | (47.07) | (46.07) |
| **Total deductions [sub-total (b)]** | **(2,138.00)** | **(1,690.90)** |
| **Tier I capital (net of deductions) (a-b)** | **34,632.75** | **28,671.37** |

** Principally comprises credit enhancements*

***Tier II capital of the Bank*** **(₹ crore)**

| Type of Instrument | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Upper Tier II capital | 3,958.75 | 3,924.65 |
| Lower Tier II capital | 11,810.60 | 6,169.80 |
| Provisions on standard assets | 1,056.01 | 920.79 |
| Floating provisions | 1,878.08 | 1,435.03 |
| Investment reserve account | 17.66 | - |
| Securitisation exposures* | (177.87) | (179.49) |
| **Tier II capital (net of deductions)** | **18,543.23** | **12,270.78** |

** Principally comprises credit enhancements*

***Eligible Upper Tier II capital*** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Total amount outstanding | 3,958.75 | 3,924.65 |
| Of which amounts raised during the year | - | - |
| Amount eligible to be reckoned as capital funds | 3,958.75 | 3,924.65 |

***Eligible subordinated debt*** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Total amount outstanding | 13,028.00 | 6,981.00 |
| Of which amounts raised during the year | 6,047.00 | 3,650.00 |
| Amount eligible to be reckoned as capital funds | 11,810.60 | 6,169.80 |

***Other deductions from capital***

There are no other deductions from capital as of March 31, 2013 (previous year : Nil).

***Total eligible capital***

The total eligible capital of the Bank amounted to ₹ 53,175.98 crore as of March 31, 2013 (previous year : ₹ 40,942.15 crore).



HDFC BANK
We understand your world

## 3 Capital Adequacy :

***Assessment of capital adequacy***

The Bank has a process for assessing its overall capital adequacy in relation to the Bank's risk profile and a strategy for maintaining its capital levels. The process provides an assurance that the Bank has adequate capital to support all risks inherent to its business and an appropriate capital buffer based on its business profile. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through sound governance and control practices, robust risk management framework and an elaborate process for capital calculation and planning.

The Bank has a comprehensive Internal Capital Adequacy Assessment Process (ICAAP). The Bank's ICAAP covers the capital management policy of the Bank, sets the process for assessment of the adequacy of capital to support current and future activities / risks and a report on the capital projections for a period of 2 to 3 years.

The Bank has a structured management framework in the internal capital adequacy assessment process for the identification and evaluation of the significance of all risks that the Bank faces, which may have an adverse material impact on its financial position. The Bank considers the following as material risks it is exposed to in the normal course of its business and therefore, factors these while assessing / planning capital :

- Credit Risk, including residual risks
- Market Risk
- Operational Risk
- Interest Rate Risk in the Banking Book
- Liquidity Risk
- Intraday risk
- Credit Concentration Risk
- Business Risk
- Strategic Risk
- Compliance Risk
- Reputation Risk
- Technology Risk

The Bank has implemented a Board approved Stress Testing Framework which forms an integral part of the Bank's ICAAP. Stress Testing involves the use of various techniques to assess the Bank's potential vulnerability to extreme but plausible stressed business conditions. The changes in the levels of Credit Risk, Market Risk, Liquidity Risk and Interest Rate Risk in the Banking Book (IRRBB) and the changes in the on and off balance sheet positions of the Bank are assessed under assumed "stress" scenarios. Typically, these relate, among other things, to the impact on the Bank's profitability and capital adequacy. Stress tests are conducted on a quarterly basis and the stress test results are put up to the Risk Policy & Monitoring Committee of the Board, on a half yearly basis and to the Board annually, for their review and guidance. The Bank periodically assesses and refines its stress tests in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of business environment conditions. The stress tests are used in conjunction with the Bank's business plans for the purpose of capital planning in the ICAAP.

***Capital requirements for credit risk*** (₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Portfolios subject to standardised approach | 23,655.08 | 18,764.83 |
| Securitisation exposures | 1,026.74 | 995.53 |
| **Total** | **24,681.82** | **19,760.36** |

***Capital requirements for market risk*** (₹ crore)

| Standardised duration approach | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Interest rate risk | 755.25 | 390.44 |
| Equity risk* | 591.04 | 60.12 |
| Foreign exchange risk (including gold) | 27.00 | 9.00 |
| **Total** | **1,373.29** | **459.56** |

** Effective March 31, 2013, includes capital requirement on investments in units of debt-oriented mutual funds that are considered to exhibit market behaviour similar to equities for the purpose of capital adequacy computation.*

***Capital requirements for operational risk*** (₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Basic indicator approach | 2,256.46 | 1,892.68 |

*Total and Tier I capital ratios*

| Particulars | Standalone | | Consolidated | |
|---|---|---|---|---|
| | March 31, 2013 | March 31, 2012 | March 31, 2013 | March 31, 2012 |
| Tier I capital ratio | 11.08% | 11.60% | 11.01% | 11.67% |
| Total capital ratio | 16.80% | 16.52% | 16.90% | 16.66% |

## 4 Credit risk :

### *Credit Risk Management*

Credit risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In a bank's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, settlement and other financial transactions.

### *Architecture*

The Bank has a comprehensive credit risk management architecture. The Board of Directors of the Bank endorses the credit risk strategy and approves the credit risk policies of the Bank. This is done taking into consideration the Bank's risk appetite, derived from perceived risks in the business, balanced by the targeted profitability level for the risks taken up. The Board oversees the credit risk management functions of the Bank. The Risk Policy & Monitoring Committee (RPMC), which is a committee of the Board, guides the development of policies, procedures and systems for managing credit risk, towards implementing the credit risk strategy of the Bank, including the periodic review of the Bank's portfolio composition and the status of impaired assets. The RPMC ensures that these are adequate and appropriate to changing business conditions, the structure and needs of the Bank and the risk appetite of the Bank.

The Bank's Credit & Market Risk Group drives credit risk management centrally in the Bank. It is primarily responsible for implementing the risk strategy approved by the Board, developing procedures and systems for managing risk, carrying out an independent assessment of credit and market risk, approving individual credit exposures and monitoring portfolio composition and quality. Within the Credit & Market Risk group and independent of the credit approval process, there is a framework for review and approval of credit ratings. With regard to the Wholesale Banking business, the Bank's risk management functions are centralised. In respect of the Bank's Retail Assets business, while the various functions relating to policy, portfolio management and analytics are centralised, the underwriting function is distributed across various geographies within the country. The risk management function in the Bank is clearly demarcated and independent from the operations and business units of the Bank. The risk management function is not assigned any business targets.

### *Credit Process*

The Bank expects to achieve its earnings objectives and to satisfy its customers' needs while maintaining a sound portfolio. Credit exposures are managed through target market identification, appropriate credit approval processes, post-disbursement monitoring and remedial management procedures.

There are two different credit management models within which the credit process operates - the Retail Credit Model and the Wholesale Credit Model. The Retail Credit Model is geared towards high volume, small transaction sized businesses wherein credit appraisals of fresh exposures are guided by statistical models and are managed on the basis of aggregate product portfolios. The Wholesale Credit Model on the other hand, is relevant to lower volume, larger transaction size, customised products and relies on a judgmental process for the origination, approval and maintenance of credit exposures.

The credit models have two alternatives for managing the credit process - Product Programs and Credit Transactions. In Product Programs, the Bank approves maximum levels of credit exposure to a set of customers with similar characteristics, profiles and / or product needs, under clearly defined standard terms and conditions. This is a cost-effective approach to managing credit where credit risks and expected returns lend themselves to a template-based approach or predictable portfolio behavior in terms of yield, delinquency and write-off. Given the high volume environment, the automated tracking and reporting mechanisms are important to identify trends in portfolio behavior early and to initiate timely adjustments. In the case of credit transactions, the risk process focuses on individual customers or borrower relationships. The approval process in such cases is based on detailed analysis and the individual judgment of credit officials, often involving complex products or risks, multiple facilities / structures and types of securities.

The Bank's Credit Policies & Procedures Manual and Credit Programs, where applicable, form the core to controlling credit risk in various activities and products. These articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance. These policies define the Bank's overall credit granting criteria, including the general terms and conditions. The policies / programs generally address areas such as target markets / customer segmentation, qualitative and quantitative assessment parameters, 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, etc. They take cognizance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics and so on.

Credit concentration risk arises mainly on account of concentration of exposures under various categories including industry, products, geography, underlying collateral nature and single / group borrower exposures. To ensure adequate diversification of risk, concentration ceilings have been set up by the Bank on different risk dimensions, in terms of borrower / business group, industry and risk grading.

The RPMC sets concentration ceilings and the Credit & Market Risk Group monitors exposure level under each dimension and ensures that the portfolio profile meets the approved concentration limits. These concentration ceilings and exposure levels are periodically reported to the Board. The regulatory prudential norms with respect to ceilings on credit exposure to individual borrowers or group of borrowers also ensure that the Bank avoids concentration of exposure.

As an integral part of the credit process, the Bank has a fairly sophisticated credit rating model appropriate to each market segment in Wholesale Credit. The models follow principles similar to those of international rating agencies. In Retail Credit, score cards have been introduced in the smaller ticket, higher volume products like credit cards, two wheeler loans and auto loans. For the other retail products which are typically less granular or have higher ticket sizes, loans are underwritten based on the credit policies, which are in turn governed by the respective Board approved product programs. All retail portfolios are monitored regularly at a highly segmented level.

Management monitors overall portfolio quality and high-risk exposures periodically, including the weighted risk grade of the portfolio and industry diversification. Additional to, and independent of, the internal grading system and the RBI norms on asset classification, the Bank has a labeling system, where individual credits are labeled based on the degree of risk perceived in them by the Bank. Remedial strategies are developed once a loan is identified as an adversely labeled credit.

***Definition of Non-Performing Assets***

The Bank follows extant guidelines of the RBI on income recognition, asset classification and provisioning. A Non-Performing Asset (NPA) is a loan or an advance where :

a) Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.

b) The account remains 'out of order', in respect of an overdraft / cash credit (OD / CC). An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power or where there are no credits continuously for 90 days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period.

c) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

d) The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops.

e) The installment of principal or interest thereon remains overdue for one crop season for long duration crops.

f) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

g) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of RBI's guidelines on securitisation dated February 1, 2006.

h) In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

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. The Bank will classify an account as NPA if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. When a particular facility of a borrower has become non-performing, the facilities granted by the Bank to that borrower (whether a wholesale or retail borrower) will be classified as NPA and not the particular facility alone which triggered the NPA classification for that borrower.

Advances against term deposits, National Savings Certificates eligible for surrender, Indira Vikas Patras, Kisan Vikas Patras and Life Insurance policies need not be treated as NPAs, provided adequate margin is available in the accounts. Credit facilities backed by the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and / or principal or any other amount due to the Bank remains overdue for more than 90 days.

A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of conditions laid down in the related RBI guidelines. A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original date of commencement of commercial operations (DCCO), even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of conditions laid down in the related RBI guidelines.

A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of conditions laid down in the related RBI guidelines. A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within six months from the original DCCO, even if is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of conditions laid down in the related RBI guidelines.

Non-performing assets are classified into the following three categories :

- **Substandard Assets**

  A substandard asset is one, which has remained NPA for a period less than or equal to 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 the dues to the Bank in full. In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterised by the distinct possibility that the Bank will sustain some loss, if deficiencies are not corrected.

- **Doubtful Assets**

  A doubtful asset is one, which remained NPA for a period exceeding 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, 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**

  A loss asset is one where loss has been identified by the Bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

Interest on non-performing assets is not recognised in the profit / loss account until received. Specific provision for non-performing assets is made based on Management's assessment of their degree of impairment subject to the minimum provisioning level prescribed by RBI.

***Geographic distribution of gross credit risk exposures*** **(₹ crore)**

| Exposure distribution | March 31, 2013 | | | March 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Fund Based* | Non-Fund Based** | Total | Fund Based* | Non-Fund Based** | Total |
| Domestic | 262,409.08 | 38,294.95 | 300,704.03 | 209,665.88 | 34,233.84 | 243,899.72 |
| Overseas | 10,098.03 | 399.36 | 10,497.39 | 5,921.57 | 45.01 | 5,966.58 |
| **Total** | **272,507.11** | **38,694.31** | **311,201.42** | **215,587.45** | **34,278.85** | **249,866.30** |

** Fund based exposures comprise investments and loans & advances including bills re-discounted.*
*** Non-fund based exposures comprise guarantees, acceptances, endorsements and letters of credit.*



HDFC BANK
We understand your world

***Industry-wise distribution of exposures :*** **(₹ crore)**

| **Industry** | **March 31, 2013** | |
|---|---|---|
| | **Fund based** | **Non-fund based** |
| Agriculture and Allied Activities | 5,121.37 | 116.64 |
| Automobile and Auto Ancillary | 10,955.58 | 1,247.27 |
| Banks and Financial Institutions | 17,943.00 | 370.52 |
| Capital Market Intermediaries | 1,579.22 | 1,963.19 |
| Cement and Cement Products | 1,559.77 | 397.02 |
| Chemical and Chemical Products | 2,734.20 | 454.06 |
| Coal and Petroleum Products | 4,888.51 | 7,014.75 |
| Construction and Developers (Infrastructure) | 2,753.79 | 1,527.62 |
| Consumer Durables | 947.98 | 416.84 |
| Drugs and Pharmaceuticals | 1,659.68 | 399.52 |
| Engineering | 4,367.66 | 3,236.29 |
| Fertilizers and Pesticides | 1,967.23 | 1,231.17 |
| Food and Beverage | 7,036.18 | 493.98 |
| Gems and Jewelry | 4,163.98 | 135.55 |
| Housing Finance Companies | 1,502.60 | 0.75 |
| Information Technology | 1,068.46 | 555.98 |
| Iron and Steel | 5,322.07 | 2,232.67 |
| Mining and Minerals | 1,161.93 | 355.78 |
| NBFC / Financial Intermediaries | 6,354.73 | 112.61 |
| Non-ferrous Metals | 2,431.11 | 4,059.59 |
| Paper, Printing and Stationery | 1,254.17 | 267.10 |
| Plastic and products | 936.76 | 241.39 |
| Power | 5,364.55 | 1,122.20 |
| Real Estate and Property Services* | 3,841.15 | 855.45 |
| Retail Assets** | 115,057.23 | 1,529.90 |
| Retail Trade | 7,103.32 | 265.55 |
| Road Transport*** | 15,757.92 | 192.90 |
| Services | 7,324.71 | 1,437.68 |
| Telecom | 1,723.90 | 650.93 |
| Textiles and Garments | 3,106.00 | 951.24 |
| Wholesale Trade | 17,846.09 | 3,693.01 |
| Other Industries**** | 7,672.26 | 1,165.16 |
| **Total** | **272,507.11** | **38,694.31** |

* *'Details of exposure to real estate sector' as disclosed in the Notes forming part of the Financial Statements is as per RBI guidelines, which includes exposure to borrowers in the real estate industry, investment in home finance institutions, securitization, etc.*

** *Comprises auto loans, consumer loans, credit cards, home loans, personal loans, two wheeler loans, business loans except where otherwise classified.*

*** *Includes retail commercial vehicle financing.*

**** *Covers other industries such as glass and products, leather and products, media and entertainment, other non-metallic mineral products, railways, rubber and products, shipping, tobacco and products, wood and products, airlines, fishing and FMCG and personal care each of which is less than 0.25% of the total exposure.*

(₹ crore)

| Industry | March 31, 2012 | |
|---|---|---|
| | Fund based | Non-fund based |
| Agriculture and Allied Activities | 4,559.18 | 63.65 |
| Automobile and Auto Ancillary | 7,117.29 | 1,366.76 |
| Banks and Financial Institutions | 16,597.72 | 392.27 |
| Capital Market Intermediaries | 1,534.99 | 1,782.84 |
| Cement and Cement Products | 788.33 | 387.78 |
| Chemical and Chemical Products | 1,862.55 | 429.09 |
| Coal and Petroleum Products | 2,394.83 | 6,331.01 |
| Construction and Developers (Infrastructure) | 2,646.08 | 1,007.19 |
| Consumer Durables | 632.42 | 240.91 |
| Drugs and Pharmaceuticals | 1,300.57 | 255.19 |
| Engineering | 3,348.70 | 3,525.72 |
| Fertilizers and Pesticides | 1,876.41 | 1,215.98 |
| Food and Beverage | 4,644.41 | 470.56 |
| Gems and Jewelry | 2,899.24 | 155.93 |
| Housing Finance Companies | 1,246.78 | - |
| Information Technology | 1,100.40 | 305.09 |
| Iron and Steel | 4,085.17 | 1,872.91 |
| Mining and Minerals | 1,386.50 | 488.94 |
| NBFC / Financial Intermediaries | 5,528.23 | 39.45 |
| Non-ferrous Metals and products | 972.20 | 3,586.44 |
| Paper, Printing and Stationery | 823.53 | 197.04 |
| Plastic and products | 549.97 | 193.58 |
| Power | 4,738.59 | 1,020.20 |
| Real Estate and Property Services* | 2,547.99 | 605.26 |
| Retail Assets** | 98,981.40 | 1,126.68 |
| Retail Trade | 5,239.76 | 289.62 |
| Road Transport*** | 13,040.72 | 140.78 |
| Services | 3,971.70 | 1,097.36 |
| Telecom | 2,050.87 | 613.66 |
| Textiles and Garments | 1,962.23 | 1,034.83 |
| Wholesale Trade | 11,082.89 | 3,143.94 |
| Other Industries**** | 4,075.80 | 898.19 |
| **Total** | **215,587.45** | **34,278.85** |

* ‘Details of exposure to real estate sector’ as disclosed in the Notes forming part of the Financial Statements is as per RBI guidelines, which includes exposure to borrowers in the real estate industry, investment in home finance institutions, securitization, etc.

** Comprises auto loans, consumer loans, credit cards, home loans, personal loans, two wheeler loans, business loans except where otherwise classified.

*** Includes retail commercial vehicle financing.

**** Covers other industries such as glass and products, leather and products, media and entertainment, other non-metallic mineral products, railways, rubber and products, shipping, tobacco and products, wood and products, airlines, fishing and FMCG and personal care each of which is less than 0.25% of the total exposure.

***Exposures to industries (other than retail assets) in excess of 5% of total exposure*** **(₹ crore)**

| Industry | March 31, 2013 | |
|---|---|---|
| | Fund based | Non-fund based |
| Road Transport | 15,757.92 | 192.90 |
| Banks and Financial Institutions | 17,943.00 | 370.52 |
| Wholesale Trade | 17,846.09 | 3.693.01 |

**(₹ crore)**

| Industry | March 31, 2012 | |
|---|---|---|
| | Fund based | Non-fund based |
| Road Transport | 13,040.72 | 140.78 |
| Banks and Financial Institutions | 16,597.72 | 392.27 |
| Wholesale Trade | 11,082.89 | 3,143.94 |

***Residual contractual maturity breakdown of assets***

- **As on March 31, 2013** **(₹ crore)**

| Maturity buckets | Cash and balances with RBI | Balances with banks and money at call and short notice | Investments | Advances* | Fixed assets | Other assets | Grand total |
|---|---|---|---|---|---|---|---|
| 1 to 14 days | 2,393.70 | 7,254.25 | 20,710.81 | 14,683.72 | - | 2,714.67 | 47,757.15 |
| 15 to 28 days | 297.56 | 122.72 | 2,692.10 | 6,950.26 | - | 2,652.75 | 12,715.39 |
| 29 days to 3 months | 570.94 | 821.96 | 7,566.13 | 22,920.98 | - | 1,450.47 | 33,330.48 |
| 3 to 6 months | 1,086.06 | 1,907.48 | 7,183.02 | 23,163.54 | - | 667.35 | 34,007.45 |
| 6 months to 1 year | 727.90 | 2,130.95 | 7,767.56 | 26,521.90 | - | 95.52 | 37,243.83 |
| 1 to 3 years | 5,696.48 | 98.42 | 34,347.66 | 113,292.91 | - | 11,629.70 | 165,065.17 |
| 3 to 5 years | 183.85 | 552.61 | 5,051.69 | 19,559.40 | - | 2.52 | 25,350.07 |
| Above 5 years | 3,674.39 | 11.90 | 25,641.44 | 20,152.41 | 2,773.32 | - | 52,253.46 |
| **Total** | **14,630.88** | **12,900.29** | **110,960.41** | **247,245.12** | **2,773.32** | **19,212.98** | **407,723.00** |

** Excludes bills re-discounted.*

- **As on March 31, 2012** **(₹ crore)**

| Maturity buckets | Cash and balances with RBI | Balances with banks and money at call and short notice | Investments | Advances* | Fixed assets | Other assets | Grand total |
|---|---|---|---|---|---|---|---|
| 1 to 14 days | 3,198.67 | 3,746.57 | 23,430.01 | 11,986.19 | - | 4,525.62 | 46,887.06 |
| 15 to 28 days | 282.87 | 75.53 | 2,120.47 | 5,606.52 | - | 4,225.06 | 12,310.45 |
| 29 days to 3 months | 775.38 | 599.47 | 4,589.17 | 21,779.27 | - | - | 27,743.29 |
| 3 to 6 months | 1,289.87 | 638.16 | 6,118.01 | 15,826.26 | - | - | 23,872.30 |
| 6 months to 1 year | 476.27 | 944.22 | 5,404.05 | 21,419.89 | - | - | 28,244.43 |
| 1 to 3 years | 5,598.91 | 168.62 | 30,283.24 | 88,968.32 | - | 13,118.62 | 138,137.71 |
| 3 to 5 years | 25.96 | - | 3,822.34 | 15,809.59 | - | - | 19,657.89 |
| Above 5 years | 3,343.70 | 10.96 | 21,027.82 | 17,441.49 | 2,377.91 | - | 44,201.88 |
| **Total** | **14,991.63** | **6,183.53** | **96,795.11** | **198,837.53** | **2,377.91** | **21,869.30** | **341,055.01** |

** Excludes bills re-discounted.*

***Asset quality*** **(Amounts in ₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **NPA ratios** | | |
| a) Gross NPAs to gross advances | 0.95% | 1.00% |
| b) Net NPAs to net advances | 0.20% | 0.18% |
| **Movement of Gross NPAs** | | |
| Opening balance | 2,003.17 | 1,698.48 |
| Additions during the year | 1,909.66 | 1,578.02 |
| Reductions | (1,538.91) | (1,273.33) |
| **Closing balance** | **2,373.92** | **2,003.17** |
| **Movement of provisions for NPAs** | | |
| Opening balance | 1,648.98 | 1,399.86 |
| Provisions made during the year | 1,636.50 | 1,400.12 |
| Write-off | (1,165.33) | (943.03) |
| Write-back of excess provisions | (237.24) | (207.97) |
| **Closing balance** | **1,882.91** | **1,648.98** |
| **Amount of Net NPAs** | | |
| Gross NPAs | 2,373.92 | 2,003.17 |
| Less: Provisions | 1,882.91 | 1,648.98 |
| **Net NPAs** | **491.01** | **354.19** |
| **Classification of Gross NPAs** | | |
| Sub-standard | 950.85 | 969.28 |
| Doubtful* | | |
| • Doubtful 1 | 495.34 | 353.51 |
| • Doubtful 2 | 330.95 | 185.48 |
| • Doubtful 3 | 94.66 | 36.55 |
| Loss | 502.12 | 458.35 |
| **Total Gross NPAs** | **2,373.92** | **2,003.17** |

** Doubtful 1, 2 and 3 categories correspond to the period for which asset has been doubtful viz., up to one year (Doubtful 1), one to three years (Doubtful 2) and more than three years (Doubtful 3).*
*Note: NPAs include all assets that are classified as non-performing.*

***Non-performing investments*** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Gross non-performing investments | 165.46 | 112.39 |
| Less: Provisions | 158.29 | 112.09 |
| **Net non-performing investments** | **7.17** | **0.30** |

***Provision for depreciation on investments*** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Opening balance | 226.93 | 42.46 |
| Provisions made during the year | 105.47 | 184.51 |
| Write-off | (16.16) | - |
| Write-back of excess provisions | (77.97) | (0.04) |
| **Closing balance** | **238.27** | **226.93** |

## 5 Credit Risk : Portfolios subject to the Standardised Approach

***Standardised approach***

The Bank has used the Standardised Approach for the entire credit portfolio.

For exposure amounts after risk mitigation subject to the standardised approach (including exposures under bills re-discounting transactions, if any), the Bank's outstanding (rated and unrated) in three major risk buckets as well as those that are deducted, are as follows :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Below 100% risk weight | 126,214.32 | 104,730.86 |
| 100% risk weight | 98,478.69 | 79,932.69 |
| More than 100% risk weight | 86,508.41 | 65,202.75 |
| Deducted | - | - |
| **Total** | **311,201.42** | **249,866.30** |

*Note : Includes bills re-discounted aggregating ₹ 2,100.00 crore (previous year : Nil)*

***Credit rating agencies***

The Bank is using the ratings assigned by the following domestic external credit rating agencies, approved by the RBI, for risk weighting claims on domestic entities :

- Credit Analysis and Research Limited (CARE)
- Credit Rating Information Services of India Limited (CRISIL)
- India Ratings and Research Private Limited (earlier known as Fitch India)
- ICRA Limited (ICRA)

The Bank is using the ratings assigned by the following international credit rating agencies, approved by the RBI, for risk weighting claims on overseas entities :

- Fitch Ratings
- Moody's
- Standard & Poor's

***Types of exposures for which each agency is used***

The Bank has used the solicited ratings assigned by the above approved credit rating agencies for all eligible exposures, both on balance sheet and off balance sheet, whether short term or long term, in the manner permitted in the RBI guidelines on the New Capital Adequacy Framework (NCAF). The Bank has not made any discrimination among ratings assigned by these agencies nor has restricted their usage to any particular type of exposure.

***Public issue ratings transferred onto comparable assets***

The Bank has, in accordance with RBI guidelines on the NCAF, transferred public ratings on to comparable assets in the banking books in the following manner :

*Issue Specific Ratings*

- All long term and short term ratings assigned by the credit rating agencies specifically to the Bank's long term and short term exposures respectively are considered by the Bank as issue specific ratings.
- For assets in the Bank's portfolio that have contractual maturity less than or equal to one year, short term ratings accorded by the chosen credit rating agencies are considered relevant. For other assets, which have a contractual maturity of more than one year, long term ratings accorded by the chosen credit rating agencies are considered relevant.
- Long term ratings issued by the chosen domestic credit rating agencies have been mapped to the appropriate risk weights applicable as per the standardised approach under the NCAF. The rating to risk weight mapping furnished below was adopted for domestic corporate exposures, as per RBI guidelines :

| Long term rating | AAA | AA | A | BBB | BB & Below | Unrated |
|---|---|---|---|---|---|---|
| Risk weight | 20% | 30% | 50% | 100% | 150% | 100% |

- In respect of the issue specific short term ratings the following risk weight mapping has been adopted by the Bank, as provided in the NCAF :

| Short term rating equivalent | A1+ | A1 | A2 | A3 | A4 & D | Unrated |
|---|---|---|---|---|---|---|
| Risk weight | 20% | 30% | 50% | 100% | 150% | 100% |

- Where multiple issue specific ratings are assigned to the Bank's exposure by the various credit rating agencies, the risk weight is determined as follows :
  - (i) If there is only one rating by a chosen credit rating agency for a particular claim, then that rating is used to determine the risk weight of the claim.
  - (ii) If there are two ratings accorded by chosen credit rating agencies, which map into different risk weights, the higher risk weight is applied.
  - (iii) If there are three or more ratings accorded by chosen credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights are referred to and the higher of those two risk weights is applied, i.e., the second lowest risk weight.

*Inferred Ratings*

- The specific rating assigned by a credit rating agency to a debt or issue of a borrower or counterparty (which the Bank may or may not have extended / invested in), which the Bank applies to an unassessed claim of the Bank on such borrower or counterparty is considered by the Bank as inferred ratings.
- In terms of NCAF guidelines, the Bank uses a long term rating as an inferred rating for an unassessed long term claim on the borrower, where the following conditions are met :
  - (i) Where the Bank's claim ranks pari passu or senior to the specific rated debt in all respects.
  - (ii) The maturity of the Bank's claim is not later than the maturity of the rated claim.
- The unassessed long term claim is assigned the risk weight corresponding to an inferred long term rating as given in the table under Issue Specific Ratings.
- For an unassessed short term claim, the Bank uses a long term or short term rating as an inferred rating, where the Bank's claim ranks pari passu to the specified rated debt.
- Where a long term rating is used as an inferred rating for a short term unassessed claim, the risk weight corresponding to an inferred long term rating as given in the table under Issue Specific Rating is considered by the Bank.
- Where a short term rating is used as an inferred rating for a short term unassessed claim, the risk weight corresponding to an inferred short term rating as given in the table under Issue Specific Rating is considered, however with notch up of the risk weight. Notwithstanding the restriction on using an issue specific short term rating for other short term exposures, an unrated short term claim on a counterparty is given a risk weight of at least one level higher than the risk weight applicable to the rated short term claim on that counterparty. If a short term rated facility to a counterparty attracts a 20% or a 50% risk weight, the unrated short term claims to the same counterparty will get a risk weight not lower than 30% or 100% respectively.
- If long term ratings corresponding to different risk weights are applicable for a long term exposure, the highest of the risk weight is considered by the Bank. Similarly, if short term ratings corresponding to different risk weights are applicable for a short term exposure, the highest of the risk weight is considered. However, where both long term and short term corresponding to different risk weights are applicable to a short term exposure, the highest of the risk weight is considered by the Bank for determination of capital charge.
- If a counterparty has a long term exposure with an external long term rating that warrants a risk weight of 150%, all unrated claims on the same counterparty, whether short term or long term, receives a 150% risk weight, unless recognised credit risk mitigation techniques have been used for such claims. Similarly, if the counterparty has a short term exposure with an external short term rating that warrants a risk weight of 150%, all unrated claims on the same counterparty, whether long term or short term, receive a 150% risk weight.

*Issuer Ratings*

- Ratings assigned by the credit rating agencies to an entity conveying an opinion on the general creditworthiness of the rated entity are considered as issuer ratings.
- Where multiple issuer ratings are assigned to an entity by various credit rating agencies, the risk weight for the Bank's claims are as follows :
  - (i) If there is only one rating by a chosen credit rating agency for a particular claim, then that rating is used to determine the risk weight of the claim.
  - (ii) If there are two ratings accorded by chosen credit rating agencies, which map into different risk weights, the higher risk weight is applied.
  - (iii) If there are three or more ratings accorded by chosen credit rating agencies with different risk weights, the ratings corresponding to the two lowest risk weights are referred to and the higher of those two risk weights is applied, i.e., the second lowest risk weight.
- The risk weight assigned to claims on counterparty based on issuer ratings are as those mentioned under Issue Specific Ratings.

