

HDFC BANK LTD  
Form 20-F  
July 29, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington D.C. 20549**

**FORM 20-F**

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

**OR**

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

**For the fiscal year ended March 31, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**OR**

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

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

**Commission file number 001-15216**

**HDFC BANK LIMITED**

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

**Not Applicable**

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

**India**

**(Jurisdiction of incorporation or organization)**

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

**(Address of principal executive offices)**

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

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

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>American Depositary Shares, each representing three</b>	<b>The New York Stock Exchange</b>

**Equity Shares, Par value Rs. 2.0 per share**

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

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

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

<b>Equity Shares, as of March 31, 2016</b>	<b>2,528,186,517</b>
--------------------------------------------	----------------------

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

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

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

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

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

Large accelerated filer       Accelerated filer       Non-accelerated filer

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

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

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

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

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

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

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

In fiscal 2012, the Indian rupee depreciated coming under pressure amidst a widening current account deficit, thin capital inflows and rising global uncertainty spurred by lingering financial and economic instability in Europe and the United States. This trend continued in fiscal 2013. During fiscal 2014, the rupee came under immense and sustained selling pressure driven by growing anxiety about domestic growth prospects and global risk aversion. The rupee depreciated in fiscal 2014 by 10.1%. Investor expectations that reforms implemented by India's government will lead to an improvement in the long-term growth outlook helped to improve the rupee's performance, reducing the depreciation trend to 3.85% in fiscal 2015. During fiscal 2016 the rupee depreciated by 6.32% (the high and low during fiscal 2016 were Rs. 68.84 per US\$1.00 and Rs 61.99 per US\$1.00, respectively) primarily reflecting global risk aversion and a strong U.S. dollar. The following table sets forth, for the periods indicated, information concerning the exchange rates between Indian rupees and U.S. dollars based on the noon buying rate in the city of New York for cable transfers of Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

<b>Fiscal Year</b>	<b>Period End<sup>(1)</sup></b>	<b>Average<sup>(1)(2)</sup></b>	<b>High</b>	<b>Low</b>
2012	50.89	47.81	53.71	44.00
2013	54.52	54.36	57.13	50.64
2014	60.00	60.35	68.80	53.65
2015	62.31	61.11	63.67	58.30
2016	66.25	65.39	68.84	61.99

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

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

<b>Month</b>	<b>Period End</b>	<b>Average</b>	<b>High</b>	<b>Low</b>
January 2016	67.87	67.33	68.08	66.49
February 2016	68.21	68.24	68.84	67.57
March 2016	66.25	66.89	67.75	66.25
April 2016	66.39	66.42	66.70	66.05
May 2016	67.12	66.89	67.59	66.36
June 2016	67.51	67.27	67.92	66.51

Although we have translated selected Indian rupee amounts in this document into U.S. dollars for convenience, this does not mean that the Indian rupee amounts referred to could have been, or could be, converted to U.S. dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York for cable transfers in Indian rupees at US\$ 1.00 = Rs. 66.25 on March 31, 2016. The Federal Reserve Bank of New York certifies this rate for customs purposes on each date the rate is given. The noon buying rate on July 22, 2016 was Rs. 67.19 per US\$ 1.00.

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**FORWARD-LOOKING STATEMENTS**

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

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

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

We have grown rapidly since commencing operations in January 1995. In the five years ended March 31, 2016, we expanded our operations from 1,986 branches and 5,471 Automated Teller Machines (ATMs) in 996 cities/towns to 4,520 branches and 12,000 ATMs in 2,587 cities/towns. During the same five-year period, our customer base increased from 21.9 million customers to over 37 million customers. On account of the expansion in our geographical reach and the resultant increase in market penetration, our assets have grown from Rs. 2,920.2 billion as of March 31, 2011 to Rs. 7,736.7 billion as of March 31, 2016. Our net income has increased from Rs. 41.2 billion for fiscal 2011 to Rs. 117.9 billion for fiscal 2016.

Our financial condition and results of operations are affected by general economic conditions prevailing in India. The macroeconomic conditions in India continued to improve in fiscal 2016. Despite the slowdown in global growth and two consecutive years of monsoon shortfall, the Indian economy recorded a growth rate of 7.6%, its highest growth rate in five years, according to the Indian Central Statistics Office (CSO). The average level of CPI inflation declined from 6.0% in fiscal 2015 to 4.9% in fiscal 2016, domestic manufacturing growth improved to a robust 9.5% in fiscal 2016 compared to 5.5% in fiscal 2015 (CSO estimate), and foreign direct investment (FDI) into the country increased by 28.0%. A range of supply-side measures, including prudent food stock management, appropriate monetary policy action and subdued global commodity prices, aided the decline in inflation. In addition, initiatives such as Make in India, certain power sector reforms, the liberalization of FDI rules, higher government capital expenditure and enduring levels of urban consumption supported the overall growth momentum.

