ANNUAL REPORT 2011 - 2012

Empowering lives.

HDFC BANK

We understand your world

Accolades

2011 - 2012

The Asian Banker International Excellence in Retail Financial Services Awards
- Best Retail Bank in India
- Best Bancassurance business in India
- Best Risk Management in India

Businessworld Best Bank Awards
- Best Bank

CNBC TV18 Best Bank and Financial Institution Awards
- Best Bank
- Aditya Puri - Outstanding Finance Professional

CNBC TV18 Financial Advisor Awards
- Best Performing Bank (Private)

DSCI (Data Security Council of India) Excellence Awards
- Security in Bank

Dun & Bradstreet Banking Awards
- Best Private Sector Bank - SME Financing

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- Best Cash Management Bank in India
- Best Trade Finance Bank in India

Financial Express Best Bank Survey
- Best in Strength and Soundness

Institute of Chartered Accountants of India Awards
- Excellence in Financial Reporting

International Data Corporation Financial Insights Innovation Awards
- Excellence in Customer Experience

Skoch Foundation Financial Inclusion Awards
- SHG/JLG linkage programme

Highlights

2011 - 2012

- Net profit: ₹ 5,167 crore. An increase of 31.6% compared to the previous year
- Balance sheet size: ₹ 337,909 crore as at 31st March 2012
- Total deposits: ₹ 246,706 crore. An increase of 18.3% compared to the previous year
- Total advances: ₹ 195,420 crore. An increase of 22.2% compared to the previous year
- Capital Adequacy Ratio: 16.5%. Regulatory minimum requirement is 9%
- Tier I capital ratio: 11.6%
- Non Performing Assets: ₹ 1,999 crore (gross); 1.0% of Gross Advances
- Network:
  • Branches: 2544 • ATMs: 8913 • Cities: 1399

Empowering Lives









HDFC BANK

We understand your world

"Give a man a fish and you feed him for a day. Teach him how to fish and you feed him for a lifetime". The wisdom of this timeless adage defines HDFC Bank's approach to Financial Inclusion. We call it Sustainable Livelihood Banking.

Take for instance, Alpana Dalui from Howrah district, West Bengal, who no longer relies on middlemen to distribute her embroidery, thanks to financial assistance from HDFC Bank. Or Raghavendra Navodhya Sangha, a Self Help Group in Hubli, Karnataka, for whom we facilitated investment in machinery for packaging and processing pickles.

The widespread use of mobile phones in rural markets encouraged us to launch a bank account which can be operated with a basic cell phone. The migrant worker in Jaipur now sends money to his mother in nearby Sikar using his HDFC Bank Mobile Account. Our Kisan Gold Card has helped farmers alleviate their cash flow problems and also provides insurance cover. An array of products including Tractor Loans, Two Wheeler Loans, Auto Loans as well as Savings Accounts were taken to the doorstep of the rural customer by the Bank's unique Grameen Loan Mahotsavas.

A new milestone was achieved when we emerged as the largest issuer of Credit Cards in India. This financial year saw the launch of Infinia, the first Credit Card in India with no pre-set spend limit, a range of Credit Cards to support the burgeoning travel segment and a premium Credit Card especially created for women.

As always, well diversified businesses and balanced growth remained our focus. Leadership positions were maintained in the wholesale banking segment in products such as Cash Management, Transactional Banking and Payment Services. The Bank continued to retain its leadership position in the Auto Loan sector. Our subsidiaries, HDFC securities and HDB Financial Services, grew at a healthy pace.

Our network of over 2,500 branches and more than 8,900 ATMs has spread across the length and breadth of the country - from Leh in the north to Port Blair in the south and Tawang in the east. Over 70% of HDFC Bank branches are now outside metro areas.

Customer empowerment remained at the core of our endeavours. Banking services through mobile phones was delivered to both smartphone as well as basic handset users. The Bank launched MobileBanking, enabling customers to use their internet banking facility on their handset without compromising security.

Understanding our customers across multiple segments and meeting their varied financial needs efficiently is at the heart of what we do. The focus, however, will always be on helping them meet their goals and realise their aspirations. Because, we believe that success in banking is not just about providing great financial products and services; it's about making a difference ... and empowering lives.

HDFC BANK
We understand your world

Financial Inclusion

The under-banked and un-banked segments of the population have been the focus of HDFC Bank's Financial Inclusion initiatives. The formal banking system is either unavailable or offers limited access to such consumers, consequently depriving them of basic banking and credit requirements. The Bank's objective is to provide viable and timely credit to this segment, thereby substituting borrowing at usurious rates and ultimately resulting in their economic upliftment.