## 6 Credit Risk Mitigation : Disclosures for Standardised Approach

***Policies and process***

The Bank's Credit Policies & Procedures Manual and Product Programs include the risk mitigation and collateral management policy of the Bank. The policy covers aspects on the nature of risk mitigants / collaterals acceptable to the Bank, the documentation and custodial arrangement of the collateral, the valuation manner and periodicity etc.

For purposes of computation of capital requirement for Credit Risk, the Bank recognizes only those collaterals that are considered as eligible for risk mitigation in RBI guidelines, which are as follows :

- Cash deposit with the Bank
- Gold, including bullion and jewelry
- Securities issued by Central and State Governments
- Kisan Vikas Patra and National Savings Certificates (Kisan Vikas Patra is a safe and long term investment option backed by the Government of India and provides interest income similar to bonds; National Savings Certificates are certificates issued by the Department of Post, Government of India – it is a long term safe savings option for the investor and combines growth in money with reductions in tax liability as per the provisions of the Indian Income Tax Act, 1961)
- Life insurance policies with a declared surrender value of an insurance company which is regulated by the insurance sector regulator
- Debt securities rated at least BBB (-) / PR3 / P3 / F3 / A3
- Units of Mutual Funds, where the investment is in instruments mentioned above

The Bank uses the comprehensive approach in capital assessment. In the comprehensive approach, when taking collateral, the Bank calculates the adjusted exposure to a counterparty for capital adequacy purposes by netting off the effects of that collateral. The Bank adjusts the value of any collateral by a haircut to take account of possible future fluctuations in the value of the security occasioned by market movements.

For purposes of capital calculation and risk based pricing, the Bank recognises the credit protection given by the following entities, considered eligible as per RBI guidelines :

- Sovereign, entities including Bank for International Settlements (BIS), International Monetary Fund (IMF), European Central Bank and European Community as well as Multilateral Development Banks approved by RBI for the purpose, Export Credit Guarantee Corporation of India (ECGC) and Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), banks and primary dealers with a lower risk weight than the counterparty.
- Other entities externally rated AA(-) or better or equivalent. This would include guarantee cover provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.

The credit risk mitigation taken is largely in the form of cash deposit with the Bank and thus the risk (credit and market) concentration of the mitigants is low.

***Exposure covered by financial collateral post haircuts***

Total exposure that is covered by eligible financial collateral after the application of haircuts is given below :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Total exposure covered by eligible financial collateral | 14,685.53 | 13,495.21 |

***Exposure covered by guarantees / credit derivatives***

The total exposure for each separately disclosed credit risk portfolio that is covered by guarantees / credit derivatives is given below :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Total exposure covered by guarantees | 1,874.24 | 1,909.71 |

## 7 Securitisation Exposures

***Objectives, Policies, Monitoring***

The Bank undertakes securitization / loan assignment transactions with the objective of maximizing return on capital employed, managing liquidity, meeting priority sector lending requirements and maximizing yield on asset opportunities.

The RBI issued 'Revised Securitisation Guidelines' on May 7, 2012 (hereinafter, the 'revised securitisation guidelines') covering both securitisation and loan assignment transactions separately. The said guidelines define minimum holding period and retention requirements. The guidelines also cover due diligence, credit monitoring, stress testing requirements etc. For loan assignment transactions, credit enhancement has been disallowed under the revised guidelines.

The Bank undertakes both 'purchase' and 'sale', transactions through both securitization and loan assignment routes. For this purpose, the Bank has Board approved policies for securitization & loan assignment transactions. Sale transactions undertaken by the Bank meet the 'True Sale' criteria stipulated by RBI.

The Bank participates in securitisation and loan assignment transactions in the following roles :

- **Originator / Seller**

  The Bank sources and books assets in its book and subsequently down-sells them through the securitization or assignment route.

- **Servicing and collection agent**

  For assets sold, the Bank undertakes the activity of collections and other servicing activities such as managing collections and monthly payouts to investors / assignee with respect to the underlying assets.

- **Investor**

  The Bank invests in Pass Through Certificates (PTCs) seeking yield and priority sector lending opportunities.

- **Assignee**

  The Bank purchases loans through the direct assignment route for asset opportunities.

- **Liquidity facility provider**

  In case of sale transactions undertaken through the securitisation route, the Bank may also provide liquidity facility for these transactions. The liquidity facility is a type of credit support used to meet temporary collection mismatches on account of timing differences between the receipt of cash flows from the underlying performing assets and the fulfillment of obligations to the beneficiaries. The Bank may also undertake to be a third party liquidity facility provider for other securitisation transactions. The Bank does not provide liquidity facilities on direct assignment transactions undertaken subsequent to the revised securitisation guidelines.

- **Credit enhancement provider**

  Under the revised securitisation guidelines, the Bank may provide credit enhancement on securitization 'sale' transactions undertaken by the Bank / a third party for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold. The Bank does not provide credit enhancements on direct assignment transactions undertaken subsequent to the revised securitisation guidelines.

- **Underwriter**

  The Bank may underwrite in whole or part of an issuance of securitised debt instruments, with the intent of selling them at a later stage subject to stipulations under the extant RBI guidelines.

The major risks inherent in securitisation / loan assignment transactions are given below :

- **Credit Risk**

  In case of securitisation transactions, where credit enhancement by the originator or any third party is permitted under the revised guidelines, the investor bears the loss in the event of the shortfalls in the transaction in excess of the credit enhancement provided. In case credit enhancement is provided in the form of a corporate guarantee, the investor bears the loss that could arise from a downgrade in the rating of the corporate guarantee provider. In case of loan assignment transactions, the assignee bears the loss arising from defaults / delinquencies by the underlying obligors.

- **Market Risk :**

  ✓ **Liquidity Risk**

  This is the risk arising on account of absence of a secondary market, which provides exit options to the investor/ participant. This risk would be applicable only in case of securitisation transactions.

  ✓ **Interest Rate Risk**

  This is the mark-to-market risk arising on account of interest rate fluctuations.

- **Prepayment Risk**

  Prepayments in the securitised / assigned pool result in early amortisation and loss of future interest (re-investment risk) to the investor on the amounts.

- **Co-mingling Risk**

  This is the risk arising from co-mingling of funds belonging to the investor(s) with those of the originator and / or servicer. This risk occurs when there is a time lag between collection of amounts due from the obligors and payouts made to the investors / assignee.

- **Servicer Risk**

  Servicer risk is the risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors and operational difficulties in processing the payments. In long tenor pools, the investor is exposed to the risk of servicer defaulting or discontinuing its operations in totality.

- **Regulatory and Legal Risk**

  These are risks arising on account of non-compliance of transaction structures with the extant regulatory guidelines which may result in higher risk weight and hence, higher capital charge being applied on the transaction or the Bank not being able to classify the transactions as priority sector lending. These risks also arise when transactions are not compliant with applicable laws which may result in the transaction being rendered invalid. Conflict between the provisions of the transaction documents and those of the underlying financial facility agreement or non-enforceability of security/claims due to imperfection in execution of the underlying facility agreements with the borrowers could also lead to an increase in legal risk. Risk could also arise due to issues on interpretation of tax laws leading to changes in scheduled transaction cash flows.

The overall framework for both securitisation and loan assignment transactions is specified in the respective Board approved policies. The said policies define the covenants for evaluation and the key requirements that need to be adhered to for all such transactions such as the Minimum Holding Period (MHP) and Minimum Retention Requirement (MRR) stipulations, credit enhancement (for securitisation transactions), structure, rating and accounting treatment. Additionally, for purchase transactions, the Bank examines parameters such as the profile and track record of the originator, the type and nature of underlying assets, pool characteristics, findings of due diligence audits and rating (if applicable), credit enhancement provided and listing status (in case of securitisation).

The Bank also has a process for monitoring the performance of all pools purchased under securitisation or the loan assignment route (both prior to as well as post the issuance of the revised securitisation guidelines) basis inputs received from the servicing agent / trustee. The performance of pools is measured by analysing parameters such as collection ratios, delinquencies, credit enhancement utilisation and level of available credit enhancement (where applicable). The Bank undertakes regular escalation to the Management on performance of pools which show concerning trends. In case of sold pools, a memorandum on transactions undertaken is put up to the Audit & Compliance Committee of the Board on a quarterly basis.

***Accounting policy for securitisation transactions***

The Bank securitises out its receivables, subject to the minimum holding period criteria and the minimum retention requirements of RBI, to Special Purpose Vehicles ('SPVs') in securitisation transactions. Such securitised-out receivables are de-recognised in the balance sheet when they are sold (true sale criteria being fully met with) and consideration is received by the Bank. Sales / transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings. In respect of receivable pools securitised-out, the Bank provides liquidity and credit enhancements, as specified by the rating agencies, in the form of cash collaterals / guarantees and / or by subordination of cash flows, not exceeding 20% of the total securitised instruments, in line with RBI guidelines. The Bank also acts as a servicing agent for receivable pools securitised-out.

The Bank also enters into transactions for transfer of standard assets through the direct assignment of cash flows, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by Pass through Certificates ('PTCs'), subject to the RBI prescribed minimum holding period criteria and the minimum retention requirements. The RBI issued revised securitisation guidelines on securitisation of standard assets vide its circular dated May 7, 2012. Accordingly, the Bank does not provide liquidity or credit enhancements on the direct assignment transactions undertaken subsequent to these guidelines.

Pursuant to the revised securitisation guidelines, the Bank amortises any profit received in cash for every individual securitisation or direct assignment transaction at the end of every financial year. This amortisation is calculated as the maximum of either of the three parameters stated below :

- the losses incurred on the portfolio, including marked-to-market losses in case of securitisation transactions, specific provisions, if any, and direct write-offs made on the MRR and any other exposures to the securitisation transaction (other than credit enhancing interest only strip); or
- the amount of unamortised cash profit at the beginning of the year multiplied by the amount of principal amortised during the year as a proportion to the amount of unamortised principal at the beginning of the year; or
- the amount of unamortised cash profit at the beginning of the year divided by residual maturity of the securitisation or the direct assignment transaction.

In relation to securitisation transactions undertaken prior to the said revised securitisation guidelines, including those undertaken through the direct assignment route, the Bank continues to amortise the profit / premium that arose on account of sale of receivables over the life of the securities sold, in accordance with the RBI guidelines on securitisation of standard assets issued vide its circular dated February 1, 2006.

Any loss arising on account of sale of receivables is recognised in the Statement of Profit and Loss for the period in which the sale occurs in accordance with the said RBI guidelines.

The Bank invests in PTCs issued by other SPVs. These are accounted for at the deal value and are classified as investments. The Bank also buys loans through the direct assignment route which are classified as advances. These are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised based on effective interest rate (EIR) method.

***External credit rating agencies***

In the banking book, following were the external credit rating agencies involved with the Bank's securitisation and loan assignment transactions :

- Credit Analysis and Research Limited (CARE)
- Credit Rating Information Services of India Limited (CRISIL)
- India Ratings and Research Private Limited (earlier known as Fitch India)
- ICRA Limited (ICRA)

The ratings declared / issued by the above agencies were used to cover the following securitisation and loan assignment exposures :

- Securitised debt instruments / PTCs / purchased assets
- Second loss credit enhancement facilities
- Liquidity facilities

***Securitisation exposures in banking book***

- Details of securitisation exposures in banking book **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Amount securitised outstanding | 378.72 | 535.50 |
| Amount securitised during the year* | - | - |
| Losses recognised during the current period for auto and commercial vehicle exposures securitised earlier | 0.03 | 0.68 |
| Amount of assets intended to be securitised within a year** | - | - |
| *Of which amount of assets originated within a year before securitisation* | - | - |

** The Bank has not securitised out any component of its standard asset portfolio, impaired/past due assets.*

*** The Bank has made no projection of the assets it intends to securitise-out during the fiscal year beginning April 1, 2013. Securitisation transactions are undertaken on a need basis to meet the objectives articulated under 'Objectives, Policy, Monitoring'.*

- The total amount of exposures securitised and unrecognised gain or losses on sale **(₹ crore)**

| Exposure Type | March 31, 2013 | | March 31, 2012 | |
|---|---|---|---|---|
| | Outstanding amount of exposures securitised | Outstanding unrecognised gain or loss on sale | Outstanding amount of exposures securitised | Outstanding unrecognised gain or loss on sale |
| Auto loans | 1.94 | - | 30.41 | - |
| Commercial vehicle loans | 0.14 | - | 2.95 | - |
| Loans against property and rent receivables | 113.65 | - | 150.94 | - |
| Housing loans | 262.99 | - | 351.20 | - |
| **Total** | **378.72** | **-** | **535.50** | **-** |

- Aggregate amount of on-balance sheet securitisation exposures retained or purchased **(₹ crore)**

| Exposure Type | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Commercial vehicle loans | 246.94 | 750.00 |
| Housing loans | 16,516.24 | 13,928.50 |
| Personal loans | 10.89 | 54.94 |
| Two wheeler loans | 1.63 | 5.73 |
| Mixed assets* | 305.54 | 758.45 |
| Construction equipment loans | - | 65.39 |
| Tractor loans | 307.11 | 720.62 |
| **Total** | **17,388.35** | **16,283.63** |

** includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.*

- Aggregate amount of off-balance sheet securitisation exposures **(₹ crore)**

| Exposure type* | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Housing loans | 173.12 | 175.96 |
| Mixed assets** | 188.46 | 190.67 |
| Commercial vehicle loans | - | 0.44 |
| **Total** | **361.58** | **367.07** |

** includes liquidity facility amounting to ₹ 8.10 crore as of March 31, 2013 (previous year : ₹ 8.10 crore) which is risk weighted for capital adequacy purposes.*

*** includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.*

- Aggregate amount of securitisation exposures retained or purchased and the associated capital charges, broken down between exposures and further broken down into different risk weight bands for each regulatory capital approach : **(₹ crore)**

| Risk weight bands | Exposure type | March 31, 2013 | | March 31, 2012 | |
|---|---|---|---|---|---|
| | | Exposure | Capital charge | Exposure | Capital charge |
| Less than 100% | Housing loans | 11,717.74 | 534.34 | 9,599.59 | 440.06 |
| | Commercial vehicle loans | 245.25 | 16.55 | 745.31 | 50.31 |
| | Mixed assets* | 302.66 | 20.43 | 698.58 | 47.15 |
| | Tractor loans | 307.11 | 20.73 | 720.62 | 48.64 |
| | Construction equipment loans | - | - | 65.39 | 4.41 |
| At 100% | Housing loans | 4,765.19 | 428.87 | 4,279.64 | 385.17 |
| More than 100% | Housing loans | 33.31 | 3.75 | 49.27 | 5.54 |
| | Commercial vehicle loans | 1.69 | 0.19 | 4.69 | 0.53 |
| | Personal loans | 10.89 | 1.23 | 54.94 | 6.18 |
| | Mixed assets* | 2.88 | 0.32 | 59.87 | 6.74 |
| | Two wheeler loans | 1.63 | 0.18 | 5.73 | 0.64 |
| | **Total** | **17,388.35** | **1,026.59** | **16,283.63** | **995.37** |

** includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.*

- Exposures that have been deducted entirely from Tier I capital, credit enhancing Interest Only Strips (I/Os) deducted from total capital and other exposures deducted from total capital :

**As on March 31, 2013** **(₹ crore)**

| Exposure type | Exposure deducted entirely from Tier I capital | Credit enhancing I/Os deducted from total capital | Other exposure deducted from total capital |
|---|---|---|---|
| Commercial vehicle loans | - | - | - |
| Mixed assets* | - | - | 180.36 |
| Housing loans | - | - | 173.12 |
| **Total** | **-** | **-** | **353.48** |

** includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.*

**As on March 31, 2012** **(₹ crore)**

| Exposure type | Exposure deducted entirely from Tier I capital | Credit enhancing I/Os deducted from total capital | Other exposure deducted from total capital |
|---|---|---|---|
| Commercial vehicle loans | - | - | 0.44 |
| Mixed assets* | - | - | 182.57 |
| Housing loans | - | - | 175.96 |
| **Total** | **-** | **-** | **358.97** |

** includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.*

***Securitisation exposures in trading book***

- Aggregate amount of exposure securitised-out for which some exposure has been retained and which is subject to market risk approach, as of March 31, 2013 was ₹ 0.57 crore (previous year : Nil). The exposure type was commercial vehicle loans.
- Aggregate amount of on-balance sheet securitisation exposures retained or purchased : **(₹ crore)**

| Exposure type | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Hire purchase receivables | 2.78 | 7.64 |
| Housing loans | 235.33 | 309.44 |
| Mixed assets* | 306.06 | - |
| Commercial vehicle loans | 78.13 | - |
| Tractor loans | 76.39 | - |
| Micro finance | 14.91 | - |
| **Total** | **713.60** | **317.08** |

** includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.*

- Off-balance sheet securitisation exposures as of March 31, 2013 were Nil (previous year : Nil).
- Aggregate amount of securitisation exposures retained or purchased, subject to the securitisation framework for specific risk broken down into different risk weight bands :
  - ✓ Securitisation exposures broken down into different risk weight bands at book value : **(₹ crore)**

| Risk weight band | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Less than 100% | 698.69 | 317.08 |
| At 100% | 14.91 | - |
| More than 100% | - | - |
| **Total** | **713.60** | **317.08** |

✓ Aggregate amount of capital requirements for securitisation exposures (capital charge) : (₹ crore)

| Risk weight band | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Less than 100% | 30.46 | 12.17 |
| At 100% | 1.43 | - |
| More than 100% | - | - |
| **Total** | **31.89** | **12.17** |

- Securitisation exposures that are deducted entirely from Tier I capital, credit enhancing I/Os deducted from total capital and exposures deducted from total capital as on March 31, 2013 were ₹ 2.26 crore (previous year : Nil). The exposure type was commercial vehicle loans.

## 8 Market Risk in Trading Book

***Market Risk Management Process***

The Market Risk management process at the Bank consists of identification and measurement of risks, control measures and reporting systems. It ensures that the risk taking of the Bank's treasury desks is within the risk appetite encapsulated within the treasury limits package that is approved by the Board, risk appetite is handed down as limits to the various treasury desks and limits are monitored by the treasury mid office and reported as per the guidelines laid down from time to time.

***Market Risk Architecture***

The market risk process includes the following key participants :

- The Risk Policy and Monitoring Committee of the Board, inter-alia, approves the Bank's market risk policies and procedures, approves and reviews limits for the Bank's Treasury operations.
- The Market Risk Function, covers the market risk limit approval process, lays down risk assessment and monitoring methods, and periodically evaluates the trading portfolio in the deliberations of the various committees as well as bilaterally with Treasury Group.
- The Treasury Mid-Office is responsible for the day-to-day monitoring and reporting of market risk controls, valuations etc. Mid-Office reports any limit breaches to the Senior Management.
- The Investment Committee oversees and reviews any direct investments in shares, convertible bonds, convertible debentures and any other equity linked instruments.
- Treasury Desks among others include Foreign Exchange, Money Market, Interest Rate Trading, Trading Derivatives, Equities and Precious Metal desks which carry out the basic day-to-day management of the various portfolios and the underlying market risk.
- Treasury Analytics unit is responsible for model validation and maintenance of the policy laid down for model valuation and validation including prescription for market data sources, which is further reviewed by Market Risk.

***Market Risk Limits***

Types of limits could include position limits, gap limits, tenor and duration limits, PV01 limits, stop loss trigger level, value-at-risk limits and greek limits. They may or may not apply to all portfolios and will be appropriately selected for market risk controls in the treasury limits package.

The Bank enters into derivative deals with counterparties based on their financial strength and understanding of derivative products and its risks. In this regard the Bank has a Customer Suitability and Appropriateness Policy in place. The Bank sets up appropriate limits having regard to the ability of the counterparty to honor its obligations in the event of crystallization of the exposure. Appropriate credit covenants are stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk.

***Market risk capital requirement*** (₹ crore)

| Risk weight band | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Interest rate risk | 755.25 | 390.44 |
| Equity position risk* | 591.04 | 60.12 |
| Foreign exchange risk (including gold) | 27.00 | 9.00 |
| **Total** | **1,373.29** | **459.56** |

** Effective March 31, 2013, includes capital requirement on investments in units of debt-oriented mutual funds that are considered to exhibit market behaviour similar to equities for the purpose of capital adequacy computation.*

## 9 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***

The Bank's Operational Risk Framework has been reviewed by Risk and Control teams. Key aspects towards effective operational risk management include identification, assessment, review, control and reporting of key operational risks.

*Process and Measurement*

Some of the key principles ingrained in the Bank's business operations towards effective Operational Risk Management include segregation of functions, clear reporting guidelines, well defined processes, operating manuals and job cards, transaction verification and authorization, distributed processing, staff training and strong management team with vast experience in diverse fields. The Bank is in the process of implementing various principles and guidelines laid out in respect of Operational Risk Management by the Basel Committee on Banking Supervision vide Basel II guidelines and by RBI vide its circulars and guidance note on Operational Risk and Advance Measurement Approach guidelines. The Bank's Operational Risk Management Committee oversees implementation of sound operational risk management framework. The Bank has a robust 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.

The Bank has a robust information technology with disaster recovery capability for critical components apart from having an integrated Business Continuity Planning (BCP) initiative for business operations of the Bank. A BCP Committee oversees strategy and implementation of disaster and business continuity framework of the Bank. The Bank has an Information Security Committee which oversees strategy and implementation of information security policies and procedures for the entire Bank.

*Risk Reporting*

As a part of the Bank's 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*

The Bank manages its various operational risks by ways of adopting 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 the Bank to ensure effective implementation. Control and mitigation guidelines are part of various product, process operation manual and documents of the Bank. The Bank covers risk on account of natural disaster through appropriate insurance.

***Operational Risk Capital***

Currently the Bank is following the 'Basic Indicator Approach' for operational risk capital assessment as mandated by RBI.

## 10 Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (IRRBB) refers to the potential adverse financial impact on the Bank's banking book from changes in interest rates. The banking book is comprised of assets and liabilities that are contracted on account of relationship or for steady income and statutory obligations and are generally held till maturity. The Bank carries various assets, liabilities and off-balance sheet items across markets, maturities and benchmarks exposing it to risks from changing interest rates. The Bank's objective is to maintain IRRBB within tolerable limits.

***Strategy and Processes***

The Bank's branches are connected to a central database. Hence for the IRRBB process, the Bank is able to cover the entire balance sheet and also relevant off-balance sheet items. The Bank has an interest rate risk management process, which consists of risk identification, limits setting and risk monitoring.

*Structure and Organization*

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

- **Board of Directors**

  The Board has the overall responsibility for management of risks. The Board decides the risk management policy of the Bank and also sets limits for interest rate risk.

- **Risk Policy & Monitoring Committee of the Board**

  This Committee monitors the Bank's credit and market risk policies and procedures, approves and reviews dealing authorities / limits for the Bank's treasury operations and reviews its risk monitoring systems and risk reporting procedures.

- **Asset Liability Committee (ALCO)**

  ALCO is a decision-making Management committee responsible for balance sheet planning from risk-return perspective including strategic management of interest rate risks. The role of the ALCO includes the following :

  i. Product pricing for deposits and advances

  ii. Deciding the desired maturity profile and mix of incremental assets and liabilities

  iii. Articulating interest rate view of the Bank and deciding on the future business strategy

  iv. Reviewing and articulating funding policy

  v. Ensuring the adherence to the limits set by the Board of Directors

  vi. Determining the structure, responsibilities and controls for managing liquidity and interest rate risk

  vii. Ensuring operational independence of risk management function

  viii. Reviewing stress test results

  ix. Deciding on the transfer pricing policy of the Bank

- **ALM Operational Groups**

  ALM operational groups are comprised of members from the balance sheet management desk (treasury), market risk function, financial control and treasury mid-office. The groups are responsible for analysing, monitoring and reporting the relevant risk profiles to the ALCO or an ALCO sub-committee duly created by the ALCO specifically for this purpose.

*Risk Measurement Systems and reporting*

IRRBB is measured and controlled using both Earnings Perspective (Traditional Gap Analysis) and Economic Value Perspective (Duration Gap Analysis).

Earnings Perspective (Traditional Gap Analysis) measures the sensitivity of net interest income to changes in interest rate over the next 12 months. It involves bucketing of rate sensitive assets, liabilities and off-balance sheet items as per residual maturity/ re-pricing date in various time bands and computing change of income under 200 basis points upward and downward rate shocks over a one year horizon.

Economic Value Perspective (Duration Gap Analysis) calculates the change in the present value of the Bank's expected cash flows for a 200 basis point upward and downward rate shock.

The Bank undertakes periodic stress testing for its banking book based on stress scenarios. This provides a measure to assess the Bank's financial standing from extreme but plausible interest rate fluctuations. The stress testing framework is approved by the Board.

IRRBB is controlled through the use of 'limits' on the above risk measures. Limits are set under the RBI prescribed standard parallel rate shock of 200 basis points on the banking book and trading book. These limits on earnings at risk (EaR) and market value of equity for the above books are approved by the ALCO and Board.

*Risk reporting*

Periodic risk reports are sent to senior management for review. A risk summary is also presented at ALCO meetings.

***Quantification of IRRBB***

The increase / decline in earnings and economic value for an upward / downward rate shock of 200 basis points (bps), broken down by currency, are as follows :

- **Earnings Perspective (impact on net interest income)** **(₹ crore)**

| **Currency** | **If interest rate were to go down by 200 bps** | | **If interest rate were to go up by 200 bps** | |
|---|---|---|---|---|
| | **March 31, 2013** | **March 31, 2012** | **March 31, 2013** | **March 31, 2012** |
| INR | (1,275.38) | (1,004.88) | 1,275.38 | 1,004.88 |
| USD | (186.60) | (74.38) | 186.60 | 74.38 |
| Others | (0.25) | (5.52) | 0.25 | 5.52 |
| **Total** | **(1,462.23)** | **(1,084.78)** | **1,462.23** | **1,084.78** |

- **Economic Value Perspective (impact on market value of equity)** **(₹ crore)**

| **Currency** | **If interest rate were to go down by 200 bps** | | **If interest rate were to go up by 200 bps** | |
|---|---|---|---|---|
| | **March 31, 2013** | **March 31, 2012** | **March 31, 2013** | **March 31, 2012** |
| INR | (638.46) | 429.01 | 638.46 | (429.01) |
| USD | (280.99) | (24.73) | 280.99 | 24.73 |
| Others | (83.68) | (5.48) | 83.68 | 5.48 |
| **Total** | **(1,003.13)** | **398.80** | **1,003.13** | **(398.80)** |

# Independent Auditor's Report on the Consolidated Financial Statements of HDFC Bank Limited, its Subsidiaries and Associates

**To the Board of Directors of HDFC Bank Limited**

**Report on the Consolidated Financial Statements**

1 We have audited the accompanying consolidated financial statements of HDFC Bank Limited ('the Bank') and its subsidiaries and associates (collectively known as 'the Group'), which comprise the consolidated Balance Sheet as at 31 March 2013 and the consolidated Statement of Profit and Loss and the consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

2 Management is responsible for preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

3 We did not audit the financial statements and other financial information of the subsidiaries of the Group whose financial statements reflect total assets of ₹ 901,705 lacs as at 31 March 2013, total revenues of ₹ 120,284 lacs and cash flows of ₹ 1,361 lacs for the year then ended. These financial statements have been audited by other auditors, whose reports have been furnished to us and were relied upon by us for our opinion on the consolidated financial statements of the Group.

4 The financial statements also include ₹ 187 lacs being the Group's proportionate share in the profit of associates which has been recognised on the basis of the audited financial statements available with the Bank. These financial statements have been audited by other auditors, whose reports have been furnished to us and were relied upon by us for our opinion on consolidated financial statements of the Group.

5 The financial statements also include ₹ 101 lacs being the Group's proportionate share in the profit of associates which has been recognised on the basis of the unaudited financial statements available with the Bank.

6 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements.

7 An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

8 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

9 We report that the Consolidated Financial Statements have been prepared by the Bank in accordance with the requirements of Accounting Standards (AS) 21, 'Consolidated financial statements', Accounting Standards (AS) 23, 'Accounting for Investments in Associates in Consolidated Financial Statements' notified pursuant to the Companies (Accounting Standards) Rules, 2006.

10 The Balance Sheet and the Statement of Profit and Loss and the Cash Flow Statement have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.

11 Based on our audit and to the best of our information and according to the explanations given to us and on the consideration of reports of other auditors on separate financial statements and on the consideration of the unaudited financial statements and on other relevant financial information of the components, we are of the opinion that the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India and guidelines issued by Reserve Bank of India in relation to preparation of consolidated financial statements:

(a) in the case of the consolidated Balance Sheet, of the state of affairs of the Group as at 31 March 2013;

(b) in the case of the consolidated Statement of Profit and Loss, of the profit for the year ended on that date; and

(c) in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For **B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

Mumbai
April 23, 2013

# Consolidated Balance Sheet

## As at March 31, 2013

₹ in '000

| | Schedule | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **CAPITAL AND LIABILITIES** | | | |
| Capital | 1 | **4,758,838** | 4,693,377 |
| Reserves and surplus | 2 | **361,668,439** | 297,411,054 |
| Minority interest | 2A | **2,213,370** | 1,836,586 |
| Employees' stock options (grants) outstanding | | **-** | 3,020 |
| Deposits | 3 | **2,960,917,699** | 2,465,395,768 |
| Borrowings | 4 | **394,966,127** | 263,341,540 |
| Other liabilities and provisions | 5 | **352,705,377** | 377,868,771 |
| | **Total** | **4,077,229,850** | 3,410,550,116 |
| **ASSETS** | | | |
| Cash and balances with Reserve Bank of India | 6 | **146,308,790** | 149,916,306 |
| Balances with banks and money at call and short notice | 7 | **129,002,845** | 61,835,314 |
| Investments | 8 | **1,109,604,124** | 967,951,088 |
| Advances | 9 | **2,472,451,151** | 1,988,375,303 |
| Fixed assets | 10 | **27,733,162** | 23,779,126 |
| Other assets | 11 | **192,129,778** | 218,692,979 |
| | **Total** | **4,077,229,850** | 3,410,550,116 |
| Contingent liabilities | 12 | **7,201,238,793** | 8,653,121,484 |
| Bills for collection | | **261,039,630** | 186,924,956 |
| Significant accounting policies and notes to the Consolidated financial statements | 17 & 18 | | |
| The schedules referred to above form an integral part of the Consolidated Balance Sheet | | | |

As per our report of even date.