Export growth declined from 1.7% in fiscal 2015 to negative 5.2% in fiscal 2016 primarily on account of weak external demand and the value impact of low commodity prices. Similarly, muted domestic demand growth (including rural consumption and private investment) and subdued international commodity prices helped keep India's external and fiscal balances in check. The current account deficit remained low and broadly unchanged at 1.5% of GDP, while the fiscal gap declined from 4.1% of GDP in fiscal 2015 to 3.9% of GDP in fiscal 2016.

The focus of fiscal policy in the coming year is on the revival of the rural economy and a sustained increase in capital expenditure. In addition, increased government spending through various social sector programs, the implementation of the recommendations of the Seventh Pay Commission for higher public sector wages, and the upturn in the rural economy supported by a normal monsoon should pave the way for an increase in domestic demand.

The Reserve Bank of India's (RBI) accommodative monetary policy, including a focus on more effective transmission of policy rate reductions, taken together with further structural reforms from the government, should, on balance, lead to an improvement in the growth-inflation mix for fiscal 2017. Accordingly, headline GDP growth could increase to 7.8% in fiscal 2017 from 7.6% in fiscal 2016, which may, in turn, lead to an improvement in domestic credit growth, which picked-up from 8.4% in fiscal 2015 to 10.6% in fiscal 2016.

Notwithstanding the pace of growth in India, we believe we have maintained a strong balance sheet and a low cost of funds. As of March 31, 2016, net non-performing customer assets (which consist of loans and credit substitutes)

constituted 0.4% of net customer assets. In addition, our net customer assets represented 95.9% of our deposits and our deposits represented 70.5% of our total liabilities and shareholders' equity. The average non-interest bearing current accounts and low-interest bearing savings accounts represented 38.2% of total deposits for the period ended March 31, 2016. These low-cost deposits and the cash float associated with our transactional services led to an average cost of funds (including equity) for fiscal 2016 of 4.9%.

We had a cash outflow of approximately Rs. 9.7 billion, Rs. 8.9 billion and Rs. 10.0 billion in fiscals 2014, 2015 and 2016, respectively, principally for property, plant and equipment, including our branch network expansion and our technology and communications infrastructure. We have budgeted for approximately Rs. 12.0 billion of aggregate capital expenditure in fiscal 2017. This amount includes Rs. 2.9 billion to expand our branch and back office network, Rs. 1.1 billion to expand our ATM network and Rs. 4.8 billion to upgrade and expand our hardware, data center, network and other systems. The balance will be primarily used to add new equipment in our existing premises, expand our existing premises and relocate our branches and back offices. We may use these budgeted amounts for other purposes depending on, among other factors, the business environment prevailing at the time. As a result, our actual capital expenditures may be higher or lower than the budgeted amounts.

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HDFC Bank was incorporated in August 1994 and commenced operations as a scheduled commercial bank in January 1995. In 2000, we merged with Times Bank Limited and, in 2008, we acquired Centurion Bank of Punjab (CBoP). We are part of the HDFC group of companies established by our principal shareholder, Housing Development Finance Corporation Limited (HDFC Limited), a listed public limited company established under the laws of India. HDFC Limited is primarily engaged in financial services, including mortgages, property-related lending and deposit services. The subsidiaries and associated companies of HDFC Limited are also largely engaged in a range of financial services, including asset management, life insurance and other insurance. HDFC Limited and its subsidiaries owned 21.5% of our outstanding equity shares as of March 31, 2016. Our Chairperson and Managing Director are nominated by HDFC Limited and appointed with the approval of our shareholders and the RBI. In addition, Mr. Keki Mistry, Vice Chairman and Chief Executive Officer of HDFC Limited, and Mrs. Renu Karnad, Managing Director of HDFC Limited, are members of our Board of Directors and have been appointed independent of HDFC Limited's entitlement to nominate two directors. See also the section *Principal Shareholders*. We have no agreements with HDFC Limited or any of its group companies that restrict us from competing with them or that restrict HDFC Limited or any of its group companies from competing with our business. We currently distribute products of HDFC Limited and its group companies, such as home loans of HDFC Limited, life and general insurance products of HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited, respectively, and mutual funds of HDFC Asset Management Company Limited.