By integrating Financial Inclusion across its various businesses, the Bank has brought over five million households into the banking system as on March 31, 2012. The Bank's branch footprint, forty six percent of which is located in semi urban and rural areas, has been key to these endeavours.

Many products consumed in urban markets are viewed as income generating assets by rural consumers. HDFC Bank offers a number of such retail products like Two-Wheeler Loans, Car Loans, Light Commercial Vehicle Loans, etc., that help improve productivity and reduce expenses.

Over the last year, the Bank has accelerated its direct linkage program to Self-Help Groups. The Bank works directly at the grass roots level, conducts financial literacy camps to inculcate savings and banking habits, forms groups and funds them for income generation activities and also facilitates capacity expansion and helps market products.

A large portion of India's un-banked population relies on agriculture as its main source of livelihood. Providing credit to marginal farmers has helped them generate income while reducing their dependency on traditional money-lending channels. Products such as Kisan Gold Card, Tractor and Cattle Loans have been specifically created to meet this need. In addition, facilities such as Post-Harvest Cash Credit, Warehouse Receipt Financing and Bill Discounting are offered to Mandis to ensure farmers are paid in time by wholesalers. By capturing the supply chain of certain crops from production stage to the sales stage, the Bank is able to finance specific needs of farmers.

Distribution plays a key role in Financial Inclusion initiatives. Over four hundred HDFC Bank branches are now located in close proximity to Mandis. This is further supplemented by Business Correspondent arrangements. Today, Dairy Societies and Sugarcane Co-operatives acting as the Bank's Business Correspondents transfer funds directly to the account of the individual farmer.

HDFC Bank Gold Loans provide a means of monetising household gold and at the same time provide an alternate source of funds. It provides financial independence to small traders, entrepreneurs and housewives. It also removes exploitation, particularly of small borrowers.

One of the means to Financial Inclusion is through supporting small and micro enterprises which in turn provide employment opportunities to the financially weaker sections. Though indirect, this model may prove more effective than providing subsidies that may never reach the intended beneficiary or are often unsustainable.

Sustainable Livelihood Banking



Bebi's Jari making enterprise grows

Hailing from a small place in Varanasi called Macharahahaan, Bebi is known for her Jari work on sarees. She has been relying on her talent to make sarees and sell them for a profit. A fourteen thousand rupee loan from HDFC Bank has helped her eliminate her dependency on middlemen for raw materials. Bebi now buys her sequins and gold and silver thread directly from wholesalers, improving her product as well as her quality of life.

Plantain farming thrives in Kerala

Chaitanya Kudumbasree is a Self Help Group in Pandalam, Kerala. Comprising only of women, this group has improved the local agriculture industry in Kerala by investing in organised plantain farming. Taking a loan of one and a half lac rupees from the Bank, they have used the money to first lease appropriate farm land and then buy and plant plantain trees. Today, this group benefits from their farming venture since plantains are in high demand in the region. They now look forward to the additional income of thirty five thousand rupees that will be generated every year which they plan to re-invest in the plantain farm.

A flower seller expands her business

Sunita has been making and selling garlands outside the Shirdi Sai Ram temple in Wardha, Maharashtra. Using her HDFC Bank loan, she now makes floral arrangements as well, which has helped attract a new customer segment and increase profits. Her daily income has increased by thirty percent as a result.

Bag makers achieve success

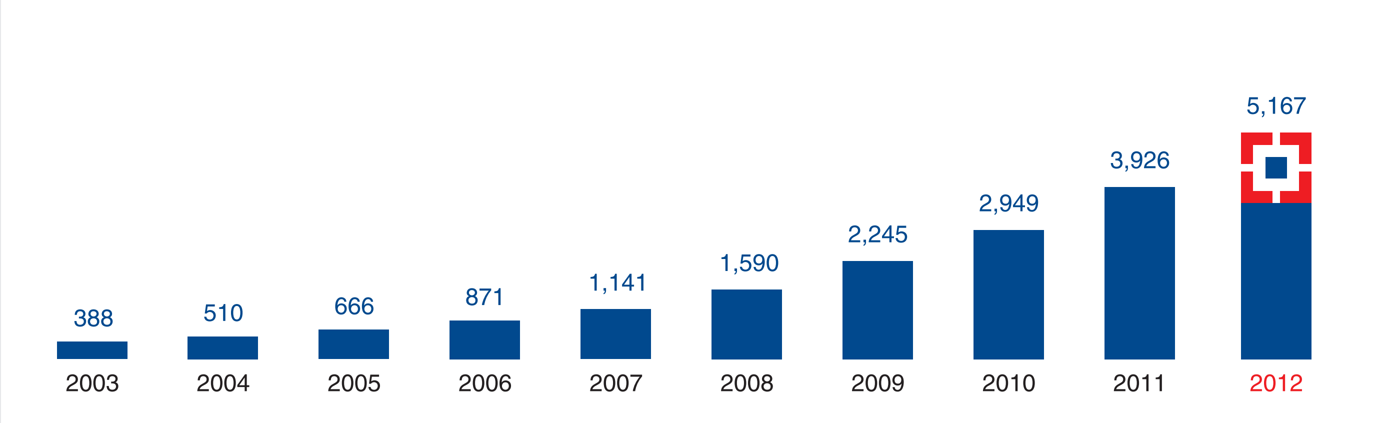
Members of Self Help Group, Chand Jan Sambal, make a living from manufacturing bags made of fiber in Alwar, Rajasthan. A two lac rupee loan from HDFC Bank enabled them to sell their bags in bulk at the local market at Alwar. Proceeds from the sale are distributed to all members. Each of the ten members now earns almost three thousand rupees as pure profit every month.