**For B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

**Mumbai, April 23, 2013**

For and on behalf of the Board

**C. M. Vasudev**
*Chairman*

**Harish Engineer**
*Executive Director*

**Aditya Puri**
*Managing Director*

**Paresh Sukthankar**
*Executive Director*

**Sanjay Dongre**
*Executive Vice President (Legal) & Company Secretary*

**A. N. Roy**
**Bobby Parikh**
**Keki Mistry**
**Partho Datta**
**Renu Karnad**
**Vijay Merchant**
*Directors*

# Consolidated Statement of Profit and Loss

## For the year ended March 31, 2013

₹ in '000

| | | Schedule | Year Ended 31-Mar-13 | Year Ended 31-Mar-12 |
|---|---|---|---|---|
| I | **INCOME** | | | |
| | Interest earned | 13 | **358,610,213** | 281,934,044 |
| | Other income | 14 | **71,329,645** | 59,923,190 |
| | | **Total** | **429,939,858** | 341,857,234 |
| II | **EXPENDITURE** | | | |
| | Interest expended | 15 | **196,954,474** | 151,061,242 |
| | Operating expenses | 16 | **115,518,963** | 94,947,009 |
| | Provisions and contingencies | | **48,463,621** | 43,114,984 |
| | | **Total** | **360,937,058** | 289,123,235 |
| III | **PROFIT** | | | |
| | Net profit for the year | | **69,002,800** | 52,733,999 |
| | Less : Minority interest | | **335,233** | 300,204 |
| | Add : Share in profits of associates | | **28,818** | 36,423 |
| | Consolidated profit for the year attributable to the Group | | **68,696,385** | 52,470,218 |
| | Balance of profit brought forward | | **86,213,878** | 63,269,453 |
| | | **Total** | **154,910,263** | 115,739,671 |
| IV | **APPROPRIATIONS** | | | |
| | Transfer to Statutory Reserve | | **17,020,712** | 13,020,226 |
| | Proposed dividend | | **13,096,639** | 10,095,236 |
| | Tax (including cess) on dividend | | **2,227,394** | 1,638,937 |
| | Dividend (including tax / cess thereon) pertaining to previous year paid during the year | | **44,748** | 21,240 |
| | Transfer to General Reserve | | **6,726,285** | 5,167,091 |
| | Transfer to Capital Reserve | | **858,498** | - |
| | Transfer to / (from) Investment Reserve Account | | **176,636** | (416,937) |
| | Balance carried over to Balance Sheet | | **114,759,351** | 86,213,878 |
| | | **Total** | **154,910,263** | 115,739,671 |
| V | **EARNINGS PER EQUITY SHARE (Face value ₹ 2/- per share)** | | ₹ | ₹ |
| | Basic | | **29.10** | 22.45 |
| | Diluted | | **28.78** | 22.24 |
| | Significant accounting policies and notes to the Consolidaed financial statements | 17 & 18 | | |
| | The schedules referred to above form an integral part of the Consolidated statement of Profit and Loss | | | |

As per our report of even date.

**For B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

**Mumbai, April 23, 2013**

For and on behalf of the Board

**C. M. Vasudev**
*Chairman*

**Harish Engineer**
*Executive Director*

**Aditya Puri**
*Managing Director*

**Paresh Sukthankar**
*Executive Director*

**Sanjay Dongre**
*Executive Vice President (Legal) & Company Secretary*

**A. N. Roy**
**Bobby Parikh**
**Keki Mistry**
**Partho Datta**
**Renu Karnad**
**Vijay Merchant**
*Directors*



HDFC BANK
We understand your world

# Consolidated Cash Flow Statement

## For the year ended March 31, 2013

₹ in '000

| Particulars | Year Ended 31-Mar-13 | Year Ended 31-Mar-12 |
|---|---|---|
| **Cash flows used in operating activities** | | |
| Net profit before income tax | **99,733,715** | **76,411,249** |
| **Adjustments for :** | | |
| Depreciation on fixed assets | 6,632,647 | 5,541,628 |
| (Profit) / loss on revaluation of investments | (348,627) | 897,174 |
| Amortisation of premia on held to maturity investments | 582,183 | 783,012 |
| Provision / charge for non performing assets | 13,669,770 | 11,879,972 |
| Floating provisions | 4,000,000 | 7,000,000 |
| Provision for standard assets | 1,339,890 | 1,573,393 |
| Provision for wealth tax | 6,108 | 5,617 |
| Contingency provision | (1,337,473) | (1,587,646) |
| (Profit) / loss on sale of fixed assets | 10,385 | (12,420) |
| Provision / charge for diminution in value of investment | 537,294 | 934,030 |
| | **124,825,892** | **103,426,009** |
| **Adjustments for :** | | |
| (Increase) / decrease in investments | (142,403,428) | (267,769,643) |
| (Increase) / decrease in advances | (497,182,761) | (391,941,115) |
| Increase / (decrease) in deposits | 495,521,931 | 382,523,632 |
| (Increase) / decrease in other assets | 33,359,910 | (66,454,847) |
| Increase / (decrease) in other liabilities and provisions | (34,229,915) | 74,606,012 |
| | **(20,108,371)** | **(165,609,952)** |
| Direct taxes paid (net of refunds) | (38,336,069) | (28,202,444) |
| **Net cash flow used in operating activities** | **(58,444,440)** | **(193,812,396)** |
| **Cash flows used in investing activities** | | |
| Purchase of fixed assets | (9,107,375) | (6,886,199) |
| Proceeds from sale of fixed assets | 45,519 | 45,052 |
| Investment in subsidiaries and / or joint ventures | (28,817) | (28,994) |
| **Net cash used in investing activities** | **(9,090,673)** | **(6,870,141)** |

## For the year ended March 31, 2013

₹ in '000

| Particulars | Year Ended 31-Mar-13 | Year Ended 31-Mar-12 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Increase in minority interest | 376,784 | 619,965 |
| Money received on exercise of stock options by employees | 11,171,001 | 5,306,602 |
| Proceeds from issue of upper and lower Tier II capital instruments | 60,470,000 | 36,500,000 |
| Redemption of subordinated debt | - | (2,000) |
| Increase / (decrease) in borrowings (excluding subordinate debt, perpetual debt and upper tier II instruments) | 70,813,587 | 80,339,147 |
| Dividend paid during the year | (10,135,020) | (7,716,703) |
| Tax on dividend | (1,643,901) | (1,247,276) |
| **Net cash generated from financing activities** | **131,052,451** | **113,799,735** |
| **Effect of exchange fluctuation on translation reserve** | **42,672** | **251,651** |
| **Net increase / (decrease) in cash and cash equivalents** | **63,560,010** | **(86,631,151)** |
| **Cash and cash equivalents as at April 1st** | **211,751,624** | **298,382,775** |
| **Cash and cash equivalents as at March 31st** | **275,311,634** | **211,751,624** |

As per our report of even date.

**For B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

**Mumbai, April 23, 2013**

For and on behalf of the Board

**C. M. Vasudev**
*Chairman*

**Harish Engineer**
*Executive Director*

**Aditya Puri**
*Managing Director*

**Paresh Sukthankar**
*Executive Director*

**Sanjay Dongre**
*Executive Vice President (Legal) & Company Secretary*

**A. N. Roy**
**Bobby Parikh**
**Keki Mistry**
**Partho Datta**
**Renu Karnad**
**Vijay Merchant**
*Directors*



HDFC BANK
We understand your world

# As at March 31, 2013

₹ in '000

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **SCHEDULE 1 - CAPITAL** | | | |
| **Authorised capital** | | | |
| 2,75,00,00,000 (31 March, 2012 : 2,75,00,00,000) Equity shares of ₹ 2/- each | | **5,500,000** | 5,500,000 |
| **Issued, subscribed and paid-up capital** | | | |
| 2,37,94,19,030 (31 March, 2012 : 2,34,66,88,270) Equity shares of ₹ 2/- each | | **4,758,838** | 4,693,377 |
| | **Total** | **4,758,838** | 4,693,377 |
| **SCHEDULE 2 - RESERVES AND SURPLUS** | | | |
| **I Statutory reserve** | | | |
| Opening balance | | **53,248,271** | 40,228,045 |
| Additions during the year | | **17,020,712** | 13,020,226 |
| | **Total** | **70,268,983** | 53,248,271 |
| **II General reserve** | | | |
| Opening balance | | **19,402,716** | 14,235,625 |
| Additions during the year | | **6,726,285** | 5,167,091 |
| | **Total** | **26,129,001** | 19,402,716 |
| **III Balance in profit and loss account** | | **114,759,351** | 86,213,878 |
| **IV Share premium account** | | | |
| Opening balance | | **124,749,640** | 119,484,158 |
| Additions during the year | | **10,887,109** | 5,265,482 |
| | **Total** | **135,636,749** | 124,749,640 |
| **V Amalgamation reserve** | | | |
| Opening balance | | **10,635,564** | 10,635,564 |
| Additions during the year | | **-** | - |
| | **Total** | **10,635,564** | 10,635,564 |
| **VI Capital reserve** | | | |
| Opening balance | | **2,954,677** | 2,954,677 |
| Additions during the year | | **858,498** | - |
| | **Total** | **3,813,175** | 2,954,677 |
| **VII Investment reserve account** | | | |
| Opening balance | | **-** | 416,937 |
| Additions during the year | | **231,802** | 178 |
| Deductions during the year | | **(55,166)** | (417,115) |
| | **Total** | **176,636** | - |
| **VIII Foreign currency translation account** | | | |
| Opening balance | | **206,308** | (45,343) |
| Additions during the year | | **42,672** | 251,651 |
| | **Total** | **248,980** | 206,308 |
| | **Total** | **361,668,439** | 297,411,054 |



HDFC BANK
We understand your world

## As at March 31, 2013

₹ in '000

| | | | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|---|---|
| **SCHEDULE 2 A - MINORITY INTEREST** | | | | | |
| Minority interest at the date on which parent subsidiary relationship came into existence | | | | **276,029** | 276,029 |
| Subsequent increase | | | | **1,937,341** | 1,560,557 |
| | | | **Total** | **2,213,370** | 1,836,586 |
| *Includes reserves of Employee Welfare Trust of ₹ 56.98 crore (previous year : ₹ 51.50 crore)* | | | | | |
| **SCHEDULE 3 - DEPOSITS** | | | | | |
| **A** | **I** | **Demand deposits** | | | |
| | | (i) From banks | | **10,385,135** | 9,122,028 |
| | | (ii) From others | | **511,964,115** | 443,916,968 |
| | | | **Total** | **522,349,250** | 453,038,996 |
| | **II** | **Savings bank deposits** | | **882,099,711** | 739,974,624 |
| | **III** | **Term deposits** | | | |
| | | (i) From banks | | **14,278,854** | 13,839,859 |
| | | (ii) From others | | **1,542,189,884** | 1,258,542,289 |
| | | | **Total** | **1,556,468,738** | 1,272,382,148 |
| | | | **Total** | **2,960,917,699** | 2,465,395,768 |
| **B** | **I** | **Deposits of branches in India** | | **2,944,855,098** | 2,456,037,952 |
| | **II** | **Deposits of branches outside India** | | **16,062,601** | 9,357,816 |
| | | | **Total** | **2,960,917,699** | 2,465,395,768 |
| **SCHEDULE 4 - BORROWINGS** | | | | | |
| **I** | **Borrowings in India** | | | | |
| | (i) Reserve Bank of India | | | **2,750,000** | 400,000 |
| | (ii) Other banks | | | **46,706,913** | 28,689,710 |
| | (iii) Other institutions and agencies | | | **43,830,200** | 33,062,425 |
| | (iv) Upper and lower Tier II capital and innovative perpetual debt | | | **166,439,000** | 105,969,000 |
| | | | **Total** | **259,726,113** | 168,121,135 |
| **II** | **Borrowings outside India*** | | | **135,240,014** | 95,220,405 |
| | | | **Total** | **394,966,127** | 263,341,540 |
| **Includes Upper Tier II debt of ₹ 542.85 crore (previous year : ₹ 508.75 crore)* | | | | | |
| *Secured borrowings included in I & II above : ₹ 5,759.80 crore (previous year : ₹ 2,302.97 crore)* | | | | | |
| **SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS** | | | | | |
| I | Bills payable | | | **54,787,708** | 54,657,302 |
| II | Interest accrued | | | **63,733,348** | 52,150,518 |
| III | Others (including provisions) | | | **208,300,224** | 250,118,897 |
| IV | Contingent provisions against standard assets | | | **10,560,063** | 9,207,881 |
| V | Proposed dividend (including tax on dividend) | | | **15,324,034** | 11,734,173 |
| | | | **Total** | **352,705,377** | 377,868,771 |



HDFC BANK
We understand your world

## As at March 31, 2013

₹ in '000

| | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|
| **SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA** | | |
| I Cash in hand (including foreign currency notes) | **50,112,036** | 43,075,004 |
| II Balances with Reserve Bank of India in : | | |
| (a) Current accounts | **94,196,754** | 104,841,302 |
| (b) Other accounts | **2,000,000** | 2,000,000 |
| **Total** | **96,196,754** | 106,841,302 |
| **Total** | **146,308,790** | 149,916,306 |
| **SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE** | | |
| **I In India** | | |
| (i) Balances with banks : | | |
| (a) In current accounts | **3,346,215** | 1,635,807 |
| (b) In other deposit accounts | **49,002,392** | 20,891,080 |
| **Total** | **52,348,607** | 22,526,887 |
| (ii) Money at call and short notice : | | |
| (a) With banks | **17,850,000** | 2,700,000 |
| (b) With other institutions | **-** | 2,157,684 |
| **Total** | **17,850,000** | 4,857,684 |
| **Total** | **70,198,607** | 27,384,571 |
| **II Outside India** | | |
| (i) In current accounts | **5,876,363** | 1,534,618 |
| (ii) In other deposit accounts | **8,142,750** | 4,070,000 |
| (iii) Money at call and short notice | **44,785,125** | 28,846,125 |
| **Total** | **58,804,238** | 34,450,743 |
| **Total** | **129,002,845** | 61,835,314 |
| **SCHEDULE 8 - INVESTMENTS** | | |
| **A Investments in India in** | | |
| (i) Government securities | **849,023,184** | 762,178,489 |
| (ii) Other approved securities | **-** | 4,919 |
| (iii) Shares | **1,418,665** | 1,018,356 |
| (iv) Debentures and bonds | **17,269,037** | 9,636,860 |
| (v) Joint venture | **508,300** | 479,483 |
| (vi) Others (units, CD / CP, PTC, security receipts and NABARD deposits) | **236,353,772** | 194,626,948 |
| **Total** | **1,104,572,958** | 967,945,055 |
| **B Investments outside India in** | | |
| Other investments | | |
| (a) Shares | **9,396** | 6,033 |
| (b) Debentures and bonds | **5,021,770** | - |
| **Total** | **5,031,166** | 6,033 |
| **Total** | **1,109,604,124** | 967,951,088 |

## As at March 31, 2013

₹ in '000

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **C Investments** | | | |
| **(i) Gross value of investments** | | | |
| (a) In India | | **1,106,955,742** | 970,214,373 |
| (b) Outside India | | **5,031,166** | 6,033 |
| | **Total** | **1,111,986,908** | 970,220,406 |
| **(ii) Provision for depreciation** | | | |
| (a) In India | | **2,382,784** | 2,269,318 |
| (b) Outside India | | **-** | - |
| | **Total** | **2,382,784** | 2,269,318 |
| **(iii) Net value of investments** | | | |
| (a) In India | | **1,104,572,958** | 967,945,055 |
| (b) Outside India | | **5,031,166** | 6,033 |
| | **Total** | **1,109,604,124** | 967,951,088 |

### SCHEDULE 9 - ADVANCES

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| A (i) Bills purchased and discounted | | **123,219,205** | 122,124,431 |
| (ii) Cash credits, overdrafts and loans repayable on demand | | **945,869,566** | 686,271,861 |
| (iii) Term loans | | **1,403,362,380** | 1,179,979,011 |
| | **Total** | **2,472,451,151** | 1,988,375,303 |
| *Loans with tenor of less than one year are classified under A (ii) above* | | | |
| B (i) Secured by tangible assets* | | **1,832,585,009** | 1,449,166,862 |
| (ii) Covered by bank / government guarantees | | **61,551,311** | 55,552,871 |
| (iii) Unsecured | | **578,314,831** | 483,655,570 |
| | **Total** | **2,472,451,151** | 1,988,375,303 |
| ** Including advances against book debts* | | | |
| C I Advances in India | | | |
| (i) Priority sector | | **770,444,752** | 643,340,467 |
| (ii) Public sector | | **84,217,368** | 70,538,519 |
| (iii) Banks | | **917,007** | 3,714,239 |
| (iv) Others | | **1,520,913,534** | 1,211,566,378 |
| | **Total** | **2,376,492,661** | 1,929,159,603 |
| II Advances outside India | | | |
| (i) Due from banks | | **18,469,102** | 18,418,646 |
| (ii) Due from others | | | |
| a) Bills purchased and discounted | | **409,362** | 35,333 |
| b) Syndicated loans | | **13,623,839** | 13,166,585 |
| c) Others | | **63,456,187** | 27,595,136 |
| | **Total** | **95,958,490** | 59,215,700 |
| *Advances are net of provisions* | **Total** | **2,472,451,151** | 1,988,375,303 |

# As at March 31, 2013

₹ in '000

| | | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|---|
| **SCHEDULE 10 - FIXED ASSETS** | | | | |
| A | **Premises** (including land) | | | |
| | **Gross block** | | | |
| | At cost on 31 March of the preceding year | | **10,519,672** | 10,272,964 |
| | Additions during the year | | **1,140,440** | 262,354 |
| | Deductions during the year | | **(17,718)** | (15,646) |
| | | **Total** | **11,642,394** | 10,519,672 |
| | **Depreciation** | | | |
| | As at 31 March of the preceding year | | **2,488,876** | 2,106,522 |
| | Charge for the year | | **443,998** | 394,596 |
| | On deductions during the year | | **(15,981)** | (12,242) |
| | | **Total** | **2,916,893** | 2,488,876 |
| | **Net block** | | **8,725,501** | 8,030,796 |
| B | **Other fixed assets** (including furniture and fixtures) | | | |
| | **Gross block** | | | |
| | At cost on 31 March of the preceding year | | **45,181,384** | 38,468,673 |
| | Additions during the year | | **9,504,932** | 7,084,005 |
| | Deductions during the year | | **(772,373)** | (370,235) |
| | | **Total** | **53,913,943** | 45,182,443 |
| | **Depreciation** | | | |
| | As at 31 March of the preceding year | | **29,434,114** | 24,625,703 |
| | Charge for the year | | **6,190,167** | 5,148,998 |
| | On deductions during the year | | **(717,999)** | (340,588) |
| | | **Total** | **34,906,282** | 29,434,113 |
| | **Net block** | | **19,007,661** | 15,748,330 |
| C | **Assets on lease** (plant and machinery) | | | |
| | **Gross block** | | | |
| | At cost on 31 March of the preceding year | | **4,546,923** | 4,546,923 |
| | Additions during the year | | **-** | - |
| | | **Total** | **4,546,923** | 4,546,923 |

## As at March 31, 2013

₹ in '000

| | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|
| **Depreciation** | | | |
| As at 31 March of the preceding year | | **4,104,467** | 4,104,467 |
| Charge for the year | | **-** | - |
| | **Total** | **4,104,467** | 4,104,467 |
| **Lease adjustment account** | | | |
| As at 31 March of the preceding year | | **442,456** | 442,456 |
| Charge for the year | | **-** | - |
| | **Total** | **442,456** | 442,456 |
| **Unamortised cost of assets on lease** | | **-** | - |
| | **Total** | **27,733,162** | 23,779,126 |

### SCHEDULE 11 - OTHER ASSETS

| | | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|---|
| I | Interest accrued | | **39,225,430** | 32,014,775 |
| II | Advance tax / tax deducted at source (net of provisions) | | **15,915,695** | 12,131,614 |
| III | Stationery and stamps | | **165,999** | 165,891 |
| IV | Non banking assets acquired in satisfaction of claims | | **-** | 311 |
| V | Bond and share application money pending allotment | | **29,333** | - |
| VI | Security deposit for commercial and residential property | | **4,125,210** | 3,771,693 |
| VII | Others* | | **132,668,111** | 170,608,695 |
| | | **Total** | **192,129,778** | 218,692,979 |

** Includes deferred tax asset (net) of ₹1,913.06 crores (previous year : ₹ 1,465.34 crores)*

### SCHEDULE 12 - CONTINGENT LIABILITIES

| | | | As at 31-Mar-13 | As at 31-Mar-12 |
|---|---|---|---|---|
| I | Claims against the bank not acknowledged as debts - taxation | | **9,351,700** | 13,569,384 |
| II | Claims against the bank not acknowledged as debts - others | | **3,987,800** | 2,884,893 |
| III | Liability on account of outstanding forward exchange contracts | | **4,467,860,687** | 5,648,764,494 |
| IV | Liability on account of outstanding derivative contracts | | **2,292,213,027** | 2,626,390,521 |
| V | Guarantees given on behalf of constituents | | | |
| | - In India | | **162,354,071** | 133,170,215 |
| | - Outside India | | **3,993,576** | 436,144 |
| VI | Acceptances, endorsements and other obligations | | **220,595,426** | 209,182,124 |
| VII | Other items for which the bank is contingently liable | | **40,882,506** | 18,723,709 |
| | | **Total** | **7,201,238,793** | 8,653,121,484 |

## For the year ended March 31, 2013

₹ in '000

| | | | Year Ended 31-Mar-13 | Year Ended 31-Mar-12 |
|---|---|---|---|---|
| **SCHEDULE 13 - INTEREST EARNED** | | | | |
| I | Interest / discount on advances / bills | | **275,912,115** | 214,250,740 |
| II | Income from investments | | **78,242,820** | 65,061,806 |
| III | Interest on balance with RBI and other inter-bank funds | | **3,019,141** | 1,540,385 |
| IV | Others | | **1,436,137** | 1,081,113 |
| | | **Total** | **358,610,213** | 281,934,044 |
| **SCHEDULE 14 - OTHER INCOME** | | | | |
| I | Commission, exchange and brokerage | | **54,426,310** | 45,210,266 |
| II | Profit / (loss) on sale of investments (net) | | **1,278,691** | (1,061,376) |
| III | Profit / (loss) on revaluation of investments (net) | | **348,627** | (897,174) |
| IV | Profit / (loss) on sale of building and other assets (net) | | **(10,385)** | 12,420 |
| V | Profit on exchange transactions (net) | | **12,317,708** | 12,653,760 |
| VI | Income earned by way of dividends etc. from subsidiaries / companies and / or joint ventures abroad / in India | | **7,693** | 11,655 |
| VII | Miscellaneous income | | **2,961,001** | 3,993,639 |
| | | **Total** | **71,329,645** | 59,923,190 |
| **SCHEDULE 15 - INTEREST EXPENDED** | | | | |
| I | Interest on deposits | | **163,132,026** | 126,846,290 |
| II | Interest on RBI / inter-bank borrowings | | **28,335,378** | 22,087,761 |
| III | Other interest | | **5,487,070** | 2,127,191 |
| | | **Total** | **196,954,474** | 151,061,242 |
| **SCHEDULE 16 - OPERATING EXPENSES** | | | | |
| I | Payments to and provisions for employees | | **42,017,887** | 35,730,909 |
| II | Rent, taxes and lighting | | **8,615,335** | 7,342,370 |
| III | Printing and stationery | | **3,117,920** | 2,349,491 |
| IV | Advertisement and publicity | | **1,870,160** | 1,548,342 |
| V | Depreciation on property | | **6,632,647** | 5,541,628 |
| VI | Directors' fees, allowances and expenses | | **7,701** | 5,103 |
| VII | Auditors' fees and expenses | | **14,612** | 11,725 |
| VIII | Law charges | | **509,569** | 317,465 |
| IX | Postage, telegram, telephone etc. | | **4,147,333** | 3,660,226 |
| X | Repairs and maintenance | | **7,753,007** | 6,257,576 |
| XI | Insurance | | **2,882,090** | 2,421,945 |
| XII | Other expenditure* | | **37,950,702** | 29,760,229 |
| | | **Total** | **115,518,963** | 94,947,009 |

* *Includes marketing expenses, professional fees, commission to sales agents, travel and hotel charges, entertainment, registrar and transfer agency fees and system management fees.*

# For the year ended March 31, 2013

## Schedule 17 - Significant accounting policies appended to and forming part of the consolidated financial statements for the year ended March 31, 2013.

### A BACKGROUND

HDFC Bank Limited ('HDFC Bank' or 'the Bank'), incorporated in Mumbai, India is a publicly held banking company engaged in providing a range of banking and financial services including commercial banking and treasury operations. The Bank is governed by the Banking Regulation Act, 1949. The Bank has overseas branch operations in Bahrain and Hong Kong.

### B PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank, its subsidiaries and associates, which together constitute the 'Group'.

The Bank consolidates its subsidiaries in accordance with Accounting Standard ('AS') 21, Consolidated Financial Statements, notified by the Companies Accounting Standard Rules, 2006 on a line-by-line basis by adding together the like items of assets, liabilities, income and expenditure. Capital reserve / Goodwill on consolidation represent the difference between the Bank's share in the net worth of the subsidiary and the cost of acquisition at the time of making the investment in the subsidiary. Further, the Bank accounts for investments in associates under equity method of accounting in accordance with AS-23, Accounting for Investments in Associates in Consolidated Financial Statements, notified by the Companies Accounting Standard Rules, 2006.

### C BASIS OF PREPARATION

The consolidated financial statements have been prepared and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and are in accordance with Generally Accepted Accounting Principles in India ('GAAP'), statutory requirements prescribed under the Banking Regulation Act 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, Accounting Standards notified under the Companies Accounting Standard Rules, 2006 to the extent applicable and current practices prevailing within the banking industry in India. Suitable adjustments are made to align with the format prescribed under the Banking Regulation Act, 1949.

**Use of estimates**

The preparation of consolidated financial statements in conformity with GAAP requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expense for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision in the accounting estimates is recognised prospectively in the current and future periods.

HDB Financial Services Limited is a non-banking financial company and a subsidiary of the Bank. HDFC Securities Limited is a financial services provider along with broking as core product and a subsidiary of the Bank.

The consolidated financial statements present the accounts of HDFC Bank Limited with its following subsidiaries and associates :

| Name | Relation | Country of incorporation | Ownership interest** |
|---|---|---|---|
| HDFC Securities Limited | Subsidiary | India | 62.1% |
| HDB Financial Services Limited | Subsidiary | India | 97.4% |
| Atlas Documentary Facilitators Company Private Limited | Associate | India | 29.0% |
| International Asset Reconstruction Company Private Limited | Associate | India | 29.4% |
| HBL Global Private Limited | Associate | India | Nil |
| HDB Employee Welfare Trust | * | India | |

* *The accounts of HDB Employee Welfare Trust, a trust established for providing general welfare measures such as medical relief and educational assistance to the employees of the Bank and their dependants has been entirely consolidated.*

** *Denotes HDFC Bank's direct interest.*

Further during the year ended March 31, 2013 the stockholding in HDB Financial Services Limited has decreased from 97.42% to 97.38% on account of 160,150 stock options exercised and allotted to Minority Stakeholders. The stockholding in HDFC Securities Limited has decreased from 63.0% to 62.1% on account of 234,225 stock options exercised and allotted to Minority Stakeholders.

The audited financial statements of the subsidiary companies, entity controlled by the Bank, associates and the un-audited financial statements of an associate have been drawn up to the same reporting date as that of the Bank, i.e. March 31, 2013.

## D PRINCIPAL ACCOUNTING POLICIES

### 1 Investments

*HDFC Bank Limited*

**Classification :**

In accordance with the RBI guidelines on investment classification and valuation, Investments are classified on the date of purchase into "Held for Trading" ('HFT'), "Available for Sale" ('AFS') and "Held to Maturity" ('HTM') categories (hereinafter called "categories"). Subsequent shifting amongst the categories is done in accordance with the RBI guidelines. Under each of these categories, investments are further classified under six groups (hereinafter called "groups") - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint ventures and Other Investments.

Recording purchase and sale transactions in securities is done following 'Settlement Date' accounting, except in the case of equity shares where 'Trade Date' accounting is followed.

**Basis of classification :**

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category.

Investments which the Bank intends to hold till maturity are classified as HTM securities. Investments in the equity of subsidiaries / joint ventures are categorised as HTM in accordance with the RBI guidelines.

Investments which are not classified in the above categories, are classified under AFS category.

**Acquisition cost :**

In determining acquisition cost of an investment :

- Brokerage, Commission, etc. paid at the time of acquisition, are charged to revenue.
- Broken period interest on debt instruments is treated as a revenue item.
- Cost of investments is based on the weighted average cost method.

**Disposal of investments :**

Profit / Loss on sale of investments under the aforesaid three categories is recognised in the Statement of Profit and Loss. The profit from sale of investment under HTM category, net of taxes and transfer to statutory reserve is appropriated from Statement of Profit and Loss to "Capital Reserve" in accordance with the RBI Guidelines.

**Short sale :**

The Bank undertakes short sale transactions in Central Government dated securities in accordance with RBI guidelines. The short position is reflected as the amount received on sale and is classified under 'Other Liabilities'. The short position is marked to market, and loss, if any, is charged to the Statement of Profit and Loss while gain, if any, is not recognised. Profit / Loss on settlement of the short position is recognised in the Statement of Profit and Loss.

**Valuation :**

Investments classified under AFS and HFT categories, are marked to market as per the RBI guidelines.

Traded investments are valued based on the trades / quotes on the recognised stock exchanges, price list of RBI or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed Income Money Market and Derivatives Association ('FIMMDA'), periodically.

The market value of unquoted government securities which qualify for determining the Statutory Liquidity Ratio ('SLR') included in the AFS and HFT categories is computed as per the Yield-to-Maturity ('YTM') rates published by FIMMDA.

The valuation of other unquoted fixed income securities (viz. State Government securities, Other approved securities, Bonds and Debentures) and preference shares, wherever linked to the YTM rates, is done with a mark-up (reflecting associated credit and liquidity risk) over the YTM rates for government securities published by FIMMDA. Special Bonds such as Oil Bonds, Fertilizer Bonds etc. which are directly issued by Government of India ('GOI') that do not qualify for SLR are also valued by applying the mark up above the corresponding yield on GOI securities. Unquoted equity shares are valued at the break-up value, if the latest Balance Sheet is available or at ₹ 1 as per the RBI guidelines. Units of mutual funds are valued at the latest repurchase price / net asset value declared by the mutual fund. Treasury Bills, Commercial Papers and Certificate of Deposits being discounted instruments, are valued at carrying cost. Security receipts are valued as per the Net Asset Value provided by the issuing Asset Reconstruction Company from time to time.

Net depreciation in the value, if any, compared to the acquisition cost, in any of the six groups, is charged to the Statement of Profit and Loss. The net appreciation, if any, in any of the six groups is not recognised except to the extent of depreciation already provided. The valuation of investments includes securities under repo transactions. The book value of individual securities is not changed after the valuation of investments.

Investments classified under HTM category are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortised over the remaining maturity period of the security on a constant yield to maturity basis. Such amortisation of premium is adjusted against interest income under the head "Income from investments" as per the RBI guidelines. Any diminution, other than temporary, in the value of investments in subsidiaries / joint ventures is provided for.

Non-performing investments are identified and depreciation / provision is made thereon based on the RBI guidelines. The depreciation / provision is not set off against the appreciation in respect of other performing securities. Interest on non-performing investments is not recognised in the Profit or Loss Account until received.