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

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

## **Our Competitive Strengths**

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

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

We believe our HDFC Bank brand is one of the strongest brands in the Indian banking industry and we were acknowledged as the most valuable brand in India for the second consecutive year in a study conducted by WPP's marketing and brand consultancy, Millward Brown. In addition, we were featured as the only Indian brand in the 2016 Brandz™ Top 100 Most Valuable Global Brands ranking released by WPP and Millward Brown. We have capitalized on our strong brand by establishing an extensive branch network throughout India serving a broad range of customers in urban, semi-urban and rural regions. As of March 31, 2016, we had 4,520 branches and 12,000 ATMs in 2,587 cities and towns and over 37 million customers. Our branch network is further complemented by our digital strategy, including online and mobile banking solutions, to provide our customers with access to on-demand banking services, which we believe allows us to develop strong and loyal relationships with our customers.

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



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

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

On account of our superior operational execution, broad range of products, expansion in our geographical reach and the resultant increase in market penetration through our extensive branch network, our assets have grown from Rs. 6,259.0 billion as of March 31, 2015 to Rs. 7,736.7 billion as of March 31, 2016. Our net income has increased from Rs. 99.2 billion for fiscal 2015 to Rs. 117.9 billion for fiscal 2016. In addition to the significant growth in our assets and net revenue, we remain focused on maintaining a high level of asset quality. Our gross non-performing customer assets as a percentage of total customer assets was 1.0% as of March 31, 2016 and our net non-performing customer assets was 0.4% of net customer assets. Our net interest margin was 4.8% in fiscal 2015 and 4.6% in fiscal 2016, net income as a percentage of average total shareholders' equity was 16.1% in fiscal 2015 and 14.4% in fiscal 2016 and net income as a percentage of average total assets was 1.9% in fiscal 2015 and 1.7% in fiscal 2016. Our current and savings account deposits as a percentage of our total deposits were 43.3% as of March 31, 2016.

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

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

We are constantly working to develop new technology and improve the digital aspects of our business. Certain major technological developments include the introduction of our bilingual mobile banking application and person-to-person smartphone payment solution, Chillr, the introduction of PayZapp with SmartBuy, a comprehensive and convenient secure payment system to improve our e-commerce processing capabilities, and the creation of a virtual relationship manager for high net worth customers. Continuing this important theme of digitization, we have appointed a dedicated digital innovation team to research and experiment with technology and, in March 2016, hosted the first Digital Innovation Summit to attract new talent and business opportunities from the financial technology space.

In addition, we have developed robust data analytics capabilities that allow us to market and cross-sell our products to customers through both traditional relationship management and interactive, on-demand methods depending on how particular customers choose to interact with us. We have also implemented state-of-the-art engineered systems technology for some of the important backend operational systems, including doubling the capacity of our operational customer relationship management system. We believe that our direct banking platforms are stable and robust, enabling new ways to connect with our customers to cross-sell various products and improve customer retention.

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

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

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### **Our Business Strategy**

Our business strategy emphasizes the following elements:

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

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

#### ***Increase our geographical reach***

As of March 31, 2016, we had 4,520 branches, 12,000 ATMs in 2,587 cities and towns. We believe we can continue expanding our branch footprint, particularly by focusing on rural and semi-urban areas. We believe these areas represent a significant opportunity for our continued growth as we expand banking services to those areas which have traditionally been underserved and which, by entering such markets, will enable us to establish new customer bases. We also believe that delivering banking services which are integrated with our existing business and product groups helps us to provide viable opportunities to the sections of the rural and semi-urban customer base that is consistent with our targeted customer profile throughout India.

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

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

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

We believe the increased availability of internet access and broadband connectivity across India requires a comprehensive digital strategy to proactively develop new methods of reaching our customers. As a result, we are continuously investing in technology as a means of improving our customers' banking experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with their banking accounts with us. We believe our culture of innovation and development to be crucial to remaining competitive. As part of our dedication to digitization and technological development, we have appointed a digital innovation team to research, develop and experiment with new technologies, and, in March 2016, we hosted a Digital Innovation Summit to tap into emerging technological trends that are shaping the financial technology space.

While we currently provide a range of options for customers to access their accounts, including net banking, telephone banking, and banking applications on mobile devices, we believe additional investments in our technology infrastructure to further develop our digital strategy will allow us to cross-sell a wider range of products on our digital platform in response to our customers' needs and thereby expand our relationship with our customers across a range of customer segments. We believe a comprehensive digital strategy will provide benefits in developing long-term customer relationships by allowing customers to interact with us and access their accounts wherever and whenever they desire.