Flora's business prospers

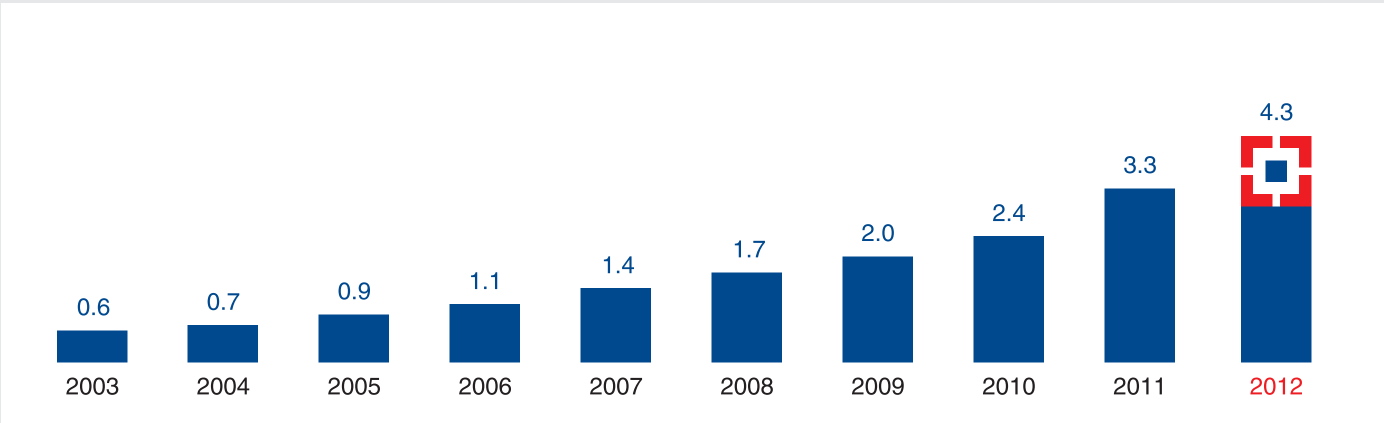
Flora, a resident of Margao, runs a fruit and vegetable stall promoted by the Goa State Horticulture Corporation. A loan of ten thousand rupees from HDFC Bank has helped her hold more stock at her stall. Flora's daily income has increased by ten percent as a result.

Through such initiatives we have reached out to 1.2 million households from the bottom of the pyramid and provide banking services on a sustainable basis. We have a board approved program to financially include 10 million households at the bottom of the pyramid in the next 5 years.