**Repo and reverse repo transactions :**

In accordance with the RBI guidelines Repo and Reverse Repo transactions in government securities and corporate debt securities (excluding transactions conducted under Liquidity Adjustment Facility ('LAF') and Marginal Standby Facility ('MSF') with RBI) are reflected as borrowing and lending transactions respectively. Borrowing cost on repo transactions is accounted as interest expense and revenue on reverse repo transactions is accounted as interest income.

In respect of repo transactions under LAF and MSF with RBI, amount borrowed from RBI is credited to investment account and reversed on maturity of the transaction. Costs thereon are accounted for as interest expense. In respect of reverse repo transactions under LAF, amount lent to RBI is debited to investment account and reversed on maturity of the transaction. Revenues thereon are accounted as interest income.

*HDFC Securities Limited*

Investments that are readily realisable and are intended to be held for not more than one year from the date, on which such investments are made, are classified as current investments. All other investments are classified as long term investments. Current investments are carried at cost or fair value, whichever is lower. Long-term investments are carried at cost. However, provision for diminution is made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

*HDB Financial Services Limited*

Investments are expected to mature after twelve months are taken as non current / long term investment & are stated at cost. Provisions are made only in case of diminution, which are not temporary in nature, in the value of Investment. Investments maturing within three months from the date of acquisition are classified as cash equivalents if they are readily convertible into cash  All other investment are taken as Current investments / short term and are valued at lower of cost and net realizable value.

*HDB Employees Welfare Trust*

Investments which are long term in nature are stated at cost. Provisions are made only in case of diminution, which is other than temporary, in the value of Investment.

**2 Advances**

*HDFC Bank Limited*

**Classification :**

Advances are classified as performing and non-performing based on the RBI guidelines and are stated net of bills rediscounted, specific provisions, interest in suspense for non-performing advances, claims received from Export Credit Guarantee Corporation, provisions for funded interest term loan classified as non-performing advances and provisions in lieu of diminution in the fair value of restructured assets. Interest on non-performing advances is transferred to an interest suspense account and not recognised in the Statement of Profit and Loss until received.

**Provisioning :**

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of wholesale and retail advances, subject to the minimum provisioning level prescribed by the RBI. The specific provision levels for retail non-performing assets are also based on the nature of product and delinquency levels. Specific loan loss provisions in respect of non-performing advances are charged to profit and loss and included under Provisions and Contingencies. Recoveries from bad debts written-off are recognised in the Statement of Profit and Loss and included under Other Income. In relation to non-performing derivative contracts, as per the extant RBI guidelines, the Bank makes provision for the entire amount of overdue and future receivables relating to positive marked to market value of the said derivative contracts.

The Bank maintains general provision for standard assets including credit exposures computed as per the current marked to market values of interest rate and foreign exchange derivative contracts and gold at levels stipulated by RBI from time to time. Provision for the standard assets held by the Bank is not reversed. In the case of overseas branches, general provision on standard advances is maintained at the higher of the levels stipulated by the respective overseas regulator or RBI. Provision for standard assets is included under "Other Liabilities".

Provisions made in excess of these regulatory requirements or provisions which are not made with respect to specific non-performing assets are categorised as floating provisions. Creation of further floating provisions is considered by the Bank up to a level approved by the Board of Directors. Floating provisions are not reversed by credit to the Statement of Profit and Loss and can be used only for contingencies under extraordinary circumstances for making specific provisions towards impaired accounts after obtaining Board approval and with prior permission of RBI. Floating provisions have been included under "Other Liabilities".

Further to the provisions required to be held according to the asset classification status, provisions are held for individual country exposures (other than for home country exposure). Countries are categorised into risk categories as per Export Credit Guarantee Corporation of India Limited ('ECGC') guidelines and provisioning is done in respect of that country where the net funded exposure is one percent or more of the Bank's total assets.

In addition to the above, the Bank on a prudential basis makes provisions on advances or exposures which are not NPAs, but has reasons to believe on the basis of the extant environment or specific information, the possible slippage of a specific advance or a group of advances or exposures or potential exposures. These are classified as contingent provisions and included under "Other Liabilities".

The Bank considers a restructured account as one where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of the advance / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of installments / rate of interest (due to reasons other than competitive reasons). Restructured accounts are classified as such by the Bank only upon approval and implementation of the restructuring package. Necessary provision for diminution in the fair value of a restructured account is made. Restructuring of an account is done at a borrower level.

*HDB Financial Services Limited*

Advances are classified as standard, sub-standard and non-performing assets as per the company policy approved by the Board which are more stringent than the relevant RBI guidelines. Interest on non-performing advances is transferred to an interest suspense account and not recognised in the Statement of Profit and Loss until received.

**3 Securitisation and transfer of assets**

*HDFC Bank Limited*

The Bank securitises out its receivables subject to the minimum holding period criteria and the minimum retention requirements of RBI, to Special Purpose Vehicles ('SPVs') in securitisation transactions. Such securitised-out receivables are de-recognised in the Balance Sheet when they are sold (true sale criteria being fully met with) and consideration is received by the Bank. Sales / transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings.

In respect of receivable pools securitised-out, the Bank provides liquidity and credit enhancements, as specified by the rating agencies, in the form of cash collaterals / guarantees and / or by subordination of cash flows, not exceeding 20% of the total securitised instruments, in line with RBI guidelines. The Bank also acts as a servicing agent for receivable pools securitised-out.

The Bank also enters into transactions for transfer of standard assets through the direct assignment of cash flows, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by Pass through Certificates ('PTCs'), subject to the RBI prescribed minimum holding period criteria and the minimum retention requirements ('MRR'). The RBI issued addendum guidelines on securitisation of standard assets vide its circular dated May 7, 2012. Accordingly, the Bank does not provide liquidity or credit enhancements on the direct assignment transactions undertaken subsequent to these guidelines.

Pursuant to these guidelines, the Bank amortises any profit received in cash for every individual securitisation or direct assignment transaction at the end of every financial year. This amortisation is calculated as the maximum of either of the three parameters stated below :

- The losses incurred on the portfolio, including marked-to-market losses in case of securitisation transactions, specific provisions, if any, and direct write-offs made on the MRR and any other exposures to the securitisation transaction (other than credit enhancing interest only strip); or
- The amount of unamortised cash profit at the beginning of the year multiplied by the amount of principal amortised during the year as a proportion to the amount of unamortised principal at the beginning of the year; or
- The amount of unamortised cash profit at the beginning of the year divided by residual maturity of the securitisation or the direct assignment transaction.

In relation to securitisation transactions undertaken prior to the aforementioned RBI guidelines, including those undertaken through the direct assignment route, the Bank continues to amortise the profit / premium that arose on account of sale of receivables over the life of the securities sold, in accordance with the RBI guidelines on securitisation of standard assets issued vide its circular dated February 1, 2006.

Any loss arising on account of sale of receivables is recognised in the Statement of Profit and Loss for the period in which the sale occurs in accordance with the said RBI guidelines.

The Bank transfers advances through inter-bank participation with and without risk. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances and where the Bank is participating, the aggregate amount of the participation is classified under advances. In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings and where the Bank is participating, the aggregate amount of participation is shown as due from banks under advances.

In accordance with RBI guidelines on sale of non-performing advances, if the sale is at a price below the net book value (i.e., book value less provisions held), the shortfall is charged to Statement of Profit and Loss. If the sale is for a value higher than the net book value, the excess provision is not reversed but is utilised to meet the shortfall / loss on account of sale of other non-performing advances.

The Bank invests in PTCs issued by other SPVs. These are accounted for at the deal value and are classified as investments. The Bank also buys loans through the direct assignment route which are classified as advances. These are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised based on effective interest rate (EIR) method.

**4 Fixed assets and depreciation**

*HDFC Bank Limited*

Fixed assets are stated at cost less accumulated depreciation as adjusted for impairment, if any. Cost includes cost of purchase and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is ready to use. Subsequent expenditure incurred on assets put to use is capitalised only when it increases the future benefit / functioning capability from / of such assets.

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The rates of depreciation are not lower than the rates prescribed in Schedule XIV of the Companies Act, 1956. Depreciation rates for certain key fixed assets are given below :

| Asset | Depreciation rate per annum |
|---|---|
| Owned Premises | 1.63% |
| VSATs | 10.00% |
| ATMs | 10.00% |
| Office equipments | 16.21% |
| Computers | 33.33% |
| Motor cars | 25.00% |
| Software and system development expenditure | 20.00% |
| Assets at residences of executives of the Bank | 25.00% |

- Improvements to lease hold premises are charged off over the remaining primary period of lease.
- Items (excluding staff assets) costing less than ₹ 5,000 and point of sale terminals are fully depreciated in the year of purchase.
- All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.
- For assets purchased and sold during the year, depreciation is provided on pro rata basis by the Bank.
- The Bank undertakes assessment of the useful life of an asset at periodic intervals taking into account changes in environment, changes in technology, the utility and efficacy of the asset in use etc. Whenever there is a revision of the estimated useful life of an asset, the unamortised depreciable amount is charged over the revised remaining useful life of the said asset.

*HDFC Securities Limited*

Tangible assets are stated at acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost comprises purchase price and expenses directly attributable to bringing the asset to its working condition for the intended use. Subsequent expenditure related to an item of fixed asset are added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance.

Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements.

Gains or losses arising from disposal or retirement of tangible fixed assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised net, within “Other Income” or “Other Expenses”, as the case maybe, in the Statement of Profit and Loss in the year of disposal or retirement.

Depreciation is provided on a pro-rata basis using the straight-line method over the estimated useful lives of the assets or at the rates prescribed under Schedule XIV of the Companies Act, 1956, whichever is higher, as follows :

| Asset | Estimated useful life |
|---|---|
| Computers | 3 years |
| Computer peripherals | 4 years |
| Office equipment | 6 years |
| Furniture and fixture | 15 years |
| Leasehold Improvements | over the primary period of the lease |
| Vehicles | 4 years |
| Office premises | 61 years |

- All tangible and intangible assets costing less than ₹ 5,000 individually are fully depreciated in the year of purchase.
- Depreciation methods and useful lives are reviewed at each financial year end and adjusted if appropriate.
- Intangible assets are stated at acquisition cost, net of accumulated amortisation and accumulated impairment losses, if any.
- Cost of an intangible asset includes purchase price, non-refundable taxes and duties and any other directly attributable expenditure on making the asset ready for its intended use and net of any trade discounts and rebates. Subsequent expenditure on an intangible asset is charged to the Statement of Profit and Loss as an expense unless it is probable that such expenditure will enable the intangible asset increase the future benefits from the existing asset beyond its previously assessed standard of performance and such expenditure can be measured and attributed to the intangible asset reliably, in which case, such expenditure is capitalised.
- Intangible assets are amortised on a straight-line basis over their estimated useful lives. A rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use is considered by the management. The amortisation period and the amortisation method are reviewed at least at each reporting date. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period is changed accordingly.
- Gains or losses arising from the retirement or disposal of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised as income or expense in the Statement of Profit and Loss in the year of disposal.

The estimated useful lives of intangible assets used for amortisation are :

| **Asset** | **Estimated useful life** |
|---|---|
| Computer software licenses | 5 years |
| Electronic trading platform | 5 years |
| Bombay stock exchange card | 10 years |

*HDB Financial Services Limited*

Fixed assets are stated at cost less accumulated depreciation and impairment, if any. Cost includes cost of purchase and all other expenditure in relation to site preparation, installation costs and professional fees incurred on the asset before it is ready for intended use. Subsequent expenditure incurred on assets put to use is capitalized only when it increases the future benefit / functioning capability from / of such assets.

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The rates of depreciation for certain key fixed assets used in arriving at the charge for the year are as under :

| **Asset** | **Depreciation rate per annum** |
|---|---|
| Office equipments | 16.21% |
| Computers | 33.33% |
| Motor cars | 20.00% |
| Immovable property | 1.63% |
| Software and system development expenditure | 33.33% |
| Furniture & fixtures | 9.50% |

- Improvements to lease hold premises are charged off over the primary period of lease or its useful life, whichever is shorter.
- Items costing less than ₹ 5,000 are fully depreciated in the year of purchase.
- All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.
- For assets purchased and sold during the year, depreciation is being provided on pro rata basis by the Company.
- Any expenses on such software for support and maintenance payable annually are charged to Statement of Profit & Loss.

**5 Impairment of assets**

*Group*

The Group assesses at each Balance Sheet date whether there is any indication that an asset may be impaired. Impairment loss, if any, is provided in the Statement of Profit and Loss to the extent the carrying amount of assets exceeds their estimated recoverable amount.

**6 Transactions involving foreign exchange**

*HDFC Bank Limited*

Foreign currency income and expenditure items of domestic operations are translated at the exchange rates prevailing on the date of the transaction. Income and expenditure items of integral foreign operations (representative offices) are translated at the weekly average closing rates and of non-integral foreign operations (foreign branches) at the monthly average closing rates.

Foreign currency monetary items of domestic and integral foreign operations are translated at the closing exchange rates notified by Foreign Exchange Dealers' Association of India ('FEDAI') at the Balance Sheet date and the resulting net valuation profit or loss arising due to a net open position in any foreign currency is recognised in the Statement of Profit and Loss.

Both monetary and non-monetary foreign currency assets and liabilities of non integral foreign operations are translated at closing exchange rates notified by FEDAI at the Balance Sheet date and the resulting profit / loss arising from exchange differences are accumulated in the Foreign Currency Translation Account until the disposal of the net investment in the non-integral foreign operations.

Foreign exchange spot and forward contracts outstanding as at the Balance Sheet date and held for trading, are revalued at the closing spot and forward rates respectively as notified by FEDAI and at interpolated rates for contracts of interim maturities. The contracts for longer maturities i.e. greater than one year are revalued using MIFOR (Mumbai Interbank Forward Offer Rate) and contracts with USD-INR currency pair are valued using USD LIBOR (London Interbank Offered Rate) rates. For other currency pairs, the forward points (as published by FEDAI) are extrapolated. The resulting profit or loss on valuation is recognised in the Statement of Profit and Loss.

Foreign exchange forward contracts not intended for trading, that are entered into to establish the amount of reporting currency required or available at the settlement date of transaction and are outstanding at the Balance Sheet date, are effectively valued at the closing spot rate. The premia or discount arising at the inception of such a forward exchange contract is amortised as expense or income over the life of the contract.

Currency futures contracts are marked to market daily using settlement price on a trading day, which is the closing price of the respective futures contracts on that day. While the daily settlement price is computed on the basis of the last half an hour weighted average price of such contract, the final settlement price is taken as the RBI reference rate on the last trading day of the futures contract or as may be specified by the relevant authority from time to time. All open positions are marked to market based on the settlement price and the resultant marked to market profit / loss is daily settled with the exchange.

Contingent Liabilities on account of foreign exchange contracts, currency future contracts, guarantees, letters of credit, acceptances and endorsements are reported at closing rates of exchange notified by FEDAI as at the Balance Sheet date.

**7 Derivative contracts**

*HDFC Bank Limited*

The Bank recognises all derivative contracts (other than those designated as hedges) at fair value, on the date on which the derivative contracts are entered into and are re-measured at fair value as at the Balance Sheet or reporting dates. Derivatives are classified as assets when the fair value is positive (positive marked to market value) or as liabilities when the fair value is negative (negative marked to market value). Changes in the fair value of derivatives other than those designated as hedges are recognised in the Statement of Profit and Loss.

Derivative contracts designated as hedges are not marked to market unless their underlying transaction is marked to market. In respect of derivative contracts that are marked to market, changes in the market value are recognised in Statement of Profit and Loss in the relevant period. The Bank identifies the hedged item (asset or liability) at the inception of the transaction itself. Hedge effectiveness is ascertained at the time of the inception of the hedge and periodically thereafter. Gains or losses arising from hedge ineffectiveness, if any, are recognised in the Statement of Profit and Loss.

Contingent Liabilities on account of derivative contracts denominated in foreign currencies are reported at closing rates of exchange notified by FEDAI at the Balance Sheet date.

**8 Revenue recognition**

*HDFC Bank Limited*

- Interest income is recognised in the Statement of Profit and Loss on an accrual basis, except in the case of non-performing assets where it is recognised upon realisation as per RBI norms.
- Interest income on investments in Pass Through Certificates ('PTCs') and loans bought out through the direct assignment route is recognised at their effective interest rate.
- Income on non-coupon bearing discounted instruments is recognised over the tenor of the instrument on a constant effective yield basis.
- Loan Processing Fee is recognised as income when due. Syndication / arranger fee is recognised as income when a significant act / milestone is completed.
- Gain / loss on sell down of loans is recognised in line with the extant RBI guidelines.
- Dividend on equity shares, preference shares and on mutual fund units is recognised as income when the right to receive the dividend is established.
- Guarantee commission, commission on Letter of Credit, annual locker rent fees and annual fees for credit cards are recognised on a straight line basis over the period of contract. Other fees and commission income is recognised when due, except in cases where the Bank is uncertain of ultimate collection.

*HDFC Securities Limited*

- Income from services rendered as a brokerage is recognised as the related services are performed. Commissions are recorded on a trade date basis as the securities transactions occur.
- Fees for subscription based services are received periodically but are recognised as earned on a pro-rata basis over the term of the contract.
- Commissions from distribution of financial products are recognised upon allotment of the securities to the applicant or as the case may be, issue of the insurance policy to the applicant.
- Commissions and fees recognised as aforesaid are exclusive of service tax, securities transaction tax, stamp duties and other levies by SEBI and stock exchanges.

*Other income*

- Interest is earned on delayed payments from clients and amounts funded to them as well as term deposits with banks.
- Interest income is recognised on a time proportion basis taking into account the amount outstanding from customers or on the financial instrument and the rate applicable.
- Dividend income is recognised when the right to receive the dividend is established.

*HDB Financial Services Limited*

- Interest income is recognised in the profit or loss account on an accrual basis. In case of Non Performing Assets interest income is recognised upon realisation as per the RBI Guidelines. Interest accrued and not realised before the classification of the asset as an NPA is reversed and credited to the interest suspense account.
- BPO Services and other financial charges are recognised on an accrual basis, except in case of cheque bouncing charges, late payment charges, foreclosure charges and application money, which are accounted as and when received.
- Income from dividend is recognised in the Statement of Profit and Loss when the right to receive is established.
- Gains arising on assignment of assets are not recognised due to uncertainity over future receivables & principle of conservatism, while loss, if any is recognised upfront. Gain arising on securitisation transaction is recognised as per RBI Guidelines.

*HDB Employees Welfare Trust*

- Interest income is recognised in the Income and Expenditure Account on an accrual basis.
- Income from Dividend is recognised in Income and Expenditure Account when the right to receive is established.

**9 Employee benefits**

*HDFC Bank Limited*

**Employee stock option scheme ('ESOS')**

The Employee Stock Option Scheme ('the Scheme') provides for the grant of options to acquire equity shares of the Bank to its employees. The options granted to employees vest in a graded manner and these may be exercised by the employees within a specified period.

The Bank follows the intrinsic value method to account for its stock-based employee's compensation plans. Compensation cost is measured by the excess, if any, of the fair market price of the underlying stock over the exercise price as determined under the option plan. The fair market price is the closing price on the stock exchange where there is highest trading volume on the working day immediately preceding the date of grant. Compensation cost, if any is amortised over the vesting period.

**Gratuity**

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payment to vested employees on resignation, retirement, 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. Vesting occurs upon completion of five years of service. The Bank makes contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. In respect of erstwhile Lord Krishna Bank ('eLKB') employees, the Bank makes contribution to a fund set up by eLKB and administered by the board of trustees. The defined gratuity benefit plans are valued by an independent actuary as at the Balance Sheet date using the projected unit credit method as per the requirement of AS-15 (Revised 2005), Employee Benefits to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations, which include assumptions about demographics, early retirement, salary increases and interest rates. Actuarial gain or loss is recognised in the Statement of Profit and Loss.

**Superannuation**

Employees of the Bank, above a prescribed grade, are entitled to receive retirement benefits under the Bank's Superannuation Fund. The Bank contributes a sum equivalent to 13% of the employee's eligible annual basic salary (15% for the Managing Director, Executive Directors and for certain eligible erstwhile Centurion Bank of Punjab ('eCBoP') staff) to insurance companies, which administer the fund. The Bank has no liability for future superannuation fund benefits other than its contribution, and recognises such contributions as an expense in the year incurred, as such contribution is in the nature of defined contribution.

**Provident fund**

In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund.

The Bank contributes an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary). Of this, the Bank contributes an amount equal to 8.33% of employee's basic salary up to a maximum salary level of ₹ 6,500 per month to the Pension Scheme administered by the Regional Provident Fund Commissioner ('RPFC').

The balance amount is contributed to a fund set up by the Bank and administered by a board of trustees. In respect of eCBoP employees, employer's and employee's share of contribution to Provident Fund till March 2009, was administered by RPFC and from April 2009 onwards, the same is transferred to fund set up by the Bank and administered by the board of trustees. In respect of eLKB employees, the Bank contributes to a fund set up by eLKB and administered by a board of trustees. The Bank recognises such contributions as an expense in the year in which it is incurred. Interest payable to the members of the trust shall not be lower than the statutory rate of interest declared by the Central Government under the Employees Provident Funds and Miscellaneous Provisions Act 1952 and shortfall, if any, shall be made good by the Bank. The guidance note on implementing AS-15 (revised 2005), Employee Benefits, states that benefits involving employer established provident funds, which require interest shortfalls to be provided, are to be considered as defined benefit plans. Actuarial valuation of this Provident Fund interest shortfall is done as per the guidance note issued in this respect by the Actuarial Society of India and provision towards this liability is made.

The overseas branches of the bank makes contributions to the relevant government scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due, as such contribution is in the nature of defined contribution.

**Leave encashment / compensated absences**

The Bank does not have a policy of encashing unavailed leave for its employees, except for certain eLKB employees under Indian Banks Association ('IBA') structure. The Bank provides for leave encashment / compensated absences based on an independent actuarial valuation at the Balance Sheet date, which includes assumptions about demographics, early retirement, salary increases, interest rates and leave utilisation.

**Pension**

In respect of pension payable to certain eLKB employees under IBA structure, which is a defined benefit scheme, the Bank contributes 10% of basic salary to a pension fund set up by the Bank and administered by the board of trustees and the balance amount is provided based on actuarial valuation as at the Balance Sheet date conducted by an independent actuary.

In respect of certain eLKB employees who had moved to a Cost to Company ('CTC') driven compensation structure and have completed less than 15 years of service, the contribution which was made until then, is maintained as a fund and will be converted into annuity on separation after a lock-in-period of two years. For this category of employees, liability stands frozen and no additional provision is required except for interest as applicable to Provident Fund, which is provided for.

In respect of certain eLKB employees who moved to a CTC structure and had completed service of more than 15 years, pension would be paid on separation based on salary applicable as on the date of movement to CTC structure. Provision thereto is made based on actuarial valuation as at the Balance Sheet date conducted by an independent actuary.

*HDFC Securities Limited*

**Short term**

Short term employee benefits include salaries and performance incentives. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or informal obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. These costs are recognised as an expense in the Statement of Profit and Loss at the undiscounted amount expected to be paid over the period of services rendered by the employees to the Company.

**Long term**

The Company offers its employees long term benefits by way of defined-contribution and defined-benefit plans, of which some have assets in special funds or securities. The plans are financed by the Company and in the case of some defined contribution plans by the Company along with its employees.

**Defined-contribution plans**

These are plans in which the Company pays pre-defined amounts to separate funds and does not have any legal or informal obligation to pay additional sums. These comprise of contributions to the employees' provident fund, family pension fund and superannuation fund. The Company's payments to the defined-contribution plans are reported as expenses during the period in which the employees perform the services that the payment covers.

**Defined-benefit plans**

Expenses for defined-benefit gratuity plan are calculated as at the balance sheet date by an independent actuary in a manner that distributes expenses over the employee's working life. These commitments are valued at the present value of the expected future payments, with consideration for calculated future salary increases, using a discount rate corresponding to the interest rate estimated by the actuary having regard to the interest rate on government bonds with a remaining term that is almost equivalent to the average balance working period of employees. The fair values of the plan assets are deducted in determining the net liability. When the fair value of plan assets exceeds the commitments computed as aforesaid, the recognised asset is limited to the net total of any cumulative past service costs and the present value of any economic benefits available in the form of reductions in future contributions to the plan.

Actuarial losses or gains are recognised in the Statement of Profit and Loss in the year in which they arise.

**Other employee benefits**

Compensated absences which accrue to employees and which can be carried to future periods but are expected to be availed in twelve months immediately following the year in which the employee has rendered service are reported as expenses during the year in which the employees perform the services that the benefit covers and the liabilities are reported at the undiscounted amount of the benefits.

Where there are restrictions on availment of such accrued benefit or where the availment is otherwise not expected to wholly occur in the next twelve months, the liability on account of the benefit is actuarially determined using the projected unit credit method.

**Share-based payment transactions**

Equity settled stock options granted under the Company's Employee Stock Option Schemes are accounted for as per the accounting treatment prescribed by the Guidance Note on Employee Share-based Payments issued by the Institute of Chartered Accountants of India. The intrinsic value of the option being excess of fair value of the underlying share immediately prior to date of grant over its exercise price is recognised as deferred employee compensation with a credit to employee stock option outstanding account. The deferred employee compensation is charged to Statement of Profit and Loss on straight line basis over the vesting period of the option. The options that lapse are reversed by a credit to employee compensation expense, equal to the amortised portion of value of lapsed portion and credit to deferred employee compensation expense equal to the unamortised portion.

*HDB Financial Services Limited*

**Short term employee benefits**

Short term employees benefits are recognised as an expense at the undiscounted amounts in the Statement of Profit and Loss for the year in which the related services rendered.

**Long term employee benefits**

**Gratuity**

The Company provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on resignation, retirement, 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. Vesting occurs upon completion of five years of service. The Company makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The defined gratuity benefit plans are valued by an independent external actuary as at the balance sheet date using the projected unit credit method to determine the present value of defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations, which include assumptions about demographics, early retirement, salary increases and interest rates. Actuarial gain or loss is recognised in the Statement of Profit and Loss.

**Provident fund**

In accordance with the applicable law, all employees of the Company are entitled to receive benefits under the provident fund. The Company contributes an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary) to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC) and the Company has no liability for future provident fund benefits other than its annual contribution. Since it is a defined contribution plan, the contributions are accounted for on an accrual basis and recognised in the Statement of Profit and Loss.

**Compensated absences**

The Company does not have a policy of encashment of unavailed leaves for its employees. The Company provides for compensated absences in accordance with AS-15 (revised 2005) Employee Benefits. The provision is based on an independent external actuarial valuation at the balance sheet date.

**10 Debit and credit cards reward points**

*HDFC Bank Limited*

The Bank estimates the probable redemption of debit and credit card reward points and cost per point using an actuarial method by employing an independent actuary, which includes assumptions such as mortality, redemption and spends. Provisions for the said reward points are made based on the actuarial valuation report as furnished by the said independent actuary.

**11 Bullion**

*HDFC Bank Limited*

The Bank imports bullion including precious metal bars on a consignment basis for selling to its wholesale and retail customers. The imports are typically on a back-to-back basis and are priced to the customer based on an estimated price quoted by the supplier. The Bank earns a fee on such wholesale bullion transactions. The fee is classified under commission income.

The Bank also sells bullion to its retail customers. The difference between the sale price to customers and actual price quoted by supplier is also reflected under commission income.

The Bank also borrows and lends gold, which is treated as borrowing / lending as the case may be with the interest paid / received classified as interest expense / income.

**12 Lease accounting**

*Group*

Lease payments including cost escalation for assets taken on operating lease are recognised in the Statement of Profit and Loss over the lease term in accordance with the AS-19, Leases.

**13 Income tax**

*Group*

Income tax expense comprises current tax provision (i.e. the amount of tax for the period determined in accordance with the Income Tax Act, 1961 and the rules framed there under) and the net change in the deferred tax asset or liability in the year. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carried forward, if any. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates as at the Balance Sheet date.

Current tax assets and liabilities and deferred tax assets and liabilities are off-set when they relate to income taxes levied by the same taxation authority, when the Bank has a legal right to off-set and when the Bank intends to settle on a net basis.

Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. In case of unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each Balance Sheet date and appropriately adjusted to reflect the amount that is reasonably / virtually certain to be realised.

**14 Earnings per share**

*Group*

The Group reports basic and diluted earnings per equity share in accordance with AS-20, Earnings per Share. Basic earnings per equity share has been computed by dividing net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted to equity during the year. Diluted earnings per equity share are computed using the weighted average number of equity shares and the dilutive potential equity shares outstanding during the period except where the results are anti-dilutive.

**15 Segment information - basis of preparation**

*Group*

The segmental classification to the respective segments is in accordance with AS-17, Segment Reporting. Business Segments have been identified and reported taking into account, the target customer profile, the nature of products and services, the differing risks and returns, the organisation structure, the internal business reporting system and the guidelines prescribed by RBI. The Group operates in the following segments:

**(a) Treasury**

The treasury segment primarily consists of net interest earnings from the Bank's investments portfolio, money market borrowing and lending, gains or losses on investment operations and on account of trading in foreign exchange and derivative contracts.

**(b) Retail banking**

The retail banking segment of the Bank serves retail customers through a branch network and other delivery channels. This segment raises deposits from customers and provides loans and other services with the help of specialist product groups to such customers. Exposures are classified under retail banking taking into account the status of the borrower (orientation criterion), the nature of product, granularity of the exposure and the quantum thereof.

Revenues of the retail banking segment are derived from interest earned on retail loans, interest earned from other segments for surplus funds placed with those segments, subvention received from dealers and manufacturers, fees from services rendered, foreign exchange earnings on retail products etc. Expenses of this segment primarily comprise interest expense on deposits, commission paid to retail assets sales agents, infrastructure and premises expenses for operating the branch network and other delivery channels, personnel costs, other direct overheads and allocated expenses of specialist product groups, processing units and support groups.

**(c) Wholesale banking**

The wholesale banking segment of the Bank provides loans, non-fund facilities and transaction services to large corporates, emerging corporates, public sector units, government bodies, financial institutions and medium scale enterprises. Revenues of the wholesale banking segment consist of interest earned on loans made to customers, interest / fees earned on the cash float arising from transaction services, earnings from trade services and other non-fund facilities and also earnings from foreign exchange and derivative transactions on behalf of customers. The principal expenses of the segment consist of interest expense on funds borrowed from external sources and other internal segments, premises expenses, personnel costs, other direct overheads and allocated expenses of delivery channels, specialist product groups, processing units and support groups.

**(d) Other banking business**

This segment includes income from para banking activities such as credit cards, debit cards, third party product distribution, primary dealership business and the associated costs. This segment also includes Bank's subsidiaries viz. HDFC Securities Limited, HDB Financial Services Limited and HDB Employee Welfare Trust.