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

We have maintained high quality loan and investment portfolios through careful targeting of our customer base, and by putting in place what we believe are comprehensive risk assessment processes and diligent risk monitoring and remediation procedures. Our gross non-performing customer assets as a percentage of total customer gross assets was 1.0% as of March 31, 2016 and our net non-performing customer assets as a percentage of net customer assets was 0.4% as of March 31, 2016. As of March 31, 2016, our gross restructured loans as a percentage of gross non-performing loans were 8.0%. We believe we can maintain strong asset quality appropriate to the loan portfolio composition while achieving growth.

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

We believe we can maintain a relatively low-cost funding base as compared to our competitors, by leveraging our strengths and expanding our base of retail savings and current deposits and increasing the free float generated by transaction services, such as cash management and stock exchange clearing. Our average cost of funds (including equity) was at 5.0% for fiscal 2015 and 4.9% for the fiscal 2016.

**Table of Contents****Our Principal Business Activities**

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

	2014		Year ended March 31, 2015		2016		
	(in millions, except percentages)						
Retail banking	Rs.199,306.9	81.0%	Rs.245,670.7	82.2%	Rs.304,223.4	US\$ 4,592.0	82.7%
Wholesale banking	39,302.8	16.0%	45,416.6	15.2%	48,340.9	729.7	13.1%
Treasury operations	7,368.8	3.0%	7,910.3	2.6%	15,099.8	227.9	4.2%
Net revenue	Rs.245,978.5	100.0%	Rs.298,997.6	100.0%	Rs.367,664.1	US\$ 5,549.6	100.0%

**Retail Banking***Overview*

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

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

As of March 31, 2016, we had 4,520 branches and 12,000 ATMs in 2,587 cities and towns. We also provide telephone banking, internet and mobile banking to our customers. We plan to continue to expand our branch and ATM network as well as our other distribution channels, subject to regulatory guidelines/approvals.

**Table of Contents*****Retail Loans and Other Asset Products***

We offer a wide range of retail loans, including loans for the purchase of automobiles, personal loans, retail business banking loans, loans for the purchase of commercial vehicles and construction equipment finance, two-wheeler loans, credit cards and loans against securities. Our retail loans were 69.3% of our gross loans of which 18.8% were unsecured as of March 31, 2016. Apart from our branches, we use our ATMs and the internet to promote our loan products and we employ additional sales methods depending on the type of products. We perform our own credit analysis of the borrowers and the value of the collateral if the loan is secured. See *Risk Management Credit Risk Retail Credit Risk* . We also buy mortgage and other asset-backed securities and invest in retail loan portfolios through assignments. In addition to taking collateral, in many cases, we generally obtain post-dated checks covering all payments at the time a retail loan is made. It is a criminal offense in India to issue a bad check. We also occasionally obtain instructions to debit the customer's account directly for making payments. Our unsecured personal loans, which are not supported by any collateral, are a greater credit risk for us than our secured loan portfolio. We may be unable to collect in part or at all on an unsecured personal loan in the event of non-payment by the borrower. Accordingly, personal loans are granted at a higher contracted interest rate since they carry a higher credit risk as compared to secured loans. Also see *Risk Factors Our unsecured loan portfolio is not supported by any collateral that could help ensure repayment of the loan, and in the event of non-payment by a borrower of one of these loans, we may be unable to collect the unpaid balance* .

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

	At March 31, 2016 Value (in millions)		% of Total Value
<b>Retail Assets:</b>			
Auto loans	Rs. 589,010.3	US\$ 8,890.7	16.9%
Personal loans / Credit Cards	626,152.2	9,451.4	18.0%
Retail business banking	791,857.3	11,952.6	22.8%
Commercial vehicle and construction equipment finance	369,992.4	5,584.8	10.6%
Housing loans	318,692.0	4,810.4	9.2%
Other Retail Loans	762,861.5	11,514.8	21.9%
Total retail loans	3,458,565.7	52,204.7	99.4%
Mortgage-backed securities	667.7	10.1	%
Asset-backed securities	19,179.8	289.5	0.6%
Total retail assets	Rs. 3,478,413.2	US\$ 52,504.3	100.0%

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

***Auto Loans***

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



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### *Personal Loans/ Credit Cards*

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

We also offer credit cards from the VISA and MasterCard ranges, including gold, silver, corporate, platinum, titanium, signature, infinite, regalia, superia and world credit cards. During fiscal 2016, the Bank launched three co-brand premium variants under the Diners brand along with Jet, Snap deal, and Maruti Nexa. This enables the Bank to cater to the specific needs of super-premium customers requiring global card benefits. We had approximately 6.0 million and 7.3 million cards outstanding as of March 31, 2015 and March 31, 2016, respectively.