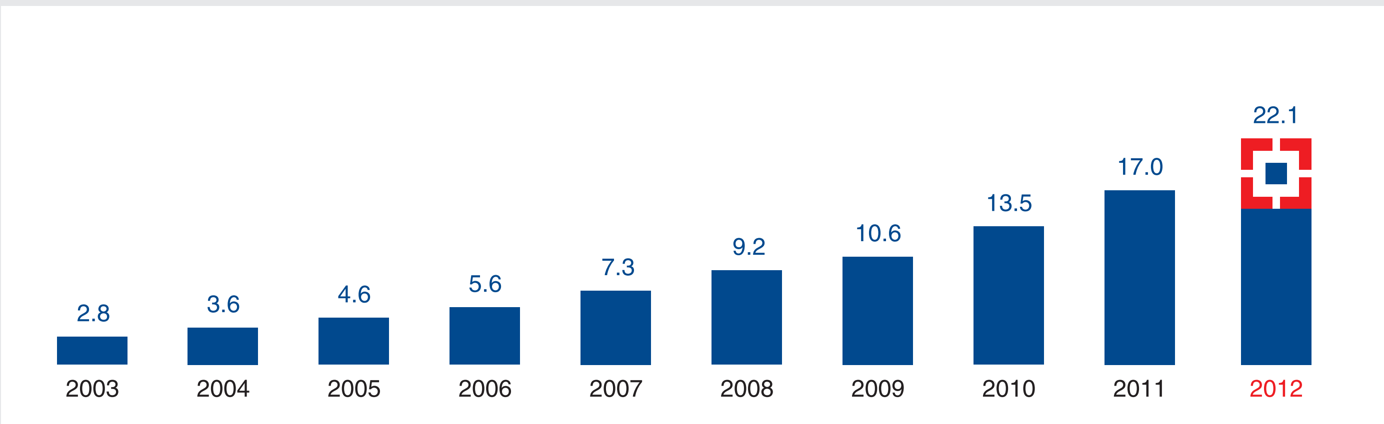
PROFIT AFTER TAX (₹ Crore)



DIVIDEND PER SHARE * (₹)

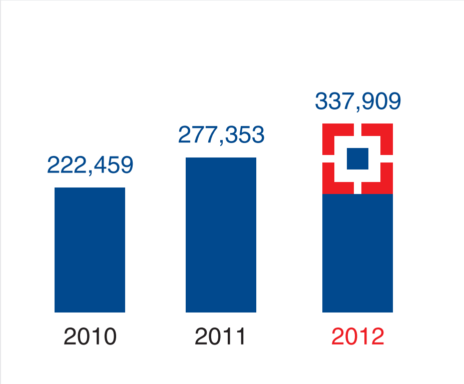


EARNINGS PER SHARE * (₹)

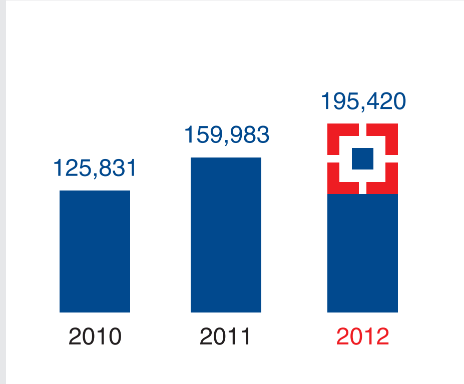


* Previous year figures have been changed to reflect split of shares of face value ₹ 10 per share into face value of ₹ 2 per share

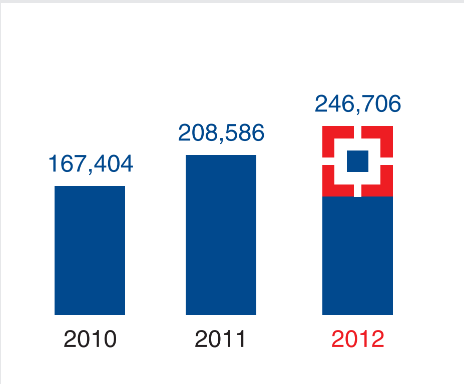
BALANCE SHEET SIZE (₹ Crore)



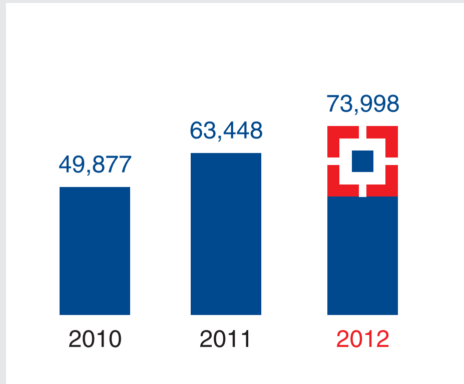
ADVANCES (₹ Crore)



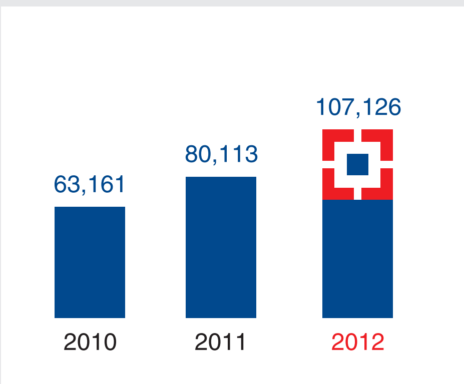
DEPOSITS (₹ Crore)