**(e) Unallocated**

All items which are reckoned at an enterprise level are classified under this segment. This includes capital and reserves, debt classified as Tier I or Tier II capital and other unallocable assets and liabilities such as deferred tax, prepaid expenses etc.

Segment revenue includes earnings from external customers plus earnings from funds transferred to other segments. Segment result includes revenue less interest expense less operating expense and provisions, if any, for that segment. Segment-wise income and expenses include certain allocations. Interest income is charged by a segment that provides funding to another segment, based on yields benchmarked to an internally approved yield curve or at a certain agreed transfer price rate. Transaction charges are levied by the retail-banking segment to the wholesale banking segment for the use by its customers of the retail banking segment's branch network or other delivery channels. Such transaction costs are determined on a cost plus basis. Segment capital employed represents the net assets in that segment.

**Geographic segments**

The geographic segments of the Bank are categorised as Domestic Operations and Foreign Operations. Domestic Operations comprise branches in India and Foreign Operations comprise branches outside India.

**16 Accounting for provisions, contingent liabilities and contingent assets**

*Group*

In accordance with AS-29, Provisions, Contingent Liabilities and Contingent Assets, the Group recognises provisions when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

Provisions are determined based on management estimate required to settle the obligation at the Balance Sheet date, supplemented by experience of similar transactions. These are reviewed at each Balance Sheet date and adjusted to reflect the current management estimates. In cases where the available information indicates that the loss on the contingency is reasonably possible but the amount of loss cannot be reasonably estimated, a disclosure is made in the financial statements.

Contingent Assets, if any, are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

**17 Cash and cash equivalents**

*Group*

Cash and cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice.

# For the year ended March 31, 2013

## Schedule 18 - Notes forming part of the consolidated financial statements for the year ended March 31, 2013

Amounts in Notes forming part of the Financial Statements for the year ended March 31, 2013 are denominated in Rupee crore to conform to extant RBI guidelines.

### 1 Sub-division of equity shares

The shareholders of the Bank at the 17th Annual General Meeting held on July 6, 2011 approved sub-division (split) of one equity share of the Bank from nominal value of ₹ 10/- each into five equity shares of nominal value of ₹ 2/- each.

### 2 Change in Classification

- As per market practice, the Bank pays commission to sales agents and also receives front ended subventions / commission / fees from dealers and manufacturers for originating retail asset products. The net commission paid is expensed in the year in which it is incurred. Pursuant to RBI's instructions vide its letter dated March 22, 2013, the Bank has, effective year ended March 31, 2013, classified the net commission as follows :
  - ✓ Commission paid to sales agents for originating fixed tenor retail loans is classified under Operating Expenses and subvention received from dealers and manufacturers is classified under Other Income.
  - ✓ The net commission paid was hitherto reduced from Interest Income. Accordingly, ₹ 738.58 crore (previous year : ₹ 624.44 crore) of commission paid to sales agent is included under Operating Expenses and ₹ 48.42 crore (previous year : ₹ 36.60 crore) of subvention received from dealers and manufacturers is included under Other Income. Figures for the previous year have accordingly been regrouped / reclassified to conform to current year's classification. The above change in classification has no impact on the profit and loss of the Bank for the years ended March 31, 2013 and March 31, 2012.
- The Bank recognises in the Statement of Profit and Loss Account, provision for NPAs, direct charge offs, write back of provision for NPAs and recoveries from written off accounts. Pursuant to RBI's instructions vide its letter dated March 22, 2013, the Bank has, effective year ended March 31, 2013, classified the recoveries from written off accounts under Other Income and the direct charge offs under Operating Expenses. These were hitherto included in the specific loan loss charge under Provisions and Contingencies. Accordingly, ₹ 496.54 crore (previous year : ₹ 503.33 crore) of recoveries from written-off accounts are included under Other Income and ₹ 78.93 crore (previous year : ₹ 63.14 crore) of direct charge offs are included under Operating Expenses. Figures for the previous year have accordingly been regrouped / reclassified to conform to current year's classification.The above change in classification has no impact on the profit and loss of the Bank for the years ended March 31, 2013 and March 31, 2012.

### 3 Earnings per equity share

Basic and Diluted earnings per equity share have been calculated based on the net profit after taxation of ₹ 6,869.64 crore (previous year : ₹ 5,247.02 crore) and the weighted average number of equity shares outstanding during the year of 2,360,960,867 (previous year : 2,336,704,062)

*Following is the reconciliation between basic and diluted earnings per equity share :*

| Particulars | For the year ended (₹) | |
|---|---|---|
| | March 31, 2013 | March 31, 2012 |
| Nominal value per share | 2.00 | 2.00 |
| Basic earnings per share | 29.10 | 22.45 |
| Effect of potential equity shares (per share) | (0.32) | (0.21) |
| Diluted earnings per share | 28.78 | 22.24 |

Basic earnings per equity share have been computed by dividing net profit for the year attributable to the equity shareholders by the weighted average number of equity shares outstanding for the year. Diluted earnings per equity share have been computed by dividing the net profit for the year attributable to the equity shareholders by the weighted average number of equity shares and dilutive potential equity shares outstanding during the year, except where the results are anti-dilutive. The dilutive impact is on account of stock options granted to employees by the Bank. There is no impact of dilution on the profits in the current year and previous year.

# For the year ended March 31, 2013

*Following is the reconciliation of weighted average number of equity shares used in the computation of basic and diluted earnings per share :*

| Particulars | For the year ended | |
|---|---|---|
| | March 31, 2013 | March 31, 2012 |
| Weighted average number of equity shares used in computing basic earnings per equity share | 2,360,960,867 | 2,336,704,062 |
| Effect of potential equity shares outstanding | 26,076,830 | 21,625,067 |
| Weighted average number of equity shares used in computing diluted earnings per equity share | 2,387,037,697 | 2,358,329,129 |

## 4 Reserves and surplus

**Draw down from reserves**

There has been no draw down from reserves during the year ended March 31, 2013.

**General reserve**

The Bank has made an appropriation of ₹ 672.63 crore (previous year : ₹ 516.71 crore) out of profits for the year ended March 31, 2013 to General Reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

**Investment reserve account**

During the year ended March 31, 2013, the Bank has appropriated ₹ 17.66 crore (net) from Profit and Loss Account to Investment Reserve Account. In the previous year, the Bank transferred ₹ 41.69 crore (net) from Investment Reserve Account to Profit and Loss Account.

## 5 Accounting for employee share based payments

*HDFC Bank Limited*

The shareholders of the Bank approved grant of equity share options under Plan "B" in June 2003, Plan "C" in June 2005, Plan "D" in June 2007 and Plan "E" in June 2010. Under the terms of each of these Plans, the Bank may issue Equity Stock Options ('ESOPs') to employees and directors of the Bank, each of which is convertible into one equity share. All the plans were framed in accordance with the SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 as amended from time to time.

Plans B, C, D and E provide for the issuance of options at the recommendation of the Compensation Committee at the closing price on the working day immediately preceding the date when options are granted. For Plan B the price is that quoted on an Indian stock exchange with the highest trading volume during the preceding two weeks, while for Plans C, D and E the price is that quoted on an Indian stock exchange with the highest trading volume as of the working day preceding the date of grant.

Vesting conditions applicable to the options are at the discretion of the Compensation Committee. These options are exercisable on vesting, for a period as set forth by the Compensation Committee at the time of grant. The period in which options may be exercised cannot exceed five years. Modifications, if any, made to the terms and conditions of ESOPs as approved by the Compensation Committee are disclosed separately.

The erstwhile Centurion Bank of Punjab had granted stock options to its employees prior to its amalgamation with the Bank. The options were granted under the following Schemes framed in accordance with the SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 as amended from time to time :

1) Key ESOP

2) General ESOP

The outstanding options granted under each of the above schemes and the grant prices were converted into equivalent HDFC Bank options and prices in the swap ratio of 1:29 i.e. 1 stock option of HDFC Bank for every 29 stock options granted and outstanding of eCBoP as on May 23, 2008, the effective date of the amalgamation, in accordance with Clause 9.9 of the scheme of amalgamation of eCBoP with the Bank. The vesting dates for the said stock options granted in various tranches were revised as per Clause 9.9 of the Scheme. All the aforesaid stock 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 fair market price of the shares. General options were granted at the fair market price. The fair market price was the latest available closing price, prior to the date of meeting of the Board of Directors in which options were granted or shares were issued, on the stock exchange on which the shares of the Bank were listed. If the shares were listed on more than one stock exchange, then the stock exchange where there was highest trading volume on the said date was considered.

Along with approving the sub-division of the Bank's equity shares, the shareholders at the AGM also approved the consequent adjustments to the stock options to employees under its various schemes such that all employee stock options available for grant (including lapsed and forfeited options available for reissue) and those already granted but not exercised as on record date were proportionately converted into options for shares of face value of ₹ 2/- each and the grant price of all the outstanding stock options (vested, unvested and unexercised options) on the record date was proportionately adjusted by dividing the existing grant price by 5. The record date for this purpose was fixed as July 16, 2011.

All the numbers in the tables appearing hereinafter pertaining to stock options are given post sub-division of shares as stated above.

*Method used for accounting for shared based payment plan*

The Bank has elected to use intrinsic value method to account for the compensation cost of stock options to employees and directors of the Bank. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the option.

*Activity in the options outstanding under the Employee Stock Options Plan*

- *Activity in the options outstanding under the employee stock options plan as at March 31, 2013 :*

| **Particulars** | **Options** | **Weighted average exercise price (₹)** |
|---|---|---|
| Options outstanding, beginning of year | 99,872,740 | 389.52 |
| Granted during the year | - | - |
| Exercised during the year* | 33,459,050 | 333.87 |
| Forfeited / lapsed during the year | 970,645 | 433.59 |
| Options outstanding, end of year | 65,443,045 | 417.32 |
| Options exercisable | 56,752,845 | 409.46 |

** includes 728,290 options exercised, pending allotment of equity shares as of March 31, 2013.*

- *Activity in the options outstanding under the employee stock options plan as at March 31, 2012 :*

| **Particulars** | **Options** | **Weighted average exercise price (₹)** |
|---|---|---|
| Options outstanding, beginning of year | 85,924,615 | 325.27 |
| Granted during the year | 35,603,250 | 468.67 |
| Exercised during the year | 20,559,850 | 257.91 |
| Forfeited / lapsed during the year | 1,095,275 | 381.23 |
| Options outstanding, end of year | 99,872,740 | 389.52 |
| Options exercisable | 56,415,090 | 332.53 |

- *Following table summarises the information about stock options outstanding as at March 31, 2013* :

| **Plan** | **Range of exercise price (₹)** | **Number of shares arising out of options** | **Weighted average life of options (in years)** | **Weighted average exercise price (₹)** |
|---|---|---|---|---|
| Plan B | 198.97 to 219.74 | 614,500 | 0.53 | 203.50 |
| Plan C | 198.97 to 219.74 | 705,400 | 0.44 | 208.12 |
| Plan D | 219.74 to 340.96 | 12,058,100 | 1.39 | 285.60 |
| Plan E | 440.16 to 508.23 | 51,175,300 | 3.65 | 457.40 |
| Key ESOP | - | - | - | - |
| General ESOP | 107.30 to 251.72 | 889,745 | 1.09 | 210.75 |



HDFC BANK
We understand your world

- *Following table summarises the information about stock options outstanding as at March 31, 2012 :*

| Plan | Range of exercise price (₹) | Number of shares arising out of options | Weighted average life of options (in years) | Weighted average exercise price (₹) |
|---|---|---|---|---|
| Plan B | 71.72 to 219.74 | 1,950,300 | 1.16 | 207.68 |
| Plan C | 126.12 to 219.74 | 3,421,500 | 0.93 | 191.41 |
| Plan D | 219.74 to 340.96 | 26,489,250 | 2.12 | 276.03 |
| Plan E | 440.16 to 508.23 | 66,270,250 | 4.55 | 455.47 |
| Key ESOP | 23.20 | 33,595 | 1.04 | 23.20 |
| General ESOP | 88.45 to 251.72 | 1,707,845 | 1.88 | 202.65 |

*Fair value methodology*

The fair value of options used to compute proforma net income and earnings per equity share have been estimated on the dates of each grant using the binomial option-pricing model. The Bank estimates the volatility based on the historical share prices. No options were granted during the year ended March 31, 2013. The various assumptions considered in the pricing model for the ESOPs granted during the year ended March 31, 2012 were :

| Particulars | March 31, 2012 |
|---|---|
| Dividend yield | 0.65% to 0.70% |
| Expected volatility | 29.35% |
| Risk-free interest rate | 8.04% to 8.22% |
| Expected life of the option | 1 to 6 years |

*Impact of fair value method on net profit and earnings per share ('EPS')*

Had the compensation cost for the Bank's stock option plans outstanding been determined based on the fair value approach, the Bank's net profit and earnings per share would have been as per the proforma amounts indicated below :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Net Profit (as reported) | 6,726.28 | 5,167.09 |
| Add : Stock based employee compensation expense included in net income | - | - |
| Less : Stock based compensation expense determined under fair value based method (proforma) | 431.62 | 377.83 |
| Net Profit (proforma) | 6,294.66 | 4,789.26 |
| | **(₹)** | **(₹)** |
| Basic earnings per share (as reported) | 28.49 | 22.11 |
| Basic earnings per share (proforma) | 26.66 | 20.50 |
| Diluted earnings per share (as reported) | 28.18 | 21.91 |
| Diluted earnings per share (proforma) | 26.37 | 20.31 |

*HDFC Securities Limited*

The Shareholders of the Company approved a stock option scheme (viz. ESOS-001) in February 2010 ("Company Options"). Under the terms of the scheme, the Company issues stock options to employees, whole time director, managing director and directors of the Company, each of which is convertible into one equity share.

Scheme ESOS-001 provides for the issuance of options at the recommendation of the Compensation Committee of the Board of Directors (the "Compensation Committee") at a price of ₹ 135/- per share, being the fair market value of the share arrived by a category 1 merchant banker.

Such options vest at definitive dates, save for specific incidents, prescribed in the scheme as framed / approved by the Compensation Committee. Such options are exercisable for a period following the vesting at the discretion of the Compensation Committee, subject to a maximum of two years from the date of vesting.

*Method used for accounting for shared based payment plan*

The Company uses the Intrinsic Value method to account for the compensation cost of stock options to employees of the Company.

*Activity in the options outstanding under the Employee Stock Options Plan*

- *Activity in the options outstanding under the Employees Stock Options Plan as at March 31, 2013 :*

| Particulars | EWT options | Company options | Weighted average exercise price (₹) |
|---|---|---|---|
| Options outstanding, beginning of year | - | 371,400 | 135.00 |
| Granted during the year | - | - | - |
| Exercised during the year | - | 234,225 | 135.00 |
| Forfeited during the year | - | 12,000 | 135.00 |
| Lapsed during the year | - | 2,275 | 135.00 |
| Options outstanding, end of year | - | 122,900 | 135.00 |
| Options Exercisable | - | 122,900 | 135.00 |

- *Activity in the options outstanding under the Employees Stock Options Plan as at March 31, 2012 :*

| Particulars | EWT options | Company options | Weighted average exercise price (₹) |
|---|---|---|---|
| Options outstanding, beginning of year | 100,212 | 442,550 | 135.00 |
| Granted during the year | - | - | - |
| Exercised during the year | 100,212 | 61,050 | 135.00 |
| Forfeited during the year | - | 5,600 | 135.00 |
| Lapsed during the year | - | 4,500 | 135.00 |
| Options outstanding, end of year | - | 371,400 | 135.00 |
| Options Exercisable | - | 172,300 | 135.00 |

- *Following table summarises the information about stock options outstanding as at March 31, 2013 :*

| Plan | Range of exercise price (₹) | Number of shares arising out of options | Weighted average life of unvested options (in years) | Weighted average exercise price (₹) |
|---|---|---|---|---|
| Company Options | 135.00 | 122,900 | 1.61 | 135.00 |
| EWT Options | - | - | - | - |

- *Following table summarises the information about stock options outstanding as at March 31, 2012 :*

| Plan | Range of exercise price (₹) | Number of shares arising out of options | Weighted average life of unvested options (in years) | Weighted average exercise price (₹) |
|---|---|---|---|---|
| Company Options | 135.00 | 371,400 | 2.28 | 135.00 |
| EWT Options | - | - | - | - |

*Fair value methodology*

The fair value of options used to compute pro forma net income and earnings per equity share have been estimated on the dates of each grant using the Black and Scholes model. The shares of the Company are not listed on any stock exchange. Accordingly, the Company has considered the volatility of the Company's stock price as an average of the historical volatility of similar listed enterprises for the purpose of calculating the fair value to reduce any company specific variations. The various assumptions considered in the pricing model for the stock options granted by the Company during the year ended 31 March, 2013 are :

| Particulars | EWT options | Company options |
|---|---|---|
| Dividend yield | Nil | Nil |
| Expected volatility | 73.56% to 79.04% | 71.53% to 72.67% |
| Risk-free interest rate | 6.53% to 8.19% | 6.22% to 7.18% |
| Expected life of the option | 0-2 years | 0-5 years |

*Impact of fair value method on net profit and EPS*

Had compensation cost for the Company's stock option plans outstanding been determined based on the fair value approach, the Company's net profit and earnings per share would have been as per the pro forma amounts indicated below : **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Net Profit (as reported) | 66.82 | 54.09 |
| Add : Stock based employee compensation expense included in net income | - | - |
| Less : Stock based compensation expense determined under fair value based method (proforma) | 0.25 | 0.83 |
| Net Profit (proforma) | 66.57 | 53.26 |
| | **(₹)** | **(₹)** |
| Basic and diluted earnings per share (as reported) | 44.09 | 35.87 |
| Basic and diluted earnings per share (proforma) | 43.92 | 35.32 |

*HDB Financial Services Limited*

- The shareholders of the Company approved stock option schemes ESOS-1 and ESOS-2 in April 2008, ESOS-3 in October 2009, ESOS-4 in October 2010, ESOS-5 in July 27, 2011 and ESOS-6 in June 11, 2012. Under the term of the schemes, the Company may issue stock options to employees and directors of the Company, each of which is convertible into one equity share.
- Shares under ESOS-2, ESOS-3 and parts of ESOS-4 & ESOS-5 have vested during the year and have been duly exercised.
- ESOS-6 provide for the issuance of options at the recommendation of the Compensation Committee of the Board at a price of ₹ 31/- per share.
- Such options vest at a definitive date, save for specific incidents, prescribed in the scheme as framed / approved by the Compensation Committee. Such options are exercisable for a period following vesting at the discretion of the Compensation Committee, subject to a maximum of two years from the date of vesting.

*Method used for accounting for shared based payment plan*

The Company has elected to use intrinsic value to account for the compensation cost of stock options to employees of the Company.

*Activity in the options outstanding under the Employee Stock Options Plan*

- *Activity in the options outstanding under the Employee Stock Options Plan as at March 31, 2013 :*

| Particulars | Options | Weighted average exercise price (₹) |
|---|---|---|
| Options outstanding, beginning of year | 422,900 | 19.89 |
| Granted during the year | 691,000 | 31.00 |
| Exercised during the year | 160,150 | 18.59 |
| Forfeited / lapsed during the year | 50,000 | 26.85 |
| Options outstanding, end of year | 903,750 | 28.23 |

## For the year ended March 31, 2013

- *Activity in the options outstanding under the Employee Stock Options Plan as at March 31, 2012 :*

| Particulars | Options | Weighted average exercise price (₹) |
|---|---|---|
| Options outstanding, beginning of year | 623,500 | 10.00 |
| Granted during the year | 154,500 | 25.00 |
| Exercised during the year | 341,600 | 11.68 |
| Forfeited / lapsed during the year | 13,500 | 17.50 |
| Options outstanding, end of year | 422,900 | 19.89 |

- *Following table summarises the information about stock options outstanding as at March 31, 2013 :*

| Plan | Range of exercise price (₹) | Number of shares arising out of options | Weighted average remaining contractual life of options (in years) | Weighted average exercise price (₹) | Vesting conditions |
|---|---|---|---|---|---|
| ESOS - 4 | 17.50 | 147,100 | 2.34 | 17.50 | 3 years service |
| ESOS - 5 | 25.00 | 86,650 | 3.02 | 25.00 | 3 years service |
| ESOS - 6 | 31.00 | 670,000 | 3.60 | 31.00 | 3 years service |

- *Following table summarises the information about stock options outstanding as at March 31, 2012 :*

| Plan | Range of exercise price (₹) | Number of shares arising out of options | Weighted average remaining contractual life of options (in years) | Weighted average exercise price (₹) | Vesting conditions |
|---|---|---|---|---|---|
| ESOS - 4 | 17.50 | 261,800 | 3.03 | 17.50 | 3 years service |
| ESOS - 5 | 25.00 | 154,500 | 3.03 | 25.00 | 3 years service |

*Fair value methodology*

The fair value of options used to compute pro forma net income and earnings per equity share have been estimated on the dates of each grant using the Black-Scholes model. The shares of Company are not listed on any stock exchange. Accordingly, the Company has considered the volatility of the Company's stock price as zero, since historical volatility of similar listed enterprise was not available. The various assumptions considered in the pricing model for the stock options granted by the Company during the year ended March 31, 2013 are :

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Dividend yield | Nil | Nil |
| Expected volatility | 35-60% | 35-60% |
| Risk-free interest rate | 8-9% | 8-9% |
| Expected life of the option | 3 to 5 years | 3 to 5 years |

*Impact of fair value method on net profit and EPS*

Had the compensation cost for the Company's stock option plans outstanding been determined based on the fair value approach, the Company's net profit and earnings per share would have been as per the proforma amounts indicated below :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Net Profit (as reported) | 150.13 | 51.11 |
| Add : Stock based employee compensation expense included in net income | - | - |
| Less : Stock based compensation expense determined under fair value based method (proforma) | 0.42 | 0.14 |
| Net Profit (proforma) | 149.71 | 50.97 |
| | **(₹)** | **(₹)** |
| Basic earnings per share (as reported) | 2.49 | 1.25 |
| Basic earnings per share (proforma) | 2.48 | 1.24 |
| Diluted earnings per share (as reported) | 2.49 | 1.25 |
| Diluted earnings per share (proforma) | 2.48 | 1.24 |

## For the year ended March 31, 2013

*Impact of fair value method on net profit and EPS of the Group*

Had compensation cost for the stock option plans outstanding been determined based on the fair value approach, the Group's net profit and earnings per share would have been as per the proforma amounts indicated below :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Net Profit (as reported) | 6,869.64 | 5,247.02 |
| Add : Stock based employee compensation expense included in net income | - | - |
| Less : Stock based compensation expense determined under fair value based method (proforma) | 432.29 | 378.80 |
| Net Profit (proforma) | 6,437.35 | 4,868.22 |
| | **(₹)** | **(₹)** |
| Basic earnings per share (as reported) | 29.10 | 22.45 |
| Basic earnings per share (proforma) | 27.27 | 20.83 |
| Diluted earnings per share (as reported) | 28.78 | 22.24 |
| Diluted earnings per share (proforma) | 26.97 | 20.64 |

### 6 Dividend in respect of shares to be allotted on exercise of stock options

Any allotment of shares after the Balance Sheet date but before the book closure date pursuant to the exercise of options will be eligible for full dividend, if approved at the ensuing Annual General Meeting.

### 7 Upper & lower tier II capital and innovative perpetual debt instruments

*HDFC Bank Limited*

Subordinated debt (Lower Tier II capital), Upper Tier II capital and innovative perpetual debt instruments outstanding as at March 31, 2013 are ₹ 12,428.00 crore (previous year : ₹ 6,981.00 crore), ₹ 3,958.75 crore (previous year : ₹ 3,924.65 crore) and ₹ 200.00 crore (previous year : ₹ 200.00 crore) respectively.

The details of the bonds issued by the Bank during the year ended March 31, 2013 are given below :

| Particulars | Date of allotment | Coupon rate (%) | Tenure | Amount (₹) in crore |
|---|---|---|---|---|
| Lower Tier II Bonds | August 13, 2012 | 9.45% | 15 years[1] | 3,477.00 |
| Lower Tier II Bonds | October 31, 2012 | 8.95% | 10 years[2] | 565.00 |
| Lower Tier II Bonds | December 28, 2012 | 9.10% | 10 years[3] | 1,405.00 |

*[1]Call Option exercisable on August 13, 2022 at par with the prior approval of RBI.*
*[2]Call Option exercisable on October 31, 2017 at par with the prior approval of RBI.*
*[3]Call Option exercisable on December 28, 2017 at par with the prior approval of RBI.*

The details of the bonds issued by the Bank during the year ended March 31, 2012 are given below :

| Particulars | Date of allotment | Coupon rate (%) | Tenure | Amount (₹) in crore |
|---|---|---|---|---|
| Lower Tier II Bonds | May 12, 2011 | 9.48% | 15 Years[1] | 3,650.00 |

*[1]Call Option exercisable on May 12, 2021 at par with the prior approval of RBI.*

*HDB Financial Services Limited*

Subordinated debt (Lower Tier II capital) outstanding as at March 31, 2013 are ₹ 600.00 crore (previous year : Nil). The details of the bonds issued by HDB Financial Services Limited during the year ended March 31, 2013 are given below :

| Particulars | Date of allotment | Coupon rate (%) | Tenure | Amount (₹) in crore |
|---|---|---|---|---|
| Lower Tier II Bonds | August 09, 2012 | 10.20% | 10 Years | 250.00 |
| Lower Tier II Bonds | November 30, 2012 | 9.70% | 10 Years | 150.00 |
| Lower Tier II Bonds | March 22, 2013 | 9.60% | 10 Years | 200.00 |

**8 Other liabilities**

- The Bank has presented gross unrealised gain on foreign exchange and derivative contracts under other assets and gross unrealised loss on foreign exchange and derivative contracts under other liabilities. Accordingly, other liabilities as on March 31, 2013 include unrealised loss on foreign exchange and derivative contracts of ₹ 7,036.66 crore (previous year : ₹ 12,735.50 crore).
- Other liabilities include share application monies of ₹ 22.15 crore as on March 31, 2013 (previous year : Nil), received on exercise of employee stock options pending allotment of equity shares. These shares were subsequently allotted on April 4, 2013.

**9 Investments**

- Investments include securities of Face Value (FV) aggregating ₹ 1,745.00 crore (previous year : FV ₹ 1,345.00 crore) which are kept as margin for clearing of securities, of FV ₹ 12,100.00 crore (previous year : FV ₹ 5,732.27 crore) which are kept as margin for Collateralised Borrowing and Lending Obligation (CBLO) and of FV aggregating ₹ 40.00 crore (previous year : FV ₹ 65.00 crore) which are kept as margin for Forex Forward segment - Default Fund with the Clearing Corporation of India Ltd.
- Investments include securities of FV aggregating ₹ 6.00 crore (previous year : FV ₹ 6.00 crore) which are kept as margin with National Securities Clearing Corporation of India Ltd. ('NSCCIL'), of FV aggregating ₹ 5.00 crore (previous year : FV ₹ 5.00 crore) which are kept as margin with MCX - SX Clearing Corporation Ltd. and of FV aggregating ₹ 0.30 crore (previous year : FV ₹ 0.30 crore) which are kept as margin with United Stock Exchange for transacting in the currency derivative segment.
- Investments having FV aggregating ₹ 29,376.69 crore (previous year : FV ₹ 25,631.20 crore) are kept as margin towards Real Time Gross Settlement (RTGS) and those having FV aggregating ₹ 38,188.32 crore (previous year : ₹ 22,698.32 crore) are kept as margin towards liquidity adjustment facility with the RBI.
- The Bank has made investments in certain companies wherein it holds more than 25% of the equity shares of those companies. Such investments do not fall within the definition of a joint venture as per AS-27, Financial Reporting of Interest in Joint Ventures and the said accounting standard is thus not applicable. However, pursuant to RBI guidelines, the Bank has classified these investments as joint ventures.

**10 Other Fixed Assets (including furniture and fixtures)**

Other fixed assets includes amount capitalised on software, website cost and Bombay stock exchange card. Details regarding the same are as follows :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **Cost** | | |
| As at March 31 of the previous year | 854.83 | 727.99 |
| Additions during the year | 266.10 | 126.84 |
| Deductions during the year | (0.01) | - |
| **Total (a)** | **1,120.92** | **854.83** |
| **Depreciation** | | |
| As at March 31 of the previous year | 584.14 | 475.37 |
| Charge for the year | 148.82 | 108.77 |
| On deductions during the year | (0.01) | - |
| **Total (b)** | **732.95** | **584.14** |
| **Net value as at March 31 (a-b)** | **387.97** | **270.69** |

**11 Other assets**

- Other Assets include deferred tax asset (net) of ₹ 1,913.06 crore (previous year : ₹ 1,465.34 crore). The break-up of the same is as follows :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **Deferred tax asset arising out of :** | | |
| Loan loss provisions | 1,458.44 | 939.63 |
| Employee Benefits | 120.04 | 66.30 |
| Others | 392.15 | 520.90 |
| **Total (a)** | **1,970.63** | **1,526.83** |
| **Deferred tax liability arising out of :** | | |
| Depreciation | (57.57) | (61.49) |
| **Total (b)** | **(57.57)** | **(61.49)** |
| **Deferred tax asset (net) (a-b)** | **1,913.06** | **1,465.34** |

- Other Assets includes deposits of ₹ 2.11 crore (previous year : ₹ 2.11 crore) maintained by HDFC Securities Limited with the Stock Exchange.

**12 Provisions, contingent liabilities and contingent assets**

Given below is the movement in provisions and a brief description of the nature of contingent liabilities recognised by the Bank.

**a) Provision for credit card and debit card reward points** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Opening provision for reward points | 85.80 | 59.33 |
| Provision for reward points made during the year | 109.35 | 55.10 |
| Utilisation / write back of provision for reward points | (62.65) | (22.10) |
| Effect of change in rate for accrual of reward points | 14.11 | (6.53) |
| Effect of change in cost of reward points | (16.54) | - |
| Closing provision for reward points | 130.07 | 85.80 |

**b) Provision for legal and other contingencies** **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Opening provision | 286.03 | 316.60 |
| Movement during the year (net) | 26.63 | (30.57) |
| Closing provision | 312.66 | 286.03 |

**c) Description of contingent liabilities**

| S. No. | Contingent liability* | Brief description |
|---|---|---|
| 1 | Claims against the Group not acknowledged as debts-taxation | The Group is a party to various taxation matters in respect of which appeals are pending. The Group expects the outcome of the appeals to be favorable based on decisions on similar issues in the previous years by the appellate authorities, based on the facts of the case and the provisions of Income Tax Act, 1961. |
| 2 | Claims against the Group not acknowledged as debts-others | The Group is a party to various legal proceedings in the normal course of business. The Group does not expect the outcome of these proceedings to have a material adverse effect on the Group's financial conditions, results of operations or cash flows. |
| 3 | Liability on account of forward exchange and derivative contracts | The Bank enters into foreign exchange contracts, currency options, forward rate agreements, currency swaps and interest rate swaps with inter-bank participants on its own account and for customers. 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 / principal in one currency against another, based on predetermined rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. The notional amounts of financial instruments such as foreign exchange contracts and derivatives provide a basis for comparison with instruments recognised on the Balance Sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. |
| 4 | Guarantees given on behalf of constituents, acceptances, endorsements and other obligations | As a part of its commercial banking activities the Bank issues documentary credit and guarantees on behalf of its customers. Documentary credits such as letters of credit enhance the credit standing of the customers of the Bank. Guarantees generally represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations. |
| 5 | Other items for which the Group is contingently liable | These include : a) Credit enhancements in respect of securitised-out loans b) Bills rediscounted by the Bank c) Capital commitments d) Underwriting commitments |

**Also refer Schedule 12 - Contingent Liabilities*

**13 Commission, exchange and brokerage income**

Commission, exchange and brokerage income is net of correspondent bank charges and brokerage paid on purchase and sale of investments.