### *Retail Business Banking*

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

### *Commercial Vehicles and Construction Equipment Finance*

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

### *Housing Loans*

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

### *Other Retail Loans*

#### *Two-Wheeler Loans*

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

#### *Loans Against Securities*

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



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

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

**Table of Contents***Loan Assignments*

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

*Kisan Gold Card (Agri Loans)*

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

*Loans Against Gold Jewelry*

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

**Retail Deposit Products**

Retail deposits provide us with a low cost, stable funding base and have been a key focus area for us since commencing operations. Retail deposits represented approximately 79.8% of our total deposits as of March 31, 2016. The following chart shows the book value of our retail deposits by our various deposit products:

	At March 31, 2016		% of total
	Value (in millions)		
Savings	Rs.1,441,762.0	US\$ 21,762.4	33.0%
Current	498,962.3	7,531.5	11.5%
Time	2,416,720.6	36,478.8	55.5%
Total	Rs.4,357,444.9	US\$ 65,772.7	100.0%

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

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

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

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

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

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### **Other Retail Services and Products**

#### ***Debit Cards***

We had around 21.6 million and 23.0 million debit cards outstanding as of March 31, 2015 and March 31, 2016, respectively. The cards can be used at ATMs and point-of-sales terminals in India and in other countries across the world.

#### ***Individual Depository Accounts***

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

#### ***Mutual Fund Sales***

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

#### ***Insurance***

We have arrangements with HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited to distribute their life insurance and general insurance products, respectively, to our customers. We earn upfront commissions on new premiums collected as well as some trailing income in subsequent years in certain cases while the policy is still in force. Our commission income for fiscal 2016 includes fees of Rs. 6,617.5 million in respect of life insurance business and Rs. 1,561.3 million in respect of general insurance business.

#### ***Investment Advice***

We offer our customers a broad range of investment advice, including advice regarding the purchase of Indian debt, equity shares and mutual funds. We provide our high net worth private banking customers with a personal investment advisor who can consult with them on their individual investment needs. We have also created a virtual relationship manager for our high net worth customers, which is available at any time through a secure video interface.

#### ***Bill Payment Services***

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

#### ***Corporate Salary Accounts***

We offer Corporate Salary Accounts, which allow employers to make salary payments to a group of employees with a single transfer. We then transfer the funds into the employees' individual accounts and offer them preferred services, such as lower minimum balance requirements. As of March 31, 2016, these accounts constituted approximately 29% of our savings deposits by value.

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### ***Non-Resident Indian Services***

Non-resident Indians are an important target market segment for us given their relative affluence and strong ties with family members in India. Our non-resident deposits amounted to Rs. 846.8 billion as of March 31, 2016.

### ***Retail Foreign Exchange***

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

### **Customers and Marketing**

Our target market for our retail services is comprised of upper and middle income individuals and high net worth customers. As of March 31, 2016, around 20% of our retail deposit customers contributed approximately 81% of our retail deposits. We market our products through our branches, telemarketing and a dedicated sales staff for niche market segments. We also use third-party agents and direct sales associates to market certain products and to identify prospective new customers.

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

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

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

### **Wholesale Banking**

#### ***Overview***

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

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

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

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

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

**Commercial Banking Products***Commercial Loan Products and Credit Substitutes*

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

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

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

	As of March 31,			
	2014	2015	2016	2016
	(in millions)			
Gross commercial loans	Rs. 1,039,923.6	Rs. 1,222,460.6	Rs. 1,534,268.7	US\$ 23,158.8
Credit substitutes:				
Commercial paper	Rs. 42,031.6	Rs. 180,198.6	Rs. 258,006.4	US\$ 3,894.5
Non-convertible debentures	23,115.5	14,860.3	39,234.6	592.2
Total credit substitutes	Rs. 65,147.1	Rs. 195,058.9	Rs. 297,241.0	US\$ 4,486.7
Gross commercial loans plus credit substitutes	Rs. 1,105,070.7	Rs. 1,417,519.5	Rs. 1,831,509.7	US\$ 27,645.5



While we generally lend on a cash-flow basis, we also require collateral from a large number of our borrowers. As of March 31, 2016, approximately 71.4% of the aggregate principal amount of our gross wholesale loans was secured by collateral (approximately Rs. 438.9 billion in aggregate principal amount of loans were unsecured). However, collateral securing each individual loan may not be adequate in relation to the value of the loan. All borrowers must meet our internal credit assessment procedures, regardless of whether the loan is secured. See *Risk Management Credit Risk Wholesale Credit Risk* .