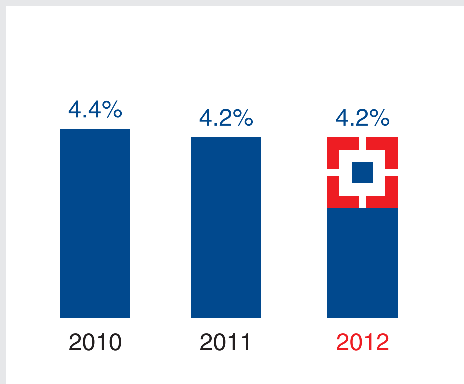
SAVINGS DEPOSITS (₹ Crore)



RETAILS ASSETS (₹ Crore)

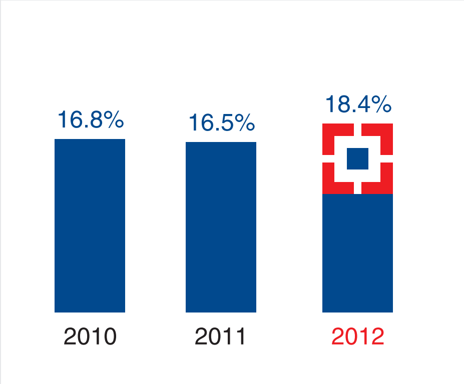


NET INTEREST MARGIN** (%)

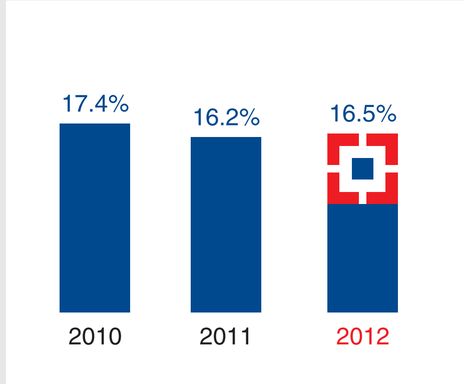


** Denotes the core Net Interest Margin

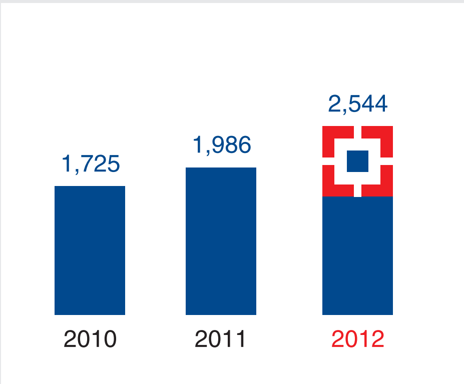
RETURN ON CAPITAL (%)



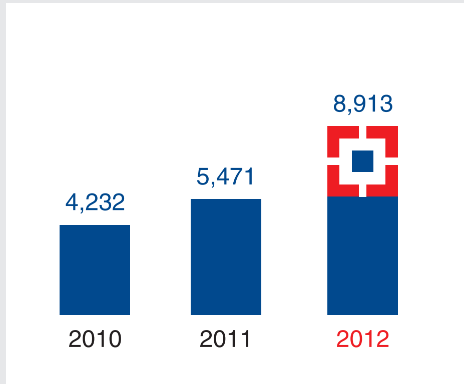
CAPITAL ADEQUACY (%)



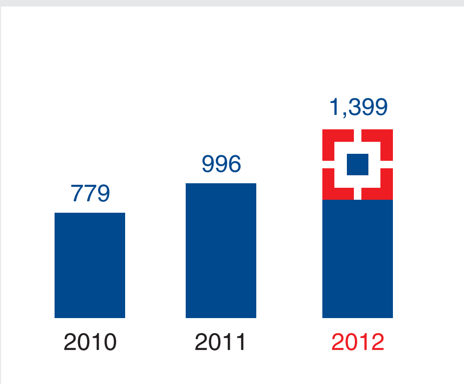
BRANCHES (Nos.)



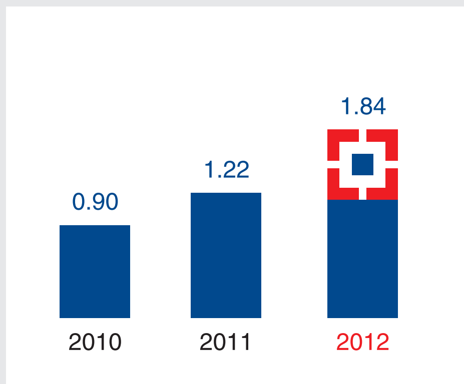
ATMs (Nos.)