# For the year ended March 31, 2013

## 14 Provisions and Contingencies

The break-up of 'Provisions and Contingencies' included in the Statement of Profit and Loss is given below : (₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Provision for income tax | | |
| - Current | 3,373.58 | 2,670.13 |
| - Deferred | (269.85) | (276.04) |
| Provision for wealth tax | 0.61 | 0.56 |
| Provision for NPAs | 1,288.05 | 1,124.86 |
| Provision for diminution in value of non performing investments | 53.73 | 93.40 |
| Provision for standard assets | 133.97 | 157.34 |
| Other provisions and contingencies* | 266.27 | 514.24 |
| **Total** | **4,846.36** | **3,871.30** |

** Includes (write-back) / provisions for tax, legal and other contingencies ₹ (133.21) crore (previous year : ₹ (164.49) crore), floating provisions ₹ 400.00 crore (previous year : ₹ 700.00 crore), provisions for securitised-out assets ₹ 5.92 crore (previous year : ₹ 9.84 crore) and standard restructured assets ₹ (6.44) crore (previous year : ₹ (4.13) crore).*

## 15 Employee benefits

### Gratuity

(₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **Reconciliation of opening and closing balance of the present value of the defined benefit obligation** | | |
| **Present value of obligation as at April 1** | **168.60** | **137.63** |
| Interest cost | 13.25 | 11.70 |
| Current service cost | 39.56 | 29.00 |
| Benefits paid | (11.89) | (9.19) |
| Actuarial (gain) / loss on obligation : | | |
| Experience adjustment | 2.61 | 1.22 |
| Assumption change | (2.31) | (1.76) |
| **Present value of obligation as at March 31** | **209.82** | **168.60** |
| **Reconciliation of opening and closing balance of the fair value of the plan assets** | | |
| Fair value of plan assets as at April 1 | 93.32 | 66.51 |
| Expected return on plan assets | 9.02 | 6.37 |
| Contributions | 40.15 | 30.55 |
| Benefits paid | (11.89) | (9.19) |
| Actuarial gain / (loss) on plan assets : | | |
| Experience adjustment | 2.00 | (0.95) |
| Assumption change | - | 0.03 |
| **Fair value of plan assets as at March 31** | **132.60** | **93.32** |
| **Amount recognised in Balance Sheet** | | |
| Fair value of plan assets as at March 31 | 132.60 | 93.32 |
| Present value of obligation as at March 31 | 209.82 | 168.60 |
| **Asset / (liability) as at March 31** | **(77.22)** | **(75.28)** |
| **Expenses recognised in Statement of Profit and Loss** | | |
| Interest cost | 13.25 | 11.70 |
| Current service cost | 39.56 | 29.00 |
| Expected return on plan assets | (9.02) | (6.37) |
| Net actuarial (gain) / loss recognised in the year | (1.69) | 0.38 |
| **Net Cost** | **42.10** | **34.71** |
| Actual return on plan assets | 11.02 | 5.45 |
| Estimated contribution for the next year | 32.08 | 41.91 |
| **Assumptions (HDFC Bank Limited)** | | |
| Discount rate | 8.1% per annum | 8.8% per annum |
| Expected return on plan assets | 8.0% per annum | 8.0% per annum |
| Salary escalation rate | 8.5% per annum | 9.0% per annum |
| **Assumptions (HDFC Securities Limited)** | | |
| Discount rate | 8.0% per annum | 8.5% per annum |
| Expected return on plan assets | 8.6% per annum | 8.6% per annum |
| Salary escalation rate | 6.0% per annum | 6.0% per annum |
| **Assumptions (HDB Financial Services Limited)** | | |
| Discount rate | 8.0% per annum | 8.3% per annum |
| Expected return on plan assets | 8.0% per annum | 8.0% per annum |
| Salary escalation rate : | | |
| General | 5.0% per annum | 5.0% per annum |
| Others | 5.0% per annum | 5.0% per annum |

**Experience adjustment** (₹ crore)

| Particulars | Year ended March 31 | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Plan assets | 132.60 | 93.32 | 66.51 | 52.24 | 45.67 |
| Defined benefit obligation | 209.82 | 168.60 | 137.63 | 100.10 | 73.19 |
| Surplus / (deficit) | (77.22) | (75.28) | (71.12) | (47.86) | (27.52) |
| Experience adjustment gain / (loss) on plan assets | 2.00 | (0.95) | - | 7.42 | (3.68) |
| Experience adjustment (gain) / loss on plan liabilities | 2.61 | 1.22 | 9.94 | (5.05) | 4.83 |

Expected rate of return on investments is determined based on the assessment made by the Group at the beginning of the year with regard to its existing portfolio. Major categories of plan assets as a percentage of fair value of total plan assets as of March 31, 2013 are given below :

| Category of Plan Assets | HDFC Bank | HDFC Securities Limited | HDB Financial Services Limited |
|---|---|---|---|
| Government securities | 33.5% | 38.0% | 13.6% |
| Debenture and bonds | 33.2% | 50.0% | 82.3% |
| Equity shares | 26.4% | 8.0% | - |
| Others | 6.9% | 4.0% | 4.1% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

**Pension** (₹ crore)

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| **Reconciliation of opening and closing balance of the present value of the defined benefit obligation** | | |
| Present value of obligation as at April 1 | 56.85 | 57.38 |
| Interest cost | 4.18 | 4.61 |
| Current service cost | 1.32 | 1.51 |
| Benefits paid | (11.09) | (10.09) |
| Actuarial (gain) / loss on obligation : | | |
| Experience adjustment | 6.12 | 1.36 |
| Assumption change | 0.81 | 2.08 |
| **Present value of obligation as at March 31** | **58.19** | **56.85** |
| **Reconciliation of opening and closing balance of the fair value of the plan assets** | | |
| Fair value of plan assets as at April 1 | 51.14 | 43.35 |
| Expected return on plan assets | 4.00 | 3.78 |
| Contributions | 6.41 | 15.39 |
| Benefits paid | (11.09) | (10.09) |
| Actuarial gain / (loss) on plan assets : | | |
| Experience adjustment | (1.58) | (1.29) |
| Assumption change | - | - |
| **Fair value of plan assets as at March 31** | **48.88** | **51.14** |
| **Amount recognised in Balance Sheet** | | |
| Fair value of plan assets as at March 31 | 48.88 | 51.14 |
| Present value of obligation as at March 31 | (58.19) | (56.85) |
| **Asset / (liability) as at March 31** | **(9.31)** | **(5.71)** |
| **Expenses recognised in Statement of Profit and Loss** | | |
| Interest cost | 4.18 | 4.61 |
| Current service cost | 1.32 | 1.51 |
| Expected return on plan assets | (4.00) | (3.78) |
| Net actuarial (gain) / loss recognised in the year | 8.51 | 4.73 |
| **Net cost** | **10.01** | **7.07** |
| Actual return on plan assets | 2.42 | 2.49 |
| Estimated contribution for the next year | 9.48 | 6.28 |
| **Assumptions** | | |
| Discount rate | 8.1% per annum | 8.8% per annum |
| Expected return on plan assets | 8.0% per annum | 8.0% per annum |
| Salary escalation rate | 8.5% per annum | 9.0% per annum |

## For the year ended March 31, 2013

**Experience adjustment** **(₹ crore)**

| Particulars | Year ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Plan assets | 48.88 | 51.14 | 43.35 | 38.78 | 36.90 |
| Defined benefit obligation | 58.19 | 56.85 | 57.38 | 40.70 | 34.60 |
| Surplus / (deficit) | (9.31) | (5.71) | (14.03) | (1.92) | 2.30 |
| Experience adjustment gain / (loss) on plan assets | (1.58) | (1.29) | 2.85 | 2.78 | (2.69) |
| Experience adjustment (gain) / loss on plan liabilities | 6.12 | 1.36 | 18.50 | 2.12 | (8.06) |

Expected rate of return on investments is determined based on the assessment made by the Bank at the beginning of the year with regard to its existing portfolio. Major categories of plan assets as a percentage of fair value of total plan assets as of March 31, 2013 are given below :

| Category of Plan Assets | % of fair value to total plan assets |
|---|---|
| Government securities | 6.5% |
| Debenture and bonds | 66.7% |
| Others | 26.8% |
| **Total** | **100.0%** |

**Provident fund**

The guidance note on AS-15, Employee Benefits, states that employer established provident funds, where interest is guaranteed are to be considered as defined benefit plans and the liability has to be valued. The Actuary Society of India (ASI) has issued a guidance note on valuation of interest rate guarantees on exempt provident funds. The actuary has accordingly valued the same and the Bank holds a provision of ₹ 9.57 crore as on March 31, 2013 (previous year : ₹ 9.77 crore) towards the present value of the guaranteed interest benefit obligation. The actuary has followed Deterministic approach as prescribed by the guidance note.

**Assumptions :**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Discount rate (GOI security yield) | 8.0% per annum | 8.8% per annum |
| Expected guaranteed interest rate | 8.6% per annum | 8.3% (1 year) & average 8.6% thereafter |

The guidance note on valuation of interest rate guarantee embedded in provident fund issued by ASI is effective from April 1, 2011. In the absence of any valuation guidance for the earlier periods, the obligation has not been valued for the earlier years.

The Bank does not have any unfunded defined benefit plan. The Bank contributed ₹ 129.54 crore (previous year : ₹ 116.54 crore) to the provident fund and ₹ 37.33 crore (previous year : ₹ 32.71 crore) to the superannuation plan.

**Compensated absences**

The actuarial liability of compensated absences of accumulated privileged and sick leaves of the employees of the Group as of March 31, 2013 is given below : **(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Privileged leave | 213.83 | 173.23 |
| Sick leave | 40.83 | 34.98 |
| Total actuarial liability | 254.66 | 208.21 |
| **Assumptions (HDFC Bank Limited)** | | |
| Discount rate | 8.1% per annum | 8.8% per annum |
| Salary escalation rate | 8.5% per annum | 9.0% per annum |
| **Assumptions (HDFC Securities Limited)** | | |
| Discount rate | 8.0% per annum | 8.5% per annum |
| Salary escalation rate | 6.0% per annum | 6.0% per annum |
| **Assumptions (HDB Financial Services Limited)** | | |
| Discount rate | 8.0% per annum | 8.3% per annum |
| Salary escalation rate : | | |
| General staff | 5.0% per annum | 5.0% per annum |
| Others | 5.0% per annum | 5.0% per annum |

## For the year ended March 31, 2013

### 16 Segment reporting

Segment reporting for the year ended March 31, 2013 is given below :

**Business segments :** (₹ crore)

| S. No. | Particulars | Treasury | Retail banking | Wholesale banking | Other banking operations | Total |
|---|---|---|---|---|---|---|
| 1 | Segment revenue | 9,711.02 | 34,919.65 | 17,633.82 | 4,979.06 | 67,243.55 |
| 2 | Unallocated revenue | | | | | 112.77 |
| 3 | Less : Inter-segment revenue | | | | | 24,362.33 |
| 4 | Income from operations (1) + (2) - (3) | | | | | 42,993.99 |
| 5 | Segment results | 225.00 | 4,424.15 | 4,751.96 | 1,817.51 | 11,218.62 |
| 6 | Unallocated expenses | | | | | 1,214.61 |
| 7 | Income tax expense (including deferred tax) | | | | | 3,103.73 |
| 8 | Net profit (5) - (6) - (7) (net profit before minority interest and earnings from associates) | | | | | 6,900.28 |
| 9 | Segment assets | 139,459.18 | 138,001.73 | 107,109.05 | 18,689.65 | 403,259.61 |
| 10 | Unallocated assets | | | | | 4,463.38 |
| 11 | Total assets (9) + (10) | | | | | 407,722.99 |
| 12 | Segment liabilities | 24,652.79 | 234,968.21 | 82,810.62 | 7,757.43 | 350,189.05 |
| 13 | Unallocated liabilities | | | | | 20,669.88 |
| 14 | Total liabilities (12) + (13) | | | | | 370,858.93 |
| 15 | Capital employed (9) - (12) | 114,806.39 | (96,966.48) | 24,298.43 | 10,932.22 | 53,070.56 |
| 16 | Unallocated (10) - (13) | | | | | (16,206.50) |
| 17 | Total (15) + (16) | | | | | 36,864.06 |
| 18 | Capital expenditure | 100.80 | 629.46 | 165.92 | 168.36 | 1,064.54 |
| 19 | Depreciation | 52.20 | 426.34 | 94.44 | 90.28 | 663.26 |

**Geographic segments :** (₹ crore)

| Particulars | Domestic | International |
|---|---|---|
| Revenue | 42,605.93 | 388.06 |
| Assets | 393,455.70 | 14,267.29 |

Segment reporting for the year ended March 31, 2012 is given below :

**Business segments :** (₹ crore)

| S. No. | Particulars | Treasury | Retail banking | Wholesale banking | Other banking operations | Total |
|---|---|---|---|---|---|---|
| 1 | Segment revenue | 7,823.56 | 27,532.72 | 15,808.41 | 3,549.47 | 54,714.16 |
| 2 | Unallocated revenue | | | | | 95.89 |
| 3 | Less : Inter-segment revenue | | | | | 20,624.33 |
| 4 | Income from operations (1) + (2) - (3) | | | | | 34,185.72 |
| 5 | Segment results | 381.99 | 3,486.82 | 3,271.85 | 1,432.47 | 8,573.13 |
| 6 | Unallocated expenses | | | | | 905.63 |
| 7 | Income tax expense (including deferred tax) | | | | | 2,394.10 |
| 8 | Net profit (5) - (6) - (7) (net profit before minority interest and earnings from associates) | | | | | 5,273.40 |
| 9 | Segment assets | 121,349.00 | 112,840.91 | 92,710.51 | 10,637.70 | 337,538.12 |
| 10 | Unallocated assets | | | | | 3,516.89 |
| 11 | Total assets (9) + (10) | | | | | 341,055.01 |
| 12 | Segment liabilities | 26,142.72 | 189,990.26 | 76,404.04 | 3,403.36 | 295,940.38 |
| 13 | Unallocated liabilities | | | | | 14,720.53 |
| 14 | Total liabilities (12) + (13) | | | | | 310,660.91 |
| 15 | Capital employed (9) - (12) | 95,206.28 | (77,149.35) | 16,306.47 | 7,234.35 | 41,597.75 |
| 16 | Unallocated (10) - (13) | | | | | (11,203.64) |
| 17 | Total (15) + (16) | | | | | 30,394.11 |
| 18 | Capital expenditure | 43.29 | 539.74 | 78.93 | 72.68 | 734.64 |
| 19 | Depreciation | 36.54 | 365.44 | 75.09 | 77.09 | 554.16 |

**Geographic segments :**

(₹ crore)

| Particulars | Domestic | International |
|---|---|---|
| Revenue | 33,958.46 | 227.26 |
| Assets | 332,361.63 | 8,693.39 |

17 **Related party disclosures**

As per AS-18, Related Party Disclosure, the Bank's related parties are disclosed below :

**Promoter**

Housing Development Finance Corporation Limited

**Enterprises under common control of the promoter**

- HDFC Asset Management Company Limited
- HDFC Developers Limited
- HDFC Investments Limited
- GRUH Finance Limited
- HDFC ERGO General Insurance Company Limited
- HDFC Ventures Trustee Company Limited
- Griha Investments
- HDFC Education and Development Services Private Limited
- HDFC Property Ventures Limited
- HDFC Life Pension Fund Management Company Limited
- HDFC Standard Life Insurance Company Limited
- HDFC Holdings Limited
- HDFC Trustee Company Limited
- HDFC Realty Limited
- HDFC Venture Capital Limited
- HDFC Sales Private Limited
- Credila Financial Services Private Limited
- HDFC Asset Management Company (Singapore) Pte. Limited
- Griha Pte Limited
- H T Parekh Foundation

**Associates**

Atlas Documentary Facilitators Company Private Limited
HBL Global Private Limited
Centillion Solutions and Services Private Limited (ceased to be an associate from December 31, 2011)
International Asset Reconstruction Company Private Limited

**Key management personnel**

Aditya Puri, Managing Director
Paresh Sukthankar, Director
Harish Engineer, Director

**Related parties to key management personnel**

Salisbury Investments Private Limited, Anita Puri, Amit Puri, Amrita Puri, Adishwar Puri, Aarti Sood, Sangeeta Sukthankar, Dattatraya Sukthankar, Shubhada Sukthankar, Akshay Sukthankar, Ankita Sukthankar, Madhavi Lad, Sudha Engineer, Shreematiben Engineer, Nikhil Engineer, Uma Engineer, Mahesh Engineer.

In accordance with paragraph 5 of AS-18, the Bank has not disclosed certain transactions with relatives of Key Management Personnel as they are in the nature of banker-customer relationship.

The significant transactions between the Bank and related parties for year ended March 31, 2013 are given below. A specific related party transaction is disclosed as a significant related party transaction wherever it exceeds 10% of all related party transactions in that category :

- Interest paid : Housing Development Finance Corporation Limited ₹ 9.79 crore (previous year : ₹ 7.55 crore); Atlas Documentary Facilitators Company Private Limited ₹ 4.08 crore (previous year : ₹ 4.04 crore)
- Rendering of services : Housing Development Finance Corporation Limited ₹ 139.59 crore (previous year : ₹ 106.97 crore); HDFC Standard Life Insurance Company Limited ₹ 472.33 crore (previous year : ₹ 456.37 crore); HDFC ERGO General Insurance Company Limited ₹ 126.31 crore (previous year : ₹ 110.44 crore)
- Receiving of services : HBL Global Private Limited ₹ 464.56 crore (previous year : ₹ 360.40 crore); Atlas Documentary Facilitators Company Private Limited ₹ 393.48 crore (previous year : ₹ 324.43 crore)
- Dividend paid : Housing Development Finance Corporation Limited ₹ 169.08 crore (previous year : ₹ 129.76 crore); HDFC Investments Limited ₹ 64.50 crore (previous year : ₹ 49.50 crore)



HDFC BANK
We understand your world

## For the year ended March 31, 2013

The Group's related party balances and transactions for the year ended March 31, 2013 are summarized as follows :

**(₹ crore)**

| Items / Related party | Promoter | Enterprises under common control of the promoter | Associates | Key management personnel | Total |
|---|---|---|---|---|---|
| Deposits taken | 1,985.17 | 566.11 | 44.13 | 5.67 | 2,601.08 |
| | (3,193.25) | (729.10) | (48.97) | (6.61) | (3,977.93) |
| Deposits placed | 0.15 | - | 38.45 | 2.22 | 40.82 |
| | (0.15) | - | (38.45) | (2.22) | (40.82) |
| Advances given | - | - | 7.98 | 0.73 | 8.71 |
| | - | - | (17.93) | (0.73) | (18.66) |
| Fixed assets purchased from | - | - | - | - | - |
| Fixed assets sold to | - | - | - | - | - |
| Interest paid to | 9.79 | 12.77 | 4.12 | 0.41 | 27.09 |
| Interest received from | - | - | 1.87 | 0.04 | 1.91 |
| Income from services rendered to | 139.59 | 668.68 | 20.95 | - | 829.22 |
| Expenses for receiving services from | 47.94 | 111.07 | 858.04 | 0.60 | 1,017.65 |
| Equity / other investments | - | - | 46.86 | - | 46.86 |
| | - | - | (52.50) | - | (52.50) |
| Dividend paid to | 169.08 | 68.83 | - | 1.15 | 239.06 |
| Dividend received from | - | - | 0.01 | - | 0.01 |
| Receivable from | 13.97 | 101.74 | 2.42 | - | 118.13 |
| | (13.97 ) | (101.74) | (2.42) | - | (118.13) |
| Payable to | - | - | 66.87 | - | 66.87 |
| | (8.12) | - | (107.23) | - | (115.35) |
| Guarantees given | 0.10 | 0.13 | - | - | 0.23 |
| | (0.10 ) | (0.13) | - | - | (0.23) |
| Remuneration paid | - | - | - | 11.95 | 11.95 |
| Loans purchased from | 5,164.40 | - | - | - | 5,164.40 |

*Figures in bracket indicate maximum balance outstanding during the year based on comparison of the total outstanding balances at each quarter-end.*

*Remuneration paid excludes value of employee stock options exercised during the year.*

The Bank being an authorised dealer, deals in foreign exchange and derivative transactions with certain parties which includes the promoter and related group companies. The foreign exchange and derivative transactions are undertaken in line with the RBI guidelines. The notional principal amount of foreign exchange and derivative contracts transacted with the promoter that were outstanding as on March 31, 2013 is ₹ 250.00 crore (previous year : ₹ 250.00 crore). The contingent credit exposure pertaining to these contracts computed in line with the extant RBI guidelines on exposure norms is ₹ 7.42 crore (previous year : ₹ 15.23 crore).

During the year ended March 31, 2013, the Bank purchased securities from HDFC Standard Life Insurance Company Limited ₹ 294.24 crore (previous year : ₹ 23.97 crore). During the year ended March 31, 2013, the Bank sold securities to HDFC Standard Life Insurance Company Limited with book values aggregating ₹ 650.02 crore (previous year : ₹ 227.92 crore), to HDFC ERGO General Insurance Company Limited ₹ 217.16 crore (previous year : ₹ 230.59 crore) and to Key Management Personnel ₹ 5.26 crore (previous year : Nil).

As of March 31, 2013, investment of HDFC Standard Life Insurance Company Limited in the Bank's Tier II bonds amounted to ₹ 61 crore (previous year : ₹ 11 crore) and that of HDFC ERGO General Insurance Company Limited amounted to ₹ 5 crore (previous year : Nil).

During the year ended March 31, 2013, the Bank paid rent of ₹ 0.66 crore (previous year : ₹ 0.66 crore) to parties related to the Bank's key management personnel in relation to residential accommodation. As at March 31, 2013, the security deposit outstanding was ₹ 4.28 crore (previous year : ₹ 4.28 crore).

The Group's related party balances and transactions for the year ended March 31, 2012 are summarised as follows :

**(₹ crore)**

| Items / Related party | Promoter | Enterprises under common control of the promoter | Associates | Key management personnel | Total |
|---|---|---|---|---|---|
| Deposits taken | 2,110.77 | 360.10 | 45.71 | 10.83 | 2,527.41 |
| | (2,110.77) | (360.10) | (45.71) | (10.83) | (2,527.41) |
| Deposits placed | 0.15 | - | 30.95 | 2.22 | 33.32 |
| | (0.15) | - | (77.60) | (2.22) | (79.97) |
| Advances given | - | - | 27.90 | 0.73 | 28.63 |
| | - | - | (34.36) | (0.73) | (35.09) |
| Fixed assets purchased from | - | - | 0.20 | - | 0.20 |
| Fixed assets sold to | - | - | 0.13 | - | 0.13 |
| Interest paid to | 7.55 | 2.36 | 4.15 | 0.43 | 14.49 |
| Interest received from | - | - | 1.39 | 0.03 | 1.42 |
| Income from services rendered to | 106.97 | 619.73 | 20.93 | - | 747.63 |
| Expenses for receiving services from | 24.79 | 36.62 | 685.50 | 0.60 | 747.51 |
| Equity / other investments | - | - | 66.13 | - | 66.13 |
| | - | - | (66.58) | - | (66.58) |
| Dividend paid to | 129.76 | 49.50 | - | 0.90 | 180.16 |
| Dividend received from | - | - | 0.01 | - | 0.01 |
| Receivable from | 13.65 | 77.32 | - | - | 90.97 |
| | (13.65) | (77.32) | (7.15) | - | (98.12) |
| Payable to | 8.35 | - | 50.89 | - | 59.24 |
| | (8.35) | - | (63.32) | - | (71.67) |
| Remuneration paid | - | - | - | 9.98 | 9.98 |
| Loans purchased | 4,977.62 | - | - | - | 4,977.62 |

*Figures in bracket indicate maximum balance outstanding during the year based on comparison of the total outstanding balances at each quarter-end.*

*Remuneration paid excludes value of employee stock options exercised during the year.*

## 18 Leases

Operating leases primarily comprise office premises, staff residences and Automated Teller Machines (ATMs), which are renewable at the option of the Bank. The details of maturity profile of future operating lease payments are given below :

**(₹ crore)**

| Particulars | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Not later than one year | 624.40 | 527.21 |
| Later than one year and not later than five years | 2,131.55 | 1,785.11 |
| Later than five years | 1,033.55 | 750.84 |
| **Total** | **3,789.50** | **3,063.16** |
| The total of minimum lease payments recognised in the Statement of Profit and Loss for the year | 712.52 | 549.51 |
| Total of future minimum sub-lease payments expected to be received under non-cancellable subleases | 64.30 | 66.82 |
| Sub-lease payments recognised in the Statement of Profit & Loss for the year | 24.22 | 24.17 |
| Contingent (usage based) lease payments recognised in the Statement of Profit and Loss for the year | 105.55 | - |

The Bank has sub-leased certain of its properties taken on lease.

The terms of renewal and escalation clauses are those normally prevalent in similar agreements. There are no undue restrictions or onerous clauses in the agreements.

## For the year ended March 31, 2013

**19 Penalties levied by the RBI**

No penalties were levied by the RBI during the year ended March 31, 2013.

**20 Small and micro industries**

*HDFC Bank Limited*

Under the Micro, Small and Medium Enterprises Development Act, 2006 which came into force from October 2, 2006, certain disclosures are required to be made relating to Micro, Small and Medium enterprises. There have been no reported cases of delays in payments to micro and small enterprises or of interest payments due to delays in such payments.

*HDFC Securities Limited*

On the basis of the information available with the Company and the intimation received from 'suppliers' regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 there are twelve (previous year – nine) suppliers registered under the said Act and there are no amounts unpaid, to the said suppliers, as at the year end and no interest is paid or considered payable.

*HDB Financial Services Limited*

As per the confirmation received from the suppliers covered under the Micro, Small and Medium Enterprises Development Act, 2006, the amount unpaid as at March 31, 2013 was Nil. During the previous year the amount unpaid was Nil.

**21 Additional disclosure**

Additional statutory information disclosed in the separate financial statements of the Bank and subsidiaries have no material bearing on the true and fair view of the consolidated financial statements and the information pertaining to the items which are not material have not been disclosed in the consolidated financial statements.

**22 Comparative figures**

Figures for the previous year have been regrouped and reclassified wherever necessary to conform to the current year's presentation.

---

As per our report of even date.

**For B S R & Co.**
*Chartered Accountants*
Firm's Registration No. : 101248W

**N Sampath Ganesh**
*Partner*
Membership No. : 042554

**Mumbai, April 23, 2013**

For and on behalf of the Board

**C. M. Vasudev**
*Chairman*

**Harish Engineer**
*Executive Director*

**Aditya Puri**
*Managing Director*

**Paresh Sukthankar**
*Executive Director*

**Sanjay Dongre**
*Executive Vice President (Legal) &*
*Company Secretary*

**A. N. Roy**
**Bobby Parikh**
**Keki Mistry**
**Partho Datta**
**Renu Karnad**
**Vijay Merchant**
*Directors*

# Statement pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Companies

**(In terms of the direction u/s 212(8) of the Companies Act, 1956 issued by the Ministry of Corporate Affairs vide General Circular no. 2/2011 dated February 8, 2012**

(As on / for the year ended March 31, 2013) (₹ **crore)**

| Name of the subsidiary | HDFC Securities Ltd. | HDB Financial Services Ltd. |
|---|---|---|
| Capital | 15.36 | 410.77 |
| Reserves & Surplus | 355.91 | 462.76 |
| Total Assets | 544.12 | 8,412.32 |
| Total Liabilities (excluding capital & reserves) | 172.85 | 7,538.80 |
| Investments | 32.84 | 2.55 |
| Turnover (total income) | 232.10 | 963.19 |
| Profit before taxation | 97.42 | 150.13 |
| Provision for taxation | 30.60 | 47.68 |
| Profit after taxation | 66.82 | 102.45 |
| Proposed Dividend including tax thereon | 1.80 | 0.00 |

## Independent Auditor's Certificate on Corporate Governance

To The Members of

HDFC Bank Limited

We have examined the compliance of conditions of corporate governance by HDFC Bank Limited ("the Bank") for the year ended 31 March 2013, as stipulated in Clause 49 of the Listing Agreement of the Bank with The BSE Limited ('BSE') and The National Stock Exchange of India Limited ('NSE') (together referred to as the 'Stock Exchanges').

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion, and to the best of our information and according to the explanations given to us, we certify that the Bank has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the management has conducted the affairs of the Bank.

**For BSR & Co.**
*Chartered Accountants*
Firm's Registration No: 101248W

**N Sampath Ganesh**
*Partner*
Membership No: 042554

Mumbai
23 April 2013



HDFC BANK
We understand your world

*[Report on Corporate Governance pursuant to Clause 49 of the Listing Agreements entered into with the Stock Exchanges and forming a part of the report of the Board of Directors]*

## PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

The Bank believes in adopting and adhering to the best recognised corporate governance practices and continuously benchmarking itself against each such practice. The Bank understands and respects its fiduciary role and responsibility towards its shareholders and strives hard to meet their expectations. The Bank believes that best board practices, transparent disclosures and shareholder empowerment are necessary for creating shareholder value.

The Bank has infused the philosophy of corporate governance into all its activities. The philosophy on corporate governance is an important tool for shareholder protection and maximisation of their long term values. The cardinal principles such as independence, accountability, responsibility, transparency, fair and timely disclosures, credibility, sustainability etc. serve as the means for implementing the philosophy of corporate governance in letter and spirit.

## BOARD OF DIRECTORS

The composition of the Board of Directors of the Bank ("Board") is governed by the provisions of the Companies Act, 1956, the Banking Regulation Act, 1949 and the listing requirements of the Indian Stock Exchanges where the securities issued by the Bank are listed. The Board has eleven (11) Directors as on March 31, 2013. All Directors, other than Mr. Aditya Puri, Mr. Harish Engineer and Mr. Paresh Sukthankar, are non-executive directors. The Bank has six (6) independent directors and five (5) non-independent directors.