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

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

*Bill Collection, Documentary Credits and Bank Guarantees*

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

	2014	As of March 31,		2016
		2015	2016	
	(in millions)			
Bill collection	Rs.3,609,043.4	Rs.3,288,490.0	Rs.3,595,361.1	US\$ 54,269.6
Documentary credits	785,059.7	1,020,077.1	982,710.6	14,833.4
Bank guarantees	275,705.6	221,658.3	241,990.0	3,652.7
Total	Rs.4,669,808.7	Rs.4,530,225.4	Rs.4,820,061.7	US\$ 72,755.7

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

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

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

*Foreign Exchange and Derivatives*

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

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

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

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

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The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative contracts with our customers as of March 31, 2014, 2015 and 2016, together with the fair values on each reporting date.

	2014		2015		2016		2016	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(In millions)							
Interest rate swaps and forward rate agreements	Rs. 214,014.0	Rs. 653.5	Rs. 569,533.5	Rs. (509.5)	Rs. 528,589.7	Rs. (2,165.2)	US\$ 7,978.7	US\$ (32.6)
Forward exchange contracts, currency swaps, currency options and interest rate caps and floors	Rs. 543,568.8	Rs. 5,536.3	Rs. 646,173.8	Rs. (1,968.4)	Rs. 809,002.2	Rs. 3,166.4	US\$ 12,211.4	US\$ 47.8
<i>Investment Banking</i>								

Our Investment Banking Group offers services in the debt and equity capital markets. The group has arranged project financing for clients across various sectors including telecom, toll roads, healthcare, energy, fertilisers and cement. The group advised on aggregate issuances of over Rs. 300 billion worth of corporate bonds across public sector undertakings, financial institutions and the Bank's corporate clients during fiscal 2016, becoming the second largest corporate bond arranger in the market for fiscal 2016. In the advisory business, the Bank advised and closed transactions in the dairy and pharmaceutical sectors. In the equity capital markets business, the group concluded the initial public offering of an auto ancillary company during fiscal year 2016 and is currently advising clients on initial public offerings and rights issues.

*Wholesale Deposit Products*

As of March 31, 2016, we had wholesale deposits aggregating over Rs. 1,100.4 billion, which represented 20.2% of our total deposits. We offer both non-interest bearing current accounts and time deposits. We are allowed to vary the interest rates on our wholesale deposits based on the size of the deposit (for deposits greater than Rs. 10.0 million), provided the rates booked on a day are the same for all customers of that deposit size for that maturity. See *Selected Statistical Information* for further information about our total deposits.

**Transactional Services***Cash Management Services*

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

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

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

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

### ***Clearing Bank Services for Stock and Commodity Exchanges***

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

### ***Custodial Services***

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

### ***Correspondent Banking Services***

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

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

### ***Tax Collections***

We have been appointed by the Government of India to collect direct taxes. In fiscal year ended March 31, 2015 and March 31, 2016, we collected Rs. 1,690 billion and Rs. 1,885 billion, respectively, of direct taxes for the Government of India. We are also appointed to collect sales, excise and service tax within certain jurisdictions in India. In fiscal year ended March 31, 2015 and March 31, 2016, we collected Rs. 870 billion and Rs. 1,246 billion, respectively, of such indirect taxes for the Government of India and relevant state governments. We earn a fee from the Government of India for each tax collection and benefit from the cash float. We hope to expand our range of transactional services by providing more services to government entities.

## **Treasury**

*Overview*

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

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

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

**Foreign Exchange and Derivatives**

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

The following table presents the aggregate notional principal amounts of our outstanding foreign exchange and derivative inter-bank contracts as of March 31, 2014, 2015 and 2016, together with the fair values on each reporting date:

	As of March 31,							
	2014		2015		2016		2016	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(In millions)							
Interest rate swaps and forward rate agreements	Rs. 1,558,644.7	Rs. (2,127.8)	Rs.1,648,897.2	Rs. 179.6	Rs. 1,678,786.7	Rs. 1,552.1	US\$ 25,340.2	US\$ 23.4
Forward exchange contracts, currency swaps, currency options and interest rate swaps and	Rs. 4,447,254.1	Rs. 14,241.0	Rs.6,309,696.1	Rs. 2,946.5	Rs. 4,844,850.6	Rs. 4,087.3	US\$ 73,129.8	US\$ 61.7



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

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

***Equities Market***

We trade a limited amount of equities of Indian companies for our own account. As of March 31, 2016, we had an internal aggregate approved limit of Rs. 300 million for market purchases and Rs. 100 million (defined as a sub-limit of the aggregate approved limit) for primary purchases of equity investments for proprietary trading. Our exposure as of March 31, 2016 was within these limits. We set limits on the amount invested in any individual company as well as stop-loss limits.