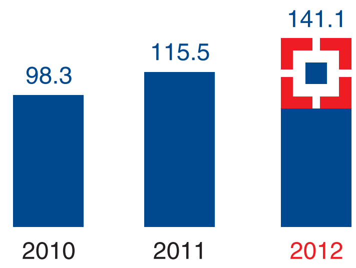
CITIES (Nos.)



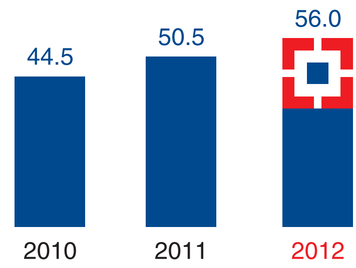
POS TERMINALS (Nos. in Lac)



DEBIT CARDS (Nos. in Lac)



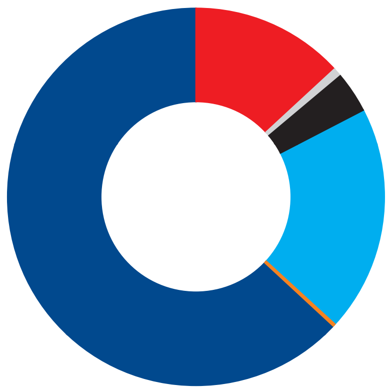
CREDIT CARDS (Nos. in Lac)



RUPEE EARNED

Interest from Advances	63.14%
Interest from Investments*	19.39%
Commission, Exchange, Brokerage	13.14%
FX & Derivative Income	3.50%
Other Interest Income	0.75%
Others	0.08%

* Includes loss on sale / revaluation of investments of ₹195,88 Lacs



RUPEE SPENT

Interest Expense	49.45%
Operating Expense	28.36%
Tax	7.74%
Transfer to Reserves	5.83%
Provisions for Others	4.74%
Dividend & Tax on Dividend	3.88%

Financial Highlights

	2002-2003	2003-2004	2004-2005
Interest Income	196,317	245,571	290,543
Interest Expense	119,196	121,105	131,556
Net Interest Income	**77,121**	**124,466**	**158,987**
Other Income	46,555	48,003	65,134
Net Revenues	**123,676**	**172,469**	**224,121**
Operating Costs	57,705	81,000	108,540
Operating Result	**65,971**	**91,469**	**115,581**
Provisions and Contingencies	8,886	19,573	17,687
Loan Loss Provisions	8,839	17,828	17,622
Others	47	1,745	65
Profit Before Tax	**57,085**	**71,896**	**97,894**
Provision for Taxation	18,325	20,946	31,338
Profit After Tax	**38,760**	**50,950**	**66,556**
Funds :			
Deposits	2,237,607	3,040,886	3,635,425
Subordinated Debt	20,000	60,000	50,000
Stockholders' Equity	224,483	269,188	451,985
Working Funds	3,042,408	4,230,699	5,142,900
Loans	1,175,486	1,774,451	2,556,630
Investments	1,338,808	1,925,679	1,934,981
Key Ratios :			
Earnings per Share (₹)*	2.75	3.59	4.58
Return on Average Networth	18.10%	20.14%	20.44%
Tier 1 Capital Ratio	9.49%	8.03%	9.60%
Total Capital Ratio	11.12%	11.66%	12.16%
Dividend per Share (₹)*	0.60	0.70	0.90
Dividend Payout Ratio	24.72%	22.15%	24.00%
Book Value per Share as at March 31 (₹)*	15.92	18.90	29.17
Market Price per Share as at March 31 (₹)**	46.91	75.75	114.73
Price to Earnings Ratio	17.06	21.10	25.03

₹ 10 Lac = ₹ 1 Million ₹ 1 Crore = ₹ 10 Million

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

(₹ lac)