None of the Directors on the Board is a member of more than ten (10) Committees and Chairman of more than five (5) Committees across all the companies in which he / she is a Director. As required by the listing agreement all the Directors have made necessary disclosures regarding Committee positions occupied by them in other companies.

Mr. Keki Mistry, Mrs. Renu Karnad, Mr. Aditya Puri, Mr. Harish Engineer and Mr. Paresh Sukthankar are non-independent Directors on the Board.

Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. Partho Datta, Mr. Bobby Parikh, Mr. A. N. Roy and Mr. Vijay Merchant are independent directors on the Board.

Mr. Keki Mistry and Mrs. Renu Karnad represent Housing Development Finance Corporation Limited (HDFC) on the Board of the Bank.

None of the directors are related to each other.

## COMPOSITION AND PROFILE OF THE BOARD OF DIRECTORS

The composition and profile of the Directors of the Bank as on March 31, 2013 is as under :

**Mr. C. M. Vasudev**

Mr. C. M. Vasudev holds a Master's Degree in Economics and Physics. Mr. Vasudev 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 laying down policies and oversight of management at World Bank. Mr. Vasudev chaired the World Bank's Committee on development effectiveness with responsibility of ensuring effectiveness of World Bank's operations and has also worked as a consultant to the World Bank and UNDP on various development policy issues.

Mr. Vasudev has also worked as Secretary, Ministry of Finance for more than 8 years and has undertaken various assignments, viz. 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 its implementation. Mr. Vasudev was also the Principal Secretary, Finance of the Government of Uttar Pradesh. Mr. Vasudev has previously been appointed as a Government nominee Director on the Board of Directors of many companies in the financial sector including State Bank of India, IDBI, ICICI, IDFC, NABARD, National Housing Bank and also on the Central Board of the Reserve Bank of India. Mr. Vasudev was also a member secretary of the Narasimham Committee on financial sector reforms and chaired a Committee on reforms of the NBFC sector. Mr. Vasudev has worked as Joint Secretary of Ministry of Commerce with responsibility for state trading, trade policy including interface with WTO.

Mr. Vasudev is Director on the boards of ICRA Management Consulting Services Limited, Star Paper Mills Limited, Power Exchange India Limited, National Securities Depository Limited (NSDL), Uttarakhand Jal Vidyut Nigam Limited, Bedrock Ventures Private Limited, Centennial Development Advisory Services India Private Limited, Skills Academy Private Limited, National Securities Clearing Corporation Limited, NSDL Database Management Limited and NSDL e-Governance Infrastructure Limited. Mr. Vasudev is a member of the Audit Committee and the Chairman of Remuneration Committee of ICRA Management Consultancy Services Limited, Chairman of Risk Management Committee, Compensation and Nomination Committee and member of Audit Committee of Power Exchange India Limited, Chairman of Remuneration Committee and Member of Audit Committee of Star Paper Mills Limited, Member of Audit Committee and Chairman of Nomination Committee of NSDL.

Mr. Vasudev does not hold any equity shares in the Bank as on March 31, 2013.

**Mr. Aditya Puri**

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. Mr. Puri has nearly 39 years of experience in the banking sector in India and abroad.

Mr. Puri has provided outstanding leadership as the Managing Director and has contributed significantly to enable the Bank scale phenomenal heights under his stewardship. The numerous awards won by Mr. Puri and the Bank are a testimony to the tremendous credibility that Mr. Puri has built for himself and the Bank over the years.

The Bank has made good progress on key parameters like balance sheet size, total deposits, net revenues, earnings per share and net profit during Mr. Puri's tenure. The rankings achieved by the Bank amongst all Indian banks with regard to market capitalization, profit after tax and balance sheet size remain amongst the top 10.

During his tenure Mr. Puri has led the Bank through two major mergers in the Indian banking industry i.e merger of Times Bank Limited and Centurion Bank of Punjab Limited with HDFC Bank Limited. The subsequent integrations have been smooth and seamless under his inspired leadership.

Mr. Puri is not a Director on the Board of Directors of any other company.

Mr. Puri holds 22,94,044 equity shares in the Bank as on March 31, 2013.

**Mr. Keki Mistry**

Mr. Keki Mistry has obtained a Bachelor's Degree in Commerce from the Mumbai University. Mr. Mistry is a qualified Chartered Accountant and a Fellow Member of the Institute of Chartered Accountants of India.

Mr. Mistry started his career with The Indian Hotels Company Limited, one of the largest chain of hotels in India.

In the year 1981, Mr. Mistry joined Housing Development Finance Corporation Limited (HDFC). Mr. Mistry 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 in 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 a Director on the Board of Directors of HDFC, 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 Company Limited, Greatship (India) Limited, Next Gen Publishing Limited, Shrenuj & Company Limited,Torrent Power Limited, HCL Technologies Limited and BSE Limited. Mr. Mistry is also member on the India Advisory Board at PriceWaterhouse Coopers and Director of Griha Investments, Mauritius, India Value Fund Advisors Private Limited and the H T Parekh Foundation. Mr. Mistry is the Chairman of the Audit Committee of the Great Eastern Shipping Company Limited, Sun Pharmaceuticals Industries Limited, Greatship (India) Limited, and Torrent Power Limited. Mr. Mistry 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.

Mr. Mistry is a member of the Compensation Committee of GRUH Finance Limited, Infrastructure Leasing & Financial Services Limited and Greatship (India) Limited. Mr. Mistry 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.

Mr. Mistry holds 2,91,915 equity shares in the Bank as on March 31,2013.

**Mrs. Renu Karnad**

Mrs. Renu Karnad is a law graduate and also holds a Master's Degree in Economics from Delhi University. Mrs. Karnad is a Parvin Fellow-Woodrow Wilson School of International Affairs, Princeton University, U.S.A.

Mrs. Karnad is a Director on the Board of Directors of BOSCH Limited, Credit Information Bureau (India) Limited, GRUH Finance Limited, Housing Development Finance Corporation Limited, HDFC Asset Management Company Limited, HDFC ERGO General Insurance Company Limited, HDFC Standard Life Insurance Company Limited, HDFC Property Ventures Limited, AKZO Nobel India Limited, Credila Financial Services Private Limited, Indraprastha Medical Corporation Limited, EIH Limited, HDFC Education and Development Services Private Limited, Feedback Infrastructure Services Private Limited, G4S Corporate Services (India) Private Limited, Value and Budget Housing Corporation (India) Private Limited and Lafarge India Private Limited. Mrs. Karnad is also a Director of H T Parekh Foundation, HDFC PLC, Maldives, WNS Global 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. Mrs. Karnad is a member of the Audit Committee of HDFC ERGO General Insurance Company Limited and member of Investor Grievance

Committee of BOSCH Limited. Mrs. Karnad is the Chairperson of the Remuneration Committee of AKZO Nobel India Limited as well as the Chairperson of Compensation Committee of HDFC Standard Life Insurance Company Limited. Mrs. Karnad is also a member of the Investment Committee, Compensation Committee, Compensation-ESOS Committee, Committee of Directors of GRUH Finance Limited; Customer Service Committee and Risk Management Committee of HDFC Asset Management Company Limited; Remuneration Committee of Credit Information Bureau (India) Limited; Investment Sub Committee and Property Sub Committee of BOSCH Limited; Allotment Committee of HDFC Education and Development Services Private Limited and a member of the Remuneration Committee and the Nomination & Governance committee of WNS Global Services Private Limited.

Mrs. Karnad holds 2,94,620 equity shares in the Bank as on March 31, 2013.

**Dr. Pandit Palande**

Dr. Pandit Palande has a Ph.D. degree in Business Administration and has completed an Advanced Course in Management from the Oxford University and the Warwick University in UK. Dr. Palande has been working as a Director of 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 of 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 Organisation ("ISRO") GAP-3 of YCMOU, Dr. Palande has been serving the academic and agriculture community on a large scale.

Dr. Palande is not a member / Chairman of the Board of Directors of any other company.

Dr. Palande does not hold equity shares in the Bank as on March 31, 2013.

**Mr. Partho Datta**

Mr. Partho Datta is an associate member of the Institute of Chartered Accountants of India. Mr. Datta 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, Mr. Datta 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. Mr. Datta is the Chairman of the Audit Committee and member of the Risk Management Committee, Investment Committee and Remuneration Committee of Peerless Funds Management Company Limited. Mr. Datta is also the Chairman of the Audit Committee and a member of the Investor Grievance Committee of Endurance Technologies Private Limited. Mr. Datta is a member of the Audit Committee and the Board Committee of IRIS Business Services Limited.

Mr. Datta has rich and extensive experience in various financial and accounting matters including financial management. Mr. Datta is one of the financial experts on the Audit & Compliance Committee of the Board.

Mr. Datta does not hold any equity shares in the Bank as on March 31, 2013.

**Mr. Bobby Parikh**

Mr. Bobby Parikh has a Bachelor's degree in Commerce from the Mumbai University and has qualified as a Chartered Accountant in 1987. Mr. Parikh is a Senior Partner with BMR & Associates LLP and leads its financial services practice. Prior to joining BMR & Associates LLP, Mr. Parikh 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. India has witnessed significant deregulation and a progressive transformation of its policy framework. 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 (MNCs into India and Indian companies into overseas markets), business model identification, structuring a business presence, mergers, acquisitions and other business reorganizations. Mr. Parikh works closely with regulators and policy formulators, in providing inputs to aid in the development of new regulations and policies, and in assessing the implications and efficacy of these and providing feedback for action. Mr. Parikh led the Financial Services industry practice at Arthur Andersen and then also at Ernst & Young, and has advised a number of banking groups, investment banks, brokerage houses, fund managers and other financial services intermediaries in establishing operations in India, mergers and acquisitions and in developing structured financial products, besides providing tax and business advisory and tax reporting services.

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, Taxand Advisors Private Limited, BMR Managed Services Private Limited, BMR Advisors Pte Limited, Aviva Life Insurance Company India Limited, Green Infra Limited, Indostar Capital Finance Limited and Birla Sun Life Asset Management Company Limited.

Mr. Parikh is the Chairman of the Audit Committee and a Member of the Investment Committee, Asset Liability Management Committee and Remuneration Committee of Aviva Life Insurance Company India Limited. Mr. Parikh is the Chairman of the Audit Committee and a member of the Compensation Committee of Green Infra Limited. Mr. Parikh is the Chairman of the Audit Committee and Member of Risk Management Committee, Compensation and Nomination Committee of Indostar Capital Finance Limited.

Mr. Parikh is liable to retire by rotation and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

Mr. Parikh holds 8,652 equity shares in the Bank as on March 31, 2013.

**Mr. A. N. Roy**

Mr. A N Roy is an M.A., M. Phil and is a distinguished retired civil servant. During his long career of 38 years in the Indian Police Service (IPS), Mr. Roy held with great distinction a range of assignments, including some of the most prestigious, challenging and sensitive ones, both in the state of Maharashtra and Government of India, including Commissioner of Police, Mumbai and DGP, Maharashtra before retiring in the year 2010.

Mr. Roy's areas of specialisation include policy planning, budget, recruitment, training and other finance and administration functions in addition to all operational matters.

A firm believer in technology in Police for providing solutions to a variety of complex problems or citizen facilitation and as ‘force-multiplier’, Mr. Roy brought in technology in a very big way in the Police department with full co-operation and support of the entire IT Industry. Mr. Roy also held the position of Director General of the Anti-Corruption Bureau, in which capacity Mr. Roy initiated a policy document on vigilance matters for Government of Maharashtra.

Mr. Roy has wide knowledge and experience of security and intelligence matters at the state and national level. Having handled multifarious field and staff assignments, Mr. Roy has a rich and extensive experience of functioning of the government at various levels and of problem solving.

Mr. Roy is a Director on the Board of India Ventures Advisors, Glaxo SmithKline Pharmaceuticals Limited, Planet Retail Holdings Limited, East Coast Energy Private Limited, Mayar Infrastructure Development Private Limited and The Skills Academy Private Limited. Mr. Roy is a member of the Senior Executives Compensation Committee of Glaxo Smithkline Pharmaceuticals Limited. Mr. Roy is the Chairman of Vandana Foundation, a non-profit company registered under section 25 of the Companies Act, 1956.

Mr. Roy is liable to retire by rotation and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

Mr. Roy does not hold equity shares in the Bank as on March 31, 2013.

**Mr. Harish Engineer**

Mr. Harish Engineer is an Executive Director in the whole-time employment of the Bank. Mr. Engineer 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 44 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 not a member / Chairman of the Board of Directors of any other company.

Mr. Engineer holds 3,40,000 equity shares in the Bank as on March 31, 2013.

**Mr. Paresh Sukthankar**

Mr. Paresh Sukthankar is an Executive Director in the whole-time employment of the Bank. Mr. Sukthankar has done his Masters in Management Studies (MMS) from Jamnalal 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 direct or supervisory responsibilities for the Bank’s Credit and Risk Management, Finance and Human Resources functions and for various strategic initiatives of the Bank.

Prior to joining the Bank, Mr. Sukthankar worked in Citibank for around 9 years, in various departments including corporate banking, risk management, financial control and credit administration. Mr. Sukthankar has been a member of various committees formed by Reserve Bank of India and Indian Banks’ Association.

Mr. Sukthankar is not a member / Chairman of the Board of Directors of any other company.

Mr. Sukthankar holds 5,86,755 equity shares in the Bank as on March 31, 2013.

**Mr. Vijay Merchant**

Mr. Vijay Merchant was appointed as an additional director of the Bank during the year. Mr. Merchant is a Commerce graduate and has done Post Graduate studies in Business Management from IIM, Ahmedabad where he was awarded a merit scholarship in 1966. Mr. Merchant majored in Finance & Marketing from IIM, Ahmedabad. After initial training with the Mafatlal Group Central Finance Division, Mr. Merchant headed a large consumer products agency house, serving FMCG companies in South India for a decade. Subsequently Mr. Merchant has owned and managed Dynam Plastics, a SSI plastic unit manufacturing industrial products for local and export markets.

Over the last 30 years Mr. Merchant has worked on several national bodies of both the plastics industry and packaging industry on critical issues of development of the SSI sector. Besides, for over a decade Mr. Merchant has been actively involved in environmental issues of the plastic and packaging industries on global forums.

As a professional with a passion for environment protection Mr. Merchant has been one of the founders of the India Center for Plastics in Environment since 1999 and a live link between society, the government and the plastics industry, initiating projects and programmes and also sharing these with Asian neighbours and associations in western countries.

Since 2007 Mr. Merchant has been on the Board of HDFC Asset Management Company Limited and is a member of the Risk Management, Customer Service and Share Allotment Committees of the said company.

Mr. Merchant holds 2,500 equity shares in the Bank as on March 31, 2013.

## BOARD MEETINGS

During the year under review, six (6) Board Meetings were held. The meetings were held on April 18, 2012, July 13, 2012, October 12, 2012, December 17, 2012, January 18 , 2013 and March 14, 2013.

Details of attendance at the Board Meetings held during the year under review, directorship, membership and chairmanship in other companies for each director of the Bank are as follows :

| *Name of Director* | *Attendance at the Bank's Board Meetings* | *Directorship of other Indian Public Limited Companies* | *Membership of Other Companies' Committees* | *Chairmanship of Other Companies' Committees* |
|---|---|---|---|---|
| Mr. C. M. Vasudev | 6 | 8 | 6 | 2 |
| Mr. Aditya Puri | 6 | Nil | Nil | Nil |
| Mr. Keki Mistry | 6 | 13 | 10 | 4 |
| Mrs. Renu Karnad | 5 | 11 | 9 | 5 |
| Mr. Ashim Samanta[1] | 3 | Nil | Nil | Nil |
| Dr. Pandit Palande | 6 | Nil | Nil | Nil |
| Mr. Partho Datta | 6 | 2 | 4 | 2 |
| Mr. Bobby Parikh | 6 | 4 | 6 | 3 |
| Mr. A. N. Roy | 6 | 2 | Nil | Nil |
| Mr. Harish Engineer | 5 | Nil | Nil | Nil |
| Mr. Paresh Sukthankar | 6 | Nil | Nil | Nil |
| Mr. Vijay Merchant[2] | Nil | 1 | Nil | Nil |

*1 Ceased to be a Director w.e.f November 19, 2012*

*2 Inducted as an additional director with effect from March 14 2013*

***Note: Pursuant to clause 49 of the Listing Agreement, for the purpose of considering the limit of the Committees on which the directors are members / Chairmen, all public limited companies, whether listed or not, are included. Private Limited companies, foreign companies and companies under Section 25 of the Companies Act, 1956 are excluded. Further Chairmanship / Membership only of the Audit Committee and the Shareholders' Grievance Committee have been considered.***

## ATTENDANCE AT LAST AGM

All the directors of the Bank other than Mr. Vijay Merchant, who was appointed as a director on March 14, 2013, attended the previous Annual General Meeting held on July 13, 2012.

## REMUNERATION OF DIRECTORS

### Mr. C. M. Vasudev, Chairman

During the year, Mr. C. M. Vasudev was paid remuneration of ₹ 15,00,000/-.Mr. Vasudev is also paid sitting fees for attending Board and Committee meetings. The remuneration of the Chairman has been approved by the Reserve Bank of India.

### Managing Director and other Executive Directors:

The details of the remuneration paid to Mr. Aditya Puri, Managing Director; Mr. Harish Engineer and Mr. Paresh Sukthankar, Executive Directors during the year 2012-13 are as under :

(Amount in ₹)

| **Particulars** | **Mr. Aditya Puri** | **Mr. Harish Engineer** | **Mr. Paresh Sukthankar** |
|---|---|---|---|
| Basic Salary | 19,837,500 | 11,046,000 | 11,046,000 |
| Allowances & Perquisites | 12,606,477 | 14,411,976 | 12,054,339 |
| Provident Fund | 2,380,500 | 1,325,520 | 1,325,520 |
| Superannuation | 2,975,625 | 1,656,900 | 1,656,900 |
| Performance Bonus | 12,384,120 | 7,389,804 | 7,389,804 |
| Employees Stock Options | Nil | Nil | Nil |

The remuneration of the Managing Director and the Executive Directors as above has been approved by the Reserve Bank of India (RBI) and the shareholders.

The Bank provides for gratuity in the form of lump-sum payment on retirement or on death while in employment or on termination of employment of an amount equivalent to 15 (Fifteen) days basic salary payable for each completed year of service. The Bank makes annual contributions to funds 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, 1962 wherever applicable and at actual cost to the Bank otherwise) such as the benefit of the Bank's 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 other benefits like provident fund, superannuation and gratuity are provided in accordance with the rules of the Bank in this regard.

No sitting fees are paid to Mr. Puri, Mr. Engineer and Mr. Sukthankar for attending meetings of the Board and / or its Committees.

## DETAILS OF REMUNERATION / SITTING FEES PAID TO DIRECTORS

All the non-executive directors other than the Chairman receive remuneration only by way of sitting fees for each meeting of the Board and its various committees. No stock options are granted to any of the non-executive directors.

Sitting fees @ ₹ 20,000/- per meeting are paid for attending each meeting of the Board and its various Committees except for the Investor Grievance (Share) Committee for which sitting fees @ ₹ 10,000/- per meeting are paid to the directors.

The details of sitting fees paid to non-executive directors during the year for attending meetings of the Board and its various committees are as under :

| Name of the Director | Sitting Fees (₹) |
|---|---|
| Mr. C.M. Vasudev | 740,000 |
| Mr. Keki Mistry | 640,000 |
| Mrs. Renu Karnad | 330,000 |
| Mr. Ashim Samanta | 470,000 |
| Dr. Pandit Palande | 720,000 |
| Mr. Partho Datta | 620,000 |
| Mr. Bobby Parikh | 680,000 |
| Mr. A. N. Roy | 340,000 |

## COMPOSITION OF COMMITTEES OF DIRECTORS AND ATTENDANCE AT THE MEETINGS

The Board has constituted various Committees of Directors to take informed decisions in the best interest of the Bank. These Committees monitor the activities falling within their terms of reference. Some of the Committees of the Board were reconstituted during the year.

The Board's Committees are as follows :

### Audit and Compliance Committee

The Audit and Compliance Committee of the Bank comprises Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. Bobby Parikh and Mr. Partho Datta. The Committee is chaired by Mr. C. M. Vasudev. Mr. Sanjay Dongre, the Company Secretary of the Bank, acts as the secretary of the Committee.

The Committee met ten (10) times during the year. The meetings of the Committee were held on April 17, 2012, May 15, 2012, July 12, 2012, August 24, 2012, October 12, 2012, December 17, 2012, January 17, 2013, March 6, 2013, March 14, 2013 and March 31, 2013.

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 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 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.

The Board has also adopted a Charter for the Audit Committee in accordance 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, considers grant of stock options to employees and reviews compensation levels of the Bank's employees vis-à-vis other banks and the banking industry in general.

The Bank's compensation policy provides a fair and consistent basis for motivating and rewarding employees appropriately according to their job profile / role size, performance, contribution, skill and competence.

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 five times during the year. The meetings of the Committee were held on April 17, 2012, July 12, 2012, August 24, 2012, January 17, 2013 and March 14, 2013.

### Investor Grievance (Share) Committee

The Investor Grievance Committee approves and monitors transfer, transmission, splitting and consolidation of shares, and considers requests for dematerialization of shares. Allotment of shares to the employees on exercise of stock options granted under the various Employees Stock Option Schemes which are made in terms of the powers delegated by the Board in this regard, are placed before the Committee for ratification. The Committee also monitors redressal of complaints from shareholders relating to transfer of shares, non-receipt of Annual Report, dividends etc.

The Committee consists of Mr. A. N. Roy, Mrs. Renu Karnad, Mr. Aditya Puri and Mr. Paresh Sukthankar. The Committee is chaired by Mr. A. N. Roy. The powers to approve share transfers and dematerialization requests have been delegated to executives of the Bank to avoid delays that may arise due to non-availability of the members of the Committee. Mr. Sanjay Dongre, the Company Secretary of the Bank is the Compliance Officer responsible for expediting the share transfer formalities.

As on March 31, 2013, 16 instruments of transfer for 4,685 equity shares were pending for transfer and these have since been processed. The details of the transfers are reported to the Board from time to time.

During the year ended March 31, 2013, 2,577 complaints were received from the shareholders. All the complaints were attended to and as on March 31, 2013 no complaints remained unattended or pending. Besides, 9,827 letters were received from the shareholders relating to change of address, nomination requests, email id and contact details updation, IFSC / MICR code updation, ECS / NECS Mandates, claim of shares from Unclaimed Suspense account, queries relating to the annual reports, sub- division of shares of face value of Rs.10/- each to Rs.2/- each and amalgamation, request for revalidation of dividend warrants and other investor related matters. These letters have also been responded to.

The Committee met 6 (six ) times during the year. The meetings of the Committee were held on April 18, 2012, July 13, 2012, October 12, 2012, December 17, 2012, January 18, 2013 and March 14, 2013.

### Risk Policy and Monitoring Committee

The Risk Policy and Monitoring Committee has been formed as per the guidelines of Reserve Bank of India on Asset Liability Management / Risk Management Systems. The Committee develops Bank's credit and market risk policies and procedures, verifies adherence to various risk parameters and prudential limits for treasury operations and reviews its risk monitoring system. The Committee also ensures that the Bank's credit exposure to any one group or industry does not exceed the internally set limits and that the risk is prudentially diversified.

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

The Committee met 6 (Six) times during the year. The meetings of the Committee were held on April 18, 2012, July 12, 2012, October 11, 2012, December 17, 2012, January 18, 2013 and March 14, 2013.

### 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.

As on March 31, 2013, the Committee consisted of Mr. Bobby Parikh, Mr.Keki Mistry, Mr. Aditya Puri and Mr. Harish Engineer.

The Credit Approval Committee was reconstituted by the Board at its meeting held on April 23, 2013 by adding Mr.Vijay Merchant as a member of the Committee.

The Committee met eighteen (18) times during the year. The meetings of the Committee were held on April 4, 2012, May 4, 2012, May 23, 2012, June 8, 2012, June 14, 2012, July 18, 2012, August 31, 2012, September 26, 2012, October 1, 2012, October 19, 2012, November 12, 2012, December 13, 2012, December 17, 2012, December 20, 2012, January 18, 2013, February 2, 2013, February 25, 2013 and March 22, 2013.

### 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. As on March 31, 2013 the Committee consisted of Mrs. Renu Karnad, Dr. Pandit Palande and Mr. Aditya Puri.

The Premises Committee was reconstituted by the Board at its meeting held on April 23, 2013 when Mr.Vijay Merchant was appointed as a member of the Committee in addition to the members mentioned above.

The Committee met five (5) times during the year. The meetings of the Committee were held on April 18, 2012, July 13, 2012, October 12, 2012, January 18, 2013 and March 14, 2013.

### 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 with reference to 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 the integrity and suitability, features like criminal records, financial position, civil actions undertaken to pursue personal debts, refusal of admission to and expulsion from professional bodies, sanctions applied by regulators or similar bodies and previous questionable business practice are considered.

As on March 31, 2013, the Committee consisted of Mr. C. M. Vasudev and Dr. Pandit Palande. Both these members are independent directors.

The Nomination Committee was reconstituted by the Board at its meeting held on April 23, 2013 by including Mr. Partho Datta as a member of the Committee.

The Committee met twice during the year. The meetings of the Committee were held on April 17, 2012 and March 14, 2013.

**Fraud Monitoring Committee**

Pursuant to the directions of the RBI, the Bank has constituted a Fraud Monitoring Committee, exclusively dedicated to the monitoring and following up of cases of fraud involving amounts of ₹ 1,00,00,000/- (Rupees One Crore Only) and above. The objectives of this 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 Committee are as under:

a. Identify the systemic lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same;

b. Identify the reasons for delay in detection, if any and report to top management of the Bank and RBI;

c. Monitor progress of Central Bureau of Investigation / Police Investigation 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 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 Committee are Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. Partho Datta, Mr. A. N. Roy, Mr. Keki Mistry and Mr.Aditya Puri.

The Committee met four (4) times during the year. The meetings of the Committee were held on April 18, 2012, July 12, 2012, October 11, 2012, and January 17, 2013.

**Customer Service Committee**

The Customer Service Committee monitors the quality of services rendered to the customers and also ensures implementation of directives received from the RBI in this regard. The terms of reference of the Committee are to formulate comprehensive deposit policy incorporating the issues arising out of the demise of a depositor for operation of his account, the product approval process, the annual survey of depositor satisfaction and the triennial audit of such services.

The members of the Committee are Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. A. N. Roy, Mr. Keki Mistry and Mr. Aditya Puri.

The Committee met four (4) times during the year. The meetings of the Committee were held on April 18, 2012, July 12, 2012, October 11, 2012 and January 17, 2013.

**Corporate Social Responsibility (CSR) Committee**

At its meeting held on April 23, 2013, the Board constituted a CSR Committee with the following terms of reference:

- To formulate the Bank's CSR Strategy, Policy and Goals
- To monitor the Bank's CSR policy and performance
- To review the CSR projects/initiatives from time to time
- To ensure legal and regulatory compliance from a CSR viewpoint
- To ensure reporting and communication to stakeholders on the Bank's CSR

Mrs. Renu Karnad, Mr.Partho Datta, Mr.Bobby Parikh, Mr.Aditya Puri and Mr.Paresh Sukthankar are the members of the CSR Committee.

## COMPOSITION OF COMMITTEES OF DIRECTORS AND THE ATTENDANCE AT THE MEETINGS

**Audit & Compliance Committee**
*[Total ten meetings held]*

| Name | No. of meetings attended |
|---|---|
| Mr. C. M. Vasudev[1] | 10 |
| Mr. Ashim Samanta[2] | 5 |
| Dr. Pandit Palande | 10 |
| Mr. Partho Datta[3] | 10 |
| Mr. Bobby Parikh | 10 |

**Risk Policy & Monitoring Committee**
*[Total six meetings held]*

| Name | No. of meetings attended |
|---|---|
| Mrs. Renu Karnad | 5 |
| Mr. C. M. Vasudev | 6 |
| Mr. Partho Datta | 6 |
| Mr. Aditya Puri | 5 |
| Mr. Paresh Sukthankar | 5 |

**Compensation Committee**
*[Total five meetings held]*

| Name | No. of meetings attended |
|---|---|
| Mr. C. M. Vasudev | 5 |
| Dr. Pandit Palande | 5 |
| Mr. Partho Datta | 5 |
| Mr. Bobby Parikh | 5 |

**Credit Approval Committee**
*[Total eighteen meetings held]*

| Name | No. of meetings attended |
|---|---|
| Mr. Ashim Samanta[2] | 10 |
| Mr. Bobby Parikh | 13 |
| Mr. Keki Mistry | 18 |
| Mr. Aditya Puri | 10 |
| Mr. Harish Engineer | 17 |

**Investor Grievance (Share) Committee**
*[Total six meetings held]*

| Name | No. of meetings attended |
|---|---|
| Mr. Ashim Samanta[2] | 3 |
| Mr. A. N. Roy | 6 |
| Mrs. Renu Karnad | 5 |
| Mr. Aditya Puri | 6 |
| Mr. Paresh Sukthankar | 6 |

**Premises Committee**
*[Total five meetings held]*

| Name | No. of meetings attended |
|---|---|
| Mrs. Renu Karnad | 4 |
| Mr. Ashim Samanta[2] | 3 |
| Dr. Pandit Palande | 5 |
| Mr. Aditya Puri | 5 |

**Customer Service Committee**
*[Total four meetings held]*

| Name | No. of meetings attended |
|---|---|
| Mr. C. M. Vasudev | 4 |
| Dr. Pandit Palande | 4 |
| Mr. A. N. Roy | 4 |
| Mr. Keki Mistry | 4 |
| Mr. Aditya Puri | 3 |

**Nomination Committee**
*[Total two meeting held]*

| Name | No. of meetings attended |
|---|---|
| Mr. C. M. Vasudev | 2 |
| Mr. Ashim Samanta[2] | 1 |
| Dr. Pandit Palande | 2 |

**Fraud Monitoring Committee**
*[Total four meetings held]*

| Name | No. of meetings attended |
|---|---|
| Mr. C. M. Vasudev | 4 |
| Dr. Pandit Palande | 4 |
| Mr. Partho Datta | 4 |
| Mr. A. N. Roy | 4 |
| Mr. Keki Mistry | 4 |
| Mr. Aditya Puri | 3 |

[1] *Includes 1 meeting attended through teleconference*

[2] *Ceased to be a director with effect from November 19, 2012*

[3] *Includes 1 meeting attended through video conference*

## OWNERSHIP RIGHTS

Certain rights that a shareholder in a company enjoys:

- To transfer the shares and receive the share certificates upon transfer within the period prescribed in the Listing Agreement.
- To receive notice of general meetings, annual report, the balance sheet and profit and loss account and the auditors' report.
- To appoint proxy to attend and vote at the general meetings. In case the member is a body corporate, to appoint a representative to attend and vote at the general meetings of the company on its behalf.
- To attend and speak in person, at general meetings. Proxy cannot vote on show of hands but can vote on a poll. In case of vote on poll, the number of votes of a shareholder is proportionate to the number of equity shares held by him.
- As per Banking Regultion Act, 1949, the voting rights on a poll of a shareholder of a banking company are capped at 10% of the total voting rights of all the shareholders of the banking company. In terms of the Banking Laws Amendment Act, 2012, the Banking Regulation Act, 1949 has been amended to provide that the Reserve Bank of India would have the powers to increase in a phased manner the ceiling on voting rights from 10% to 26%. The amendment is effective from January 18, 2013.