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### **Distribution Channels**

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

#### ***Branches***

As of March 31, 2016, we had an aggregate of 4,520 branches covering 2,587 cities and towns. All of our branches are electronically linked so that our customers can access their accounts from any branch regardless of where they have their accounts.

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

As part of its branch licensing conditions, the RBI requires that at least 25% of all incremental branches added during the year be located in unbanked rural areas. As per the guidelines contained in the RBI master circular dated July 1, 2014, a rural area is defined as a center with a population up to 10,000 (based on the 2001 census conducted by the Government of India). As of March 31, 2016, 496 of our branches are in unbanked areas. With the objective of liberalizing and rationalizing the branch licensing process, the RBI granted general permission, effective from October 2013, to banks like us to open branches in Tier 1 to Tier 6 centers, subject to a requirement to report to the RBI and other prescribed conditions. See *Supervision and Regulation* .

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

#### ***Automated Teller Machines***

As of March 31, 2016, we had a total of 12,000 ATMs, of which 5,541 were located at our branches or extension counters and 6,459 were located off site, including at large residential developments, or on major roads in metropolitan areas.

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

#### ***Telephone Banking***

We provide telephone banking services to our customers in over 2,587 cities and towns. Customers can access their accounts over the phone through our 24-hour automated voice response system and can order check books, conduct balance inquiries and order stop payments on checks. In select cities, customers can also engage in financial

transactions (such as cash transfers, opening deposits and ordering demand drafts). In certain cities, we also have staff available during select hours to assist customers who want to speak directly to one of our telephone bankers.

***Mobile Banking***

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

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### ***Internet Banking***

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

### **Risk Management**

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

#### ***Credit Risk***

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

#### ***Retail Credit Risk***

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

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

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

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

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

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

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

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

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

***Wholesale Credit Risk***

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***Market Risk***

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

The market variables which affect the valuation of these instruments typically include interest rates, equity prices, commodity prices, exchange rates and volatilities. Any change in the relevant market risk variable has an adverse or



favorable impact on the valuation depending on the direction of the change and the type of position held (long or short). While the positions are taken with a view to earn from the upside potential, there is always a possibility of downside risk. Therefore, we must constantly review the positions to ensure that the risk on account of such positions is within our overall risk appetite. The market risk appetite is defined by the ICAAP review committee, which is approved in the ICAAP policy and is prescribed through the pre-approved treasury limits package, as well as specific trading limits, counterparty exposure limits and asset liability management (ALM) limits. The process for monitoring and reviewing risk exposures is outlined in the various risk policies.

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The market risk department formulates procedures for portfolio risk valuation, assesses market risk factors along with the trading portfolio and recommends various market risk controls and limits for the treasury and investment banking portfolios. The treasury mid-office is responsible for monitoring and reporting market risks arising from the trading desks. The market data cell in the mid-office maintains market data and also verifies the rates submitted by the treasury front office for polling various benchmarks.

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

The financial control department is responsible for collecting data, preparing regulatory and analytical reports and monitoring whether the interest rate and other policies and limits established by the asset liability committee are being observed. Our treasury group also assists in implementing our asset liability strategy and in providing information to the asset liability committee.

### *Policies and Procedures Trading and Asset Liability Management Risks*

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

#### *I. Trading Risk*

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

The trading risk is managed by putting in place a sound process for price validation and by setting various limits, such as value at risk, stop loss trigger level, price value per basis point, option Greek limits and position limits, namely, intraday, net overnight open position, equity scrip-wise open position as well as gap limits (aggregate and individual gap limits), which are stipulated in the Treasury Limits Package. In addition, deal size limit is prescribed for foreign exchange deals traded on trading platforms along with specific position and exposure limits in exchange traded currency and interest rate derivatives.

The treasury limits are reviewed by the market risk department and presented to the Risk Policy and Monitoring Committee (RPMC) for its recommendation to the Board of Directors for approval. The limits are reviewed annually or more frequently (depending on market conditions) or upon introduction of new products.

The market risk policy sets the framework for market risk monitoring. The risk on account of semi-liquid or illiquid positions in trading is recognized in the non-standard product policy as part of the market risk policy. The non-standard product policy stipulates requirements for case specific evaluation of risk exposure in respect of non-standard products (that is, products which are not part of the standard product list decided by treasury and the

market risk department). In addition, the stress testing policy prescribes the stress scenarios that are applied on the outstanding trading positions to recognize and analyze the impact of the stress conditions on the trading portfolio. Stress tests are based on historical scenarios as well as on sensitivity factors, such as an assessment of hypothetical scenarios.

Price validation is conducted by the treasury analytics team, reviewed by the market risk department and governed by the independent valuation model validation policy, which is approved by the Board of Directors.

## *II. Asset Liability Management*

The ALM risk management process consists of management of liquidity risk and interest rate risk in the banking book (IRRBB). Liquidity risk is the risk that the Bank may not be able to fund increases in assets or meet obligations as they fall due without incurring unacceptable losses. IRRBB refers to the potential adverse financial impact on the Bank's banking book from changes in interest rates.

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The banking book is comprised of assets and liabilities that are incurred to create a steady income flow or to fulfill statutory obligations. Such assets and liabilities are generally held to maturity. The Bank carries various assets, liabilities and off-balance sheet items across markets, maturities and benchmarks, exposing it to risks from changing interest rates. The Bank's objective is to maintain liquidity risk and IRRBB within certain tolerance limits. The ALM limits are reviewed by the market risk department and presented to the RPMC for its recommendation to the Board of Directors for approval. The limits are reviewed at least annually.

### *Structure and Organization*

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

#### *Board of Directors*

The Board has the overall responsibility for management of liquidity and interest rate risk. The Board decides the strategy, policies and procedures of the Bank to manage liquidity and interest rate risk, including setting the Bank's risk tolerance and limits.

#### *Risk Policy & Monitoring Committee of the Board*

The RPMC is a Board-level committee, which supports the Board by supervising the implementation of risk strategy. It guides the development of policies, procedures and systems for managing risk. The RPMC is responsible for evaluating the overall risks faced by the Bank, including liquidity risk and interest rate risk.

#### *Asset Liability Committee (ALCO)*

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

product pricing for deposits and customer assets;

deciding the desired maturity profile and mix of incremental assets and liabilities;

articulating the Bank's interest rate view and deciding on its future business strategy;

reviewing and articulating funding strategy;

ensuring adherence to the limits set by the Board of Directors;

determining the structure, responsibilities and controls for managing liquidity and interest rate risk;

ensuring operational independence of risk management function;

reviewing stress test results; and

deciding on the transfer pricing policy of the Bank.

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

#### *Risk Measurement Systems and Reporting*

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

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

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***Operational Risk Management***

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

***Organizational Structure for Managing Operational Risk***

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

***Risk Measurement and Monitoring***

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

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

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

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

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

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

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

### *Capital Requirement*

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

## **Competition**

We face intense competition in all of our principal lines of business. Our primary competitors are large public sector banks, other private sector banks, foreign banks and, in some product areas, NBFCs. In February 2013, the RBI issued guidelines for the entry of new banks in the private sector, including eligibility criteria, capital requirements, shareholding structure, business plan and corporate governance practices. The RBI received approximately 26 applications for new bank licenses, including from some of the largest business groups in India. In April 2014, the RBI provided in-principle approvals to two of the applicants, IDFC Limited and Bandhan Financial Services Private Limited. In fiscal 2016, each of these entities commenced banking operations as IDFC Bank and Bandhan Bank, respectively.

### *Retail Banking*

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

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

### *Wholesale Banking*

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

*Treasury*

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



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### **Employees**

The number of our employees was 76,286 as of March 31, 2015 and 87,555 as of March 31, 2016. Most of our employees are located in India. We consider our relationship with our employees to be positive. Further to our acquisition of CBoP in 2008, several employees of CBoP continue to be part of a labor union. These employees represent less than 1% of our total employee strength.

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

In addition to basic compensation, employees are eligible to participate in our provident fund and other employee benefit plans. The provident fund, to which both we and our employees contribute, is a savings scheme required by government regulation under which the fund is required to pay to employees a minimum annual return, which is 8.8% at present. If such return is not generated internally by the fund, we are liable for the difference. Our provident fund has generated sufficient funds internally to meet the annual return requirement since inception of the fund. We have also set up a superannuation fund to which we contribute defined amounts. We also contribute specified amounts to a pension fund in respect of certain of our former-CBoP employees. In addition, we contribute specified amounts to a gratuity fund set up pursuant to Indian statutory requirements.

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

### **Properties**

Our registered office and corporate headquarters is located at HDFC Bank House, Senapati Bapat Marg, Lower Parel, Mumbai 400 013, India. In addition to the corporate office, we have admin