2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
423,018	664,793	1,011,500	1,633,226	1,617,272	1,992,821	2,728,635
192,950	317,945	488,712	891,110	778,630	938,508	1,498,958
230,068	**346,848**	**522,788**	**742,116**	**838,642**	**1,054,313**	**1,229,677**
112,398	151,623	228,315	329,060	398,311	433,515	524,369
342,466	**498,471**	**751,103**	**1,071,176**	**1,236,953**	**1,487,828**	**1,754,046**
169,109	242,080	374,562	553,281	593,980	715,291	859,006
173,357	**256,391**	**376,541**	**517,895**	**642,973**	**772,537**	**895,040**
48,006	92,516	148,478	187,971	214,059	190,671	143,725
47,976	86,101	121,603	172,628	193,893	76,302	65,158
30	6,415	26,875	15,343	20,166	114,369	78,567
125,351	**163,875**	**228,063**	**329,924**	**428,914**	**581,866**	**751,315**
38,273	49,730	69,045	105,431	134,044	189,226	234,608
87,078	**114,145**	**159,018**	**224,493**	**294,870**	**392,640**	**516,707**
5,579,682	6,829,794	10,076,860	14,281,158	16,740,444	20,858,641	24,670,645
170,200	328,260	324,910	873,858	635,310	739,305	1,110,565
529,953	643,315	1,149,723	1,464,633	2,151,958	2,537,635	2,992,437
7,350,639	9,123,561	13,317,660	18,327,077	22,245,857	27,735,259	33,790,950
3,506,126	4,694,478	6,342,690	9,888,305	12,583,059	15,998,267	19,542,003
2,839,396	3,056,480	4,939,354	5,881,755	5,860,762	7,092,937	9,748,291
5.58	7.26	9.24	10.57	13.51	17.00	22.11
17.47%	19.40%	16.05%	16.12%	16.80%	16.52%	18.37%
8.55%	8.58%	10.30%	10.58%	13.26%	12.23%	11.60%
11.41%	13.08%	13.60%	15.69%	17.44%	16.22%	16.52%
1.10	1.40	1.70	2.00	2.40	3.30	4.30 ***
22.55%	22.92%	22.17%	22.17%	21.72%	22.72%	22.70%
33.85	40.28	64.88	68.86	94.02	109.09	127.52
154.85	190.83	266.25	194.68	386.70	469.17	519.85
27.74	26.29	28.80	18.42	28.62	27.59	23.51

**Source : NSE (previous years' prices have been divided by five to reflect the sub-division of shares) ***Proposed

BOARD OF DIRECTORS

Mr. C. M. Vasudev, Chairman

Mrs. Renu Karnad

Mr. Ashim Samanta

Dr. Pandit Palande

Mr. Partho Datta

Mr. Bobby Parikh

Mr. Anami N Roy

Mr. Keki Mistry (re-appointed on 19.01.2012)

Mr. Aditya Puri, *Managing Director*

Mr. Harish Engineer, *Executive Director*

Mr. Paresh Sukthankar, *Executive Director*

SENIOR MANAGEMENT TEAM

Mr. A Parthasarthy

Mr. Abhay Aima

Mr. Anil Jaggia

Mr. Anil Nath

Mr. Bhavesh Zaveri

Mr. G. Subramanian

Mr. Jimmy Tata

Mr. Kaizad Bharucha

Mr. Navin Puri

Mr. Pralay Mondal

Mr. Rahul Bhagat

Mr. Rajender Sehgal

Mr. Sashi Jagdishan

EXECUTIVE VICE PRESIDENT (LEGAL) & COMPANY SECRETARY

Mr. Sanjay Dongre

STATUTORY AUDITORS

BSR & Co.,
Chartered Accountants

REGISTERED OFFICE

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

REGISTRARS & TRANSFER AGENTS

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

18th ANNUAL GENERAL MEETING

Date	:	July 13, 2012
Day	:	Friday
Time	:	2.30 p.m.
Place	:	Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020
Book Closure for AGM	:	1st July, 2012 to 13th July, 2012 (both days inclusive)

Contents

HDFC BANK
We understand your world

To the Members,

Your Directors have great pleasure in presenting the Eighteenth Annual Report on the business and operations of your Bank together with the audited accounts for the year ended March 31, 2012.

FINANCIAL PERFORMANCE

(₹ in crore)

	For the year ended	
	March 31, 2012	**March 31, 2011**
Deposits and Other Borrowings	270,553.0	222,980.5
Advances	195,420.0	159,982.7
Total Income	32,530.0	24,263.4
Profit before Depreciation and Tax	8,055.7	6,316.1
Net Profit	5,167.1	3,926.4
Profit brought forward	6,174.2	4,532.8
Total Profit available for Appropriation	11,341.3	8,459.2
Appropriations:		
Transfer to Statutory Reserve	1,291.8	981.6
Transfer to General Reserve	516.7	392.6
Transfer to Capital Reserve	-	0.4
Transfer to / (from) Investment Reserve	(41.7)	15.6
Proposed Dividend	1,009.1	767.6
Tax Including Surcharge and Education Cess on Dividend	163.7	124.5
Dividend (including tax/cess thereon) pertaining to previous year paid during the year	2.1	2.6
Balance carried over to Balance Sheet	8,399.6	6,174.2

The Bank posted total income and net profit of ₹ 32,530.0 crore and ₹ 5,167.1 crore respectively for the financial year ended March 31, 2012 as against ₹ 24,263.4 crore and ₹ 3,926.4 crore respectively in the previous year. Appropriations from net profit have been effected as per the table given above.

DIVIDEND

Your Bank has had a dividend policy that balances the dual objectives of appropriately rewarding shareholders through dividends and retaining capital in order to maintain a healthy capital adequacy ratio to support future growth. It has had a consistent track record of moderate but steady increase in dividend declarations over its history with the dividend payout ratio ranging between 20% and 25%. Consistent with this policy and in recognition of the overall performance during this financial year, your directors are pleased to recommend a dividend of ₹ 4.30 per equity share of ₹ 2 for the year ended March 31, 2012 as against ₹ 3.30 per equity share of ₹ 2 (which was ₹ 16.50 per share of ₹ 10 before the share split) for the previous year ended March 31, 2011. This dividend shall be subject to tax on dividend to be paid by the Bank.

AWARDS

As in the past years, awards and recognition were conferred on your Bank by leading domestic and international organizations and publications during the financial year ended March 31, 2012.

Some of them are:

The Asian Banker International Excellence in Retail Financial Services Awards 2012
- Best Retail Bank in India
- Best Bancassurance Business in India
- Best Risk Management in India

Business World Best Bank Award 2011
- Best Bank

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- Excellence in Financial Reporting

International Data Corporation Financial Insights Innovation Awards 2011
- Excellence in Customer Experience

Skoch Foundation Financial Inclusion Awards 2012
- SHG/ JLG linkage program

RATINGS

Instrument	Rating	Rating Agency	Comments
Fixed Deposit Program	CARE AAA (FD)	CARE	Represents instruments considered to be 'of the best credit quality, offering highest safety for timely servicing of debt obligations, and carry minimal credit risk'.
	tAAA (ind)	FITCH	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.
Certificate of Deposits Program	CARE A1+	CARE	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.
	A1+ (ind)	FITCH	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.
Long term unsecured, subordinated (Lower Tier II) Bonds	CARE AAA	CARE	Represents instruments considered to be 'of the best credit quality, offering highest safety for timely servicing of debt obligations, and carry minimal credit risk'.
	AAA (ind) with a Stable outlook	FITCH	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.
Tier I Perpetual Bonds	CARE AAA	CARE	Represents instruments considered to be 'of the best credit quality, offering highest safety for timely servicing of debt obligations, and carry minimal credit risk'
	AAA Stable Stable outlook	CRISIL	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.
Upper Tier II Bonds	CARE AAA	CARE	Represents instruments considered to be 'of the best credit quality, offering highest safety for timely servicing of debt obligations, and carry minimal credit risk'
	AAA stable	CRISIL	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.

CARE – Credit Analysis & Research Limited

FITCH - Fitch Ratings India Private Limited (100% subsidiary of Fitch Inc.)

CRISIL - CRISIL Ltd. (A Standard & Poor's company)

ISSUANCE OF EQUITY SHARES

During the year under review, 205.6 lac shares (post sub-division, each equity share of ₹ 2) were allotted to the employees of your Bank pursuant to the exercise of options under the Employee Stock Option Schemes of the Bank. These include the shares allotted under the Employee Stock Option Schemes of the erstwhile Centurion Bank of Punjab.

EMPLOYEE STOCK OPTIONS

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

CAPITAL ADEQUACY RATIO

Your Bank's total Capital Adequacy Ratio (CAR) calculated in line with Basel II framework stood at 16.5%, well above the regulatory minimum of 9.0%. Of this, Tier I CAR was 11.6%.

SUBSIDIARY COMPANIES

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

HSL is primarily in the business of providing brokerage services through the internet and other channels with a focus to emerge as a full-fledged financial services provider through a distribution of a bouquet of financial services products. The company continued to strengthen its distribution franchise and as on March 31, 2012 had a network of 184 branches across the country. During the year under review, the company's total income amounted to ₹ 210.0 crore as against ₹ 260.5 crore in the previous year. The operations resulted in a net profit after tax of ₹ 54.1 crore.

HDBFS is a non-deposit taking non-bank finance company ('NBFC'), the customer segments being addressed by HDBFS are typically underserviced by the larger commercial banks, and thus create a profitable niche for the company to operate. Apart from lending to individuals, the company grants loans to small and medium business enterprises and micro small and medium enterprises, the principle businesses of HDBFS are as follows:

- Loans – The company offers a range of loans in the secured and unsecured loans space that fulfill the financial needs of its target segment
- Insurance Services – HDBFS is a corporate agent for HDFC Standard Life