- To demand poll along with other shareholder(s) who collectively hold 5,000 shares or are not less than 1/10th of the total voting power in respect of any resolution.
- To requisition an extraordinary general meeting of any company by shareholders who collectively hold not less then 1/10th of the total paid-up capital of the company.
- To move amendments to resolutions proposed at general meetings
- To receive dividend and other corporate benefits like rights, bonus shares etc. as and when declared / announced.
- To inspect various registers of the company, minute books of general meetings and to receive copies thereof after complying with the procedure prescribed in the Companies Act, 1956.
- To make nomination in respect of shares held by the shareholder.

The rights mentioned above are prescribed in the Companies Act, 1956 and Banking Regulation Act, 1949, wherever applicable, and should be followed only after careful reading of the relevant sections. These rights are not necessarily absolute.

## GENERAL BODY MEETINGS

*(During the three previous financial years)*

The 16th, 17th and 18th Annual General Meetings of the Bank were held at Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020 at 2.30 p.m. on June 30, 2010, July 6, 2011 and July 13, 2012 respectively. One special resolution each was passed at the 16th and 17th Annual General Meetings. No special resolution was passed at 18th Annual General Meeting.

## POSTAL BALLOT

During the year under review, no resolutions were passed through postal ballot and no special resolution is proposed to be conducted through postal ballot.

## DISCLOSURES

During the year, the Bank has not entered into any materially significant transactions with the promoters, directors, the management, subsidiaries or relatives of the Directors, which could have a potential conflict of interest between the Bank and these parties, other than the transactions entered into in the normal course of business. Transactions with related parties entered into by the Bank in the normal course of business were placed before the Audit Committee. There were no material individual transactions with related parties, which were not in the normal course of business, nor were there any material transactions with related parties or others, which were not on an arm's length basis. The senior management of the Bank has made disclosures to the Board confirming that there are no material, financial and / or commercial transactions between them and the Bank, which could have a potential conflict of interest with the Bank at large. Details of related party transactions entered into during the year ended March 31, 2013 are given in Schedule 18, Note No. 25 forming part of 'Notes to Accounts'.

There are no penalties levied upon the Bank by any regulatory authority during the year 2012-13.

The details of penalties levied by the Reserve Bank of India (RBI) during 2011-12 are as below :

The RBI issued a show cause notice in October 2010 to the Bank 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 the Bank as observed in its annual financial inspection of the Bank with respect to its financial position as at and for the years ended March 31, 2007 and March 31, 2008.Subsequently, the Bank, vide its letter dated October 19, 2010, submitted a detailed response to the RBI explaining the Bank's position and clarifying that the Bank was in compliance with the RBI guidelines. While RBI accepted some of the submissions made by the Bank, few other submissions made in the matter were not accepted by RBI. RBI, accordingly, imposed a penalty of ₹ 15,00,000 (Fifteen Lakhs) 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. The stated amount was paid by the Bank during the year ended March 31, 2012.

During the year 2010-11, no penalty was levied on the Bank by regulatory authorities in relation to depository activities carried out.

Other than the above, no penalties or strictures were imposed on the Bank by any of the Stock Exchanges or any statutory authority on any matter relating to capital markets, during the last three (3) years.

## COMPLIANCE WITH MANDATORY REQUIREMENTS

The Bank has complied with all the mandatory requirements of the Code of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India.

## COMPLIANCE WITH NON-MANDATORY REQUIREMENTS

**a) Board of Directors**

The Bank maintains the expenses relating to the office of non-executive Chairman of the Bank and reimburses all the expenses incurred in performance of his duties. Pursuant to Section 10-A(2A) of the Banking Regulation Act, 1949, none of the directors, other than the Chairman and/or whole-time directors, is permitted to hold office continuously for a period exceeding 8 (eight) years. All the independent directors of the Bank possess requisite qualifications and experience which enable them to contribute effectively to the Bank.

**b) Remuneration Committee**

The Bank has set up a Compensation Committee of Directors to determine the Bank's policy on remuneration packages for all executive directors and employees. The Committee comprises of independent directors. Mr. C. M. Vasudev is the Chairman of the Committee.

**c) Shareholder's Rights**

The Bank publishes its results on its website at www.hdfcbank.com which is accessible to the public at large. Besides, the same are also available on www.corpfiling.co.in. A half-yearly declaration of financial performance including summary of the significant events is presently not being sent separately to each household of shareholders. The Bank's results for each quarter are published in an English newspaper having a wide circulation and in a Marathi newspaper having a wide circulation in Maharashtra. Hence, half-yearly results are not sent to the shareholders individually.

**d) Audit Qualifications**

During the period under review, there is no audit qualification in the Bank's financial statements. The Bank continues to adopt best practices to ensure regime of unqualified financial statements.

**e) Training of Board Members**

The Bank's Board consists of professionals with expertise in their respective fields and industry. The Directors endeavour to keep themselves updated with changes in global economy and legislation. They attend various workshops and seminars to keep themselves abreast with the changes in the business environment.

**f) Mechanism for evaluating non-executive Board Members**

The Nomination Committee evaluates the non-executive Board members every year. The performance evaluation of the members of the Nomination Committee is conducted by the Board excluding the Directors being evaluated.

**g) Whistle Blower Policy**

The Bank has adopted the Whistle Blower Policy pursuant to which employees of the Bank can raise their concerns relating to fraud, malpractice or any other activity or event which is against the interest of the Bank or society as a whole. Details of complaints received and the action taken are reviewed by the Audit and Compliance Committee. The functioning of the Whistle Blower mechanism is reviewed by the Audit and Compliance Committee from time to time. None of the Bank's personnel have been denied access to the Audit and Compliance Committee.

**SHAREHOLDERS HOLDING MORE THAN 1% OF THE SHARE CAPITAL OF THE BANK AS AT MARCH 31, 2013**

| Sr No. | Name of the Shareholder | No. of Shares held | % of share capital |
|---|---|---|---|
| 1 | JP Morgan Chase Bank, NA (Depository for ADS)* | 39,49,90,419 | 16.60 |
| 2 | Housing Development Finance Corporation Limited | 39,32,11,100 | 16.53 |
| 3 | HDFC Investments Limited | 15,00,00,000 | 6.30 |
| 4 | Life Insurance Corporation Of India | 10,67,87,756 | 4.49 |
| 5 | Europacific Growth Fund | 5,73,45,000 | 2.41 |
| 6 | ICICI Prudential Life Insurance Company Limited | 5,14,93,724 | 2.16 |
| 7 | Abu Dhabi Investment Authority | 4,86,57,578 | 2.04 |
| 8 | Government Of Singapore | 3,03,85,685 | 1.28 |
| 9 | DB International (Asia) Ltd | 2,72,15,064 | 1.14 |

* One (1) American Depository Share (ADS) represents three (3) underlying equity shares of the Bank

| DISTRIBUTION OF SHAREHOLDING AS AT MARCH 31, 2013 | | | | | |
|---|---|---|---|---|---|
| **Share Range From** | **Share Range To** | **No. of Shares held** | **% of share capital** | **No. of Holders** | **% of No. of Holders** |
| 1 | 2500 | 10,37,53,624 | 4.36 | 4,30,920 | 97.74 |
| 2501 | 5000 | 1,72,40,292 | 0.73 | 4,785 | 1.09 |
| 5001 | 10000 | 1,32,60,571 | 0.56 | 1,866 | 0.42 |
| 10001 | 15000 | 88,70,351 | 0.37 | 711 | 0.16 |
| 15001 | 20000 | 69,64,297 | 0.29 | 398 | 0.09 |
| 20001 | 25000 | 59,78,632 | 0.25 | 263 | 0.06 |
| 25001 | 50000 | 2,13,78,372 | 0.90 | 605 | 0.14 |
| 50001 | and above | 220,19,72,891 | 92.54 | 1,305 | 0.30 |
| **TOTAL** | | **237,94,19,030** | **100** | **4,40,853** | **100** |

3,66,592 folios comprising of 235,57,27,070 equity shares forming 99% of the share capital are in the demat form.
74,261 folios comprising of 2,36,91,960 equity shares forming 1% of the share capital are in physical form.

| CATEGORIES OF SHAREHOLDERS AS AT MARCH 31, 2013 | | |
|---|---|---|
| **Category** | **No. of Shares held** | **% of share capital** |
| Promoters (*) | 54,32,16,100 | 22.83 |
| ADS Depository (J.P Morgan Chase Bank) | 39,49,90,419 | 16.60 |
| GDR (Deutsche Bank Trust Co. Americas) | 1,14,45,645 | 0.48 |
| Foreign Institutional Investors & Qualified Foreign Investors | 81,06,65,727 | 34.07 |
| Overseas Corporate Bodies, Non-Resident Indians, Foreign Bodies & Foreign National | 1,31,08,395 | 0.55 |
| Banks, Mutual Funds , Financial Institutions and Central Government | 8,12,38,865 | 3.41 |
| LIC and its Subsidiaries | 10,67,87,756 | 4.49 |
| GIC & its subsidiaries | 49,53,516 | 0.21 |
| Indian Companies | 14,17,04,508 | 5.96 |
| Others | 27,13,08,099 | 11.40 |
| **TOTAL** | **237,94,19,030** | **100.00** |

( * ) None of the equity shares held by the Promoter Group are under pledge

## GLOBAL DEPOSITORY RECEIPTS ("GDR")

The monthly high and low quotation of the Bank's GDRs traded on Luxembourg Stock Exchange are as under: **(in US$)**

| Month | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Last Price** | 5.108 | 4.478 | 5.031 | 5.290 | 5.358 | 5.949 | 5.897 | 6.483 | 6.176 | 6.040 | 5.753 | 5.748 |
| **High** | 5.285 | 5.150 | 5.031 | 5.343 | 5.487 | 5.972 | 6.098 | 6.483 | 6.409 | 6.334 | 6.281 | 6.044 |
| **Low** | 5.059 | 4.319 | 4.398 | 5.080 | 5.212 | 5.269 | 5.817 | 5.799 | 6.117 | 6.038 | 5.723 | 5.573 |

2 GDRs represent one underlying equity share of the Bank

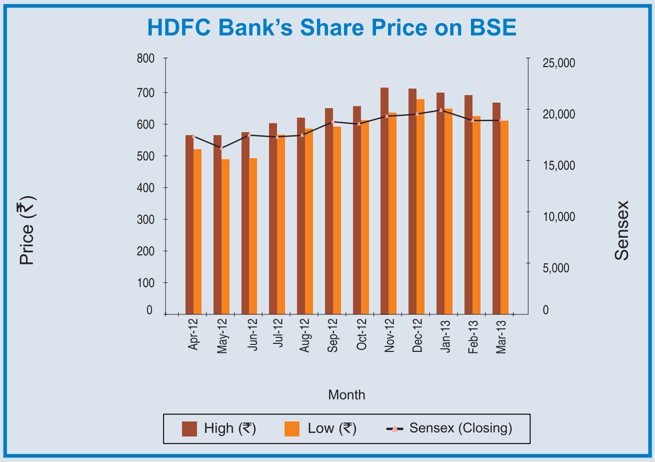
## SHARE PRICE / CHART

**The monthly high and low quotation of Bank's equity shares traded on Bombay Stock Exchange Ltd (BSE) and National Stock Exchange of India Ltd (NSE) during FY 2012-13 and its performance vis-à-vis BSE SENSEX and S&P CNX NIFTY respectively is as under:**

### Bombay Stock Exchange Limited

| Month | High (₹) | Low (₹) | Sensex Closing |
|---|---|---|---|
| April, 2012 | 557.70 | 515.70 | 17,318.81 |
| May, 2012 | 556.95 | 482.30 | 16,218.53 |
| June, 2012 | 565.00 | 485.10 | 17,429.98 |
| July, 2012 | 593.55 | 560.25 | 17,236.18 |
| August, 2012 | 609.70 | 577.30 | 17,429.56 |
| September, 2012 | 639.25 | 583.55 | 18,762.74 |
| October, 2012 | 644.90 | 604.50 | 18,505.38 |
| November, 2012 | 705.00 | 628.00 | 19,339.90 |
| December, 2012 | 700.00 | 670.00 | 19,426.71 |
| January, 2013 | 690.00 | 641.30 | 19,894.98 |
| February, 2013 | 680.75 | 618.00 | 18,861.54 |
| March, 2013 | 659.50 | 602.00 | 18,835.77 |

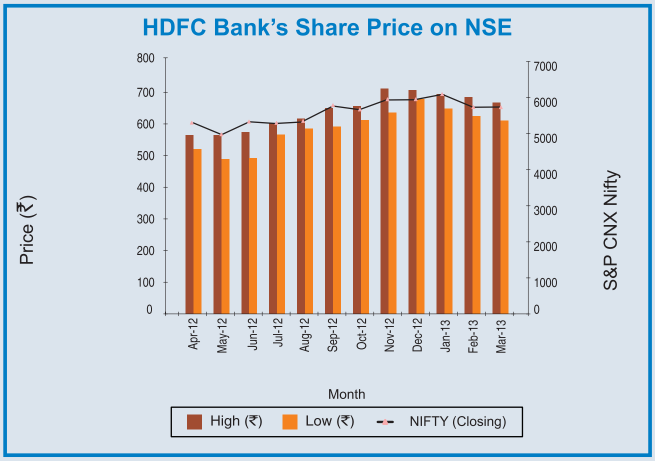
*Source : www.bseindia.com*




### National Stock Exchange of India Limited

| Month | High (₹) | Low (₹) | Nifty Closing |
|---|---|---|---|
| April, 2012 | 558.00 | 515.85 | 5,248.15 |
| May, 2012 | 558.00 | 482.20 | 4,924.25 |
| June, 2012 | 564.90 | 485.05 | 5,278.90 |
| July, 2012 | 593.80 | 560.00 | 5,229.00 |
| August, 2012 | 609.50 | 577.30 | 5,258.50 |
| September, 2012 | 638.90 | 583.35 | 5,703.30 |
| October, 2012 | 644.80 | 505.05 | 5,619.70 |
| November, 2012 | 705.50 | 627.50 | 5,879.85 |
| December, 2012 | 701.15 | 669.75 | 5,905.10 |
| January, 2013 | 690.00 | 640.10 | 6,034.75 |
| February, 2013 | 680.90 | 619.35 | 5,693.05 |
| March, 2013 | 660.00 | 602.55 | 5,682.55 |

*Source : www.nseindia.com*



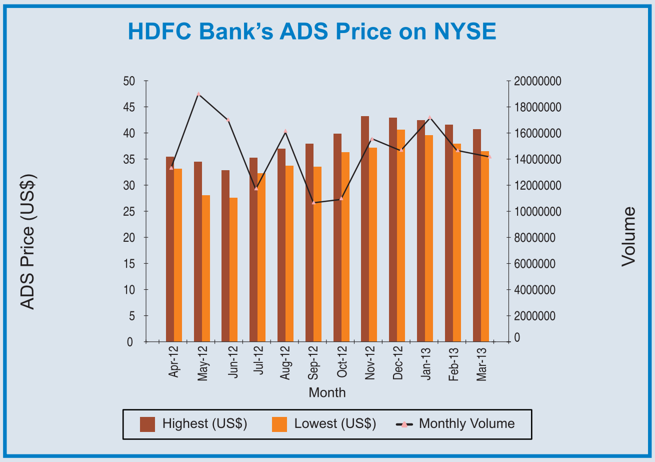

**The monthly high and low quotation and the volume of Bank's American Depository Shares (ADS) traded on New York Stock Exchange (NYSE) during FY 2012-13**

### NY Stock Exchange Limited

| Month | High ($) | Low ($) | Monthly Volume |
|---|---|---|---|
| April, 2012 | 35.21 | 33.00 | 1,29,69,600 |
| May, 2012 | 34.40 | 27.83 | 1,88,51,900 |
| June, 2012 | 32.60 | 27.30 | 1,69,24,800 |
| July, 2012 | 35.00 | 31.94 | 1,14,91,700 |
| August, 2012 | 36.73 | 33.58 | 1,59,29,800 |
| September, 2012 | 37.80 | 33.36 | 1,05,66,900 |
| October, 2012 | 39.32 | 36.09 | 1,08,62,600 |
| November, 2012 | 43.02 | 36.87 | 1,55,14,400 |
| December, 2012 | 42.51 | 40.38 | 1,44,84,100 |
| January, 2013 | 42.11 | 39.23 | 1,70,47,200 |
| February, 2013 | 41.23 | 37.64 | 1,44,68,900 |
| March, 2013 | 40.40 | 36.24 | 1,42,61,500 |

*Source : www.nyse.nyx.com*

Note: Other than the stock options granted to the employees of the Bank which will result in an addition to the equity capital of the Bank on the exercise of the stock options and subsequent allotment of equity shares, the Bank has no outstanding warrants or other convertible instruments as on March 31, 2013 which could have an impact on the equity capital of the Bank.






HDFC BANK
We understand your world

**FINANCIAL CALENDAR**
*[April 1, 2013 to March 31, 2014]*

| | |
|---|---|
| Board Meeting for consideration of accounts and recommendation of dividend | April 23, 2013 |
| Posting of Annual Report | May 27, 2013 to June 1, 2013 |
| Book closure for 19th Annual General Meeting | June 15, 2013 to June 27, 2013 (both days inclusive) |
| Last date of receipt of proxy forms | June 25, 2013 ( upto 2.30 pm) |
| Date, Time and Venue of 19th AGM | June 27, 2013 ; 2.30 p.m.;<br>Birla Matushri Sabhagar,<br>19, New Marine Lines, Mumbai 400 020 |
| Dividend Declaration Date | June 27, 2013 |
| Probable date of payment of dividend | Electronic : From June 28, 2013 onwards.<br>Physical : From July 5, 2013 onwards. |
| Board Meetings for considering unaudited results for first 3 quarters of FY 2013-14 | Within 21 days of the end of each quarter. |

## CODE OF CONDUCT

The Bank has framed and adopted a Code of Conduct, which is approved by the Board. The Code is applicable to all directors and senior management personnel of the Bank. This Code has been posted on the Bank's website **www.hdfcbank.com**. All the Directors and senior management personnel have affirmed compliance with the Code of Conduct/Ethics as approved and adopted by the Board.

## LISTING

**Listing on Indian Stock Exchanges :**

The equity shares of the Bank are listed at the following Stock Exchanges and the annual fees for 2013-14 have been paid :

| Sr. No. | NAME AND ADDRESS OF THE STOCK EXCHANGE | STOCK CODE |
|---|---|---|
| 1. | Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 023 | 500180 |
| 2. | The National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Bandra Kurla Complex, Bandra (East), Mumbai 400 051 | HDFCBANK |

*Names of Depositories in India for dematerialisation of equity shares (ISIN No. INE040A01026)*

- National Securities Depository Limited (NSDL)
- Central Depository Services (India) Limited (CDSL)

**International Listing :**

| Sr. No. | Security description | Name & Address of the International Stock Exchange | Name & Address of Depository |
|---|---|---|---|
| 1 | The American Depository Shares **(ADS)**<br>(CUSIP No. 40415F101) | The New York Stock Exchange (Ticker – HDB)<br>11, Wall Street, New York, N.Y. 11005 | J P Morgan Chase Bank, N.A.<br>4, New York Plaza, 13th Floor,<br>New York, NY 10004 |
| 2 | Global Depository Receipts (GDRs)<br>(ISIN/ Trading Code :<br>US40415F2002) | Luxembourg Stock Exchange<br>**Postal Address :**<br>11, av de la Porte-Neuve,<br>L – 2227 Luxembourg.<br>**Mailing Address :**<br>B.P. 165, L – 2011, Luxembourg | Deutsche Bank Trust Company America.<br>2, Boulevard Konrad Adenauer<br>L – 1115 Luxembourg |

The Depository for ADS is represented in India by: J. P. Morgan Chase Bank N.A. , India Sub Custody, J P Morgan Chase Bank NA, 6th Floor, Paradigm "B" Wing, Behind Toyota Showroom, Mindspace, Malad (West), Mumbai – 400 064.

The Depository for GDRs is represented in India by : ICICI Bank Limited, Bandra-Kurla Complex, Mumbai 400 051

## SHARE TRANSFER PROCESS

The Bank's shares which are in compulsory dematerialised (demat) list are transferable through the depository system. Shares in physical form are processed by the Registrars and Share Transfer Agents, Datamatics Financial Services Limited and approved by the Investors' Grievance (Share) Committee of the Bank or authorised officials of the Bank. The share transfers are generally processed within a period of fifteen (15) days from the date of receipt of the transfer documents by Datamatics Financial Services Limited.

## MEANS OF COMMUNICATION

The quarterly and half-yearly unaudited / audited financial results are published in Business Standard in English and Mumbai Sakal in Marathi (regional language). The results are also displayed on the Bank's web-site at **www.hdfcbank.com**. The shareholders can visit the Bank's web-site for financial information, shareholding information, dividend policy, key shareholders' agreements, if any, Memorandum and Articles of Association of the Bank, etc. The web-site also gives a link to **www.sec.gov** where the investors can view statutory filings of the Bank with the Securities and Exchange Commission, USA.

The information relating to the Bank's financial results and shareholding pattern are posted with Corporate Filing & Dissemination System (Corpfiling) at **www.corpfiling.co.in** through the Stock Exchanges.

Quarterly results, press releases and presentations etc. are regularly displayed on the Bank's web-site.

## CODE FOR PREVENTION OF INSIDER TRADING

The Bank has adopted a share dealing code for the prevention of insider trading in the shares of the Bank. The share dealing code, *inter alia*, prohibits purchase / sale of shares of the Bank by employees while in possession of unpublished price sensitive information in relation to the Bank.

## SHAREHOLDERS' HELPDESK

Share transfers, dividend payments and all other investor related activities are attended to and processed at the office of Registrars and Transfer Agents.

For lodgement of transfer deeds and any other documents or for any grievances / complaints, shareholders / investors may contact at the following address :

**Ms. Manisha Parkar / Mr. C. R. Rao**

Datamatics Financial Services Ltd, Plot No. B 5, Part B Crosslane, MIDC, Marol, Andheri (East), Mumbai 400 093,

Tel : +91-022- 66712213-14
Fax : +91-022 - 28213404; E-mail : hdinvestors@dfssl.com
**Counter Timings :** 10:00 a.m. to 4:30 p.m.
(Monday to Friday except public holidays)

For the convenience of investors, transfers up to 500 shares and complaints from investors are accepted at the Bank's Office at 2nd Floor, Trade House, Senapati Bapat Marg, Kamala Mills Compound, Lower Parel (West), Mumbai 400 013.

**Shareholders' Helpdesk Timings :** 10:30 a.m. to 3.30 p.m.

Between Monday to Friday (except on Bank holidays)
Telephone:+91-022-24988484 Extn:3463&3476 Fax:24965235
Email : shareholder.grievances@hdfcbank.com

Queries relating to the Bank's operational and financial performance may be addressed to :

shareholder.grievances@hdfcbank.com

Name of the Compliance Officer of the Bank :

Mr. Sanjay Dongre,
Executive Vice President (Legal) & Company Secretary
Telephone : +91-022-24988484 Extn : 3473

## BANKING CUSTOMER HELPDESK

In the event of any queries / complaints, banking customers can directly approach the Branch Manager or can call/write to the Bank using the following contact details :

Call at: Our customer care (Phone Banking) numbers.

Location wise list of customer care numbers are available at :

**http://www.hdfcbank.com/personal/find-your-nearest/find-phone-banking**

**Write to :**

HDFC Bank Ltd., New Building, "A" Wing, 2nd Floor,
26-A Narayan Property, Chandivali Farm Road, Off Saki Vihar Road, Chandivali, Andheri (East), Mumbai - 400 072.
**Email** : support@hdfcbank.com

**Contact us online** :

Fill up the "Complaint Form" available at the following website link :

**https://leads.hdfcbank.com/applications/webforms/apply/complaint_form.asp**

For grievances other than Shareholder grievances please send your communication to the following email addresses:

Depository Services : **dphelp@hdfcbank.com**
Retail Banking / ATM/ Debit Cards / Mutual Fund : **support@hdfcbank.com**
Loans; Advances / Advance against shares: **loansupport@hdfcbank.com**
Credit Cards : **customerservices.cards@hdfcbank.com**

## COMPLIANCE CERTIFICATE OF THE AUDITORS

The Statutory Auditors have certified that the Bank has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges and the same is annexed to the Annual Report.

The Certificate from the Statutory Auditors will be sent to the Stock Exchanges along with the Annual Report of the Bank.

On behalf of the Board of Directors

C. M. Vasudev
Mumbai, April 23, 2013 Chairman

**DECLARATION**

I confirm that for the year under review, all directors and senior management have affirmed their adherence to the provisions of the Code of Conduct.

Aditya Puri
Mumbai, April 23, 2013 Managing Director



HDFC BANK
We understand your world

## A) DIVIDENDS :

**Receipt of Dividends through Electronic mode :**

Securities and Exchange Board of India (SEBI) has vide Circular No. CIR/MRD/DP/10/2013 dated March 21, 2013 directed that Listed Companies shall mandatorily make all payments to Investors, including Dividend to shareholders, by using any Reserve Bank of India (RBI) approved electronic mode of payment Viz. ECS, LECS (Local ECS), RECS (Regional ECS), NECS (National ECS), NEFT etc.

In order to receive the dividend without loss of time, all the eligible shareholders holding shares in demat mode are requested to update with their respective Depository Participants before 14th June, 2013 their correct Bank Account Number, including 9 Digit MICR Code and 11 digit IFSC Code, E- Mail ID and Mobile No(s). This will facilitate the remittance of the dividend amount as directed by RBI in the Bank Account electronically. Updation of E - Mail IDs and Mobile No(s) will enable sending communication relating to credit of dividend, unencashed dividend etc.

Shareholders holding shares in physical form may communicate details relating to their Bank Account, 9 Digit MICR Code, 11 digit IFSC Code, E- Mail ID and Mobile No(s) to the Registrar and Share Transfer Agents Viz. Datamatics Financial Services Limited, having address at Plot No. B 5, Part B Crosslane, MIDC, Marol, Andheri (E), Mumbai-400 093, before 10th June, 2013 by quoting the reference folio number and attaching a photocopy of the Cheque leaf of their Active Bank account and a self attested copy of their PAN card.

**Various modes for making payment of Dividends under Electronic mode :**

In case the shareholder has updated the complete and correct Bank account details (including 9 digit MICR Code and 11 digit IFSC code) before the Book Closure fixed for the purpose of payment of dividend, then the Bank shall make the payment of dividend to such shareholder under any one of the following modes :

1. National Electronic Clearing Service (NECS)
2. Electronic Clearing Service (ECS)
3. National Electronic Fund Transfer (NEFT)
4. Direct credit in case the bank account is with HDFC Bank Limited.

In case dividend payment by electronic mode is returned or rejected by the corresponding bank due to some reason, then the Bank will issue a dividend warrant and print the Bank account details available on its records on the said dividend warrant to avoid fraudulent encashment of the warrants.

The Register of Members and the Share Transfer Books shall remain closed from 15th June, 2013 to 27th June, 2013 (both days inclusive) for the purpose of dividend.

**Unclaimed Dividends**

In terms of the provisions of Section 205C of the Companies Act, 1956, the Bank is statutorily required to transfer to the Investor Education & Protection Fund (IEPF) all dividends remaining unclaimed for a period of 7 (Seven) years from the date they became due for payment. Once such amounts are transferred to IEPF, no claim of the shareholder shall lie against the Bank or the IEPF. Dividends for and up to the financial year ended 31st March 2005 have already been transferred to the IEPF and the dividend for the financial year 31st March, 2006 is in the process of being transferred to IEPF. The details of unclaimed dividends for the financial year 2006-07 onwards and the last date for claiming such dividends are given below :

| Dividend for the year ended | Date of Declaration of dividend | Last date for claiming dividend |
|---|---|---|
| 31st March, 2007 | 16th June, 2007 | 15th June, 2014 |
| 31st March, 2008 | 10th June, 2008 | 9th June, 2015 |
| 31st March, 2009 | 14th July, 2009 | 13th July, 2016 |
| 31st March, 2010 | 30th June, 2010 | 29th June, 2017 |
| 31st March, 2011 | 6th July, 2011 | 5th July, 2018 |
| 31st March, 2012 | 13th July, 2012 | 12th July, 2019 |

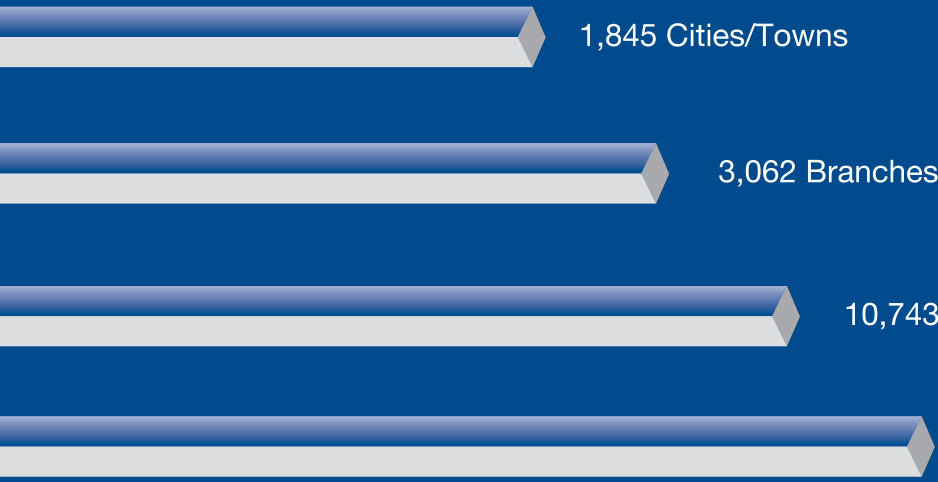
## B) UNCLAIMED SUSPENSE ACCOUNT

As on 31st March 2013, there were 25,11,040 shares which are lying unclaimed in the 'Unclaimed Suspense Account' as per the details given below :

| Particulars | Folios | Shares |
|---|---|---|
| Opening Balance in Unclaimed Suspense Account as on 1st April, 2012 | 14,209 | 26,26,990 |
| Add: Transferred during the year 2012-13 | - | - |
| Less: Claims received from the Shareholders and shares transferred during 2012-13 | 281 | 1,15,950 |
| Closing Balance in Unclaimed Suspense Account as on 31st March, 2013 | 13,928 | 25,11,040 |

# Notes

# Notes




HDFC BANK

We understand your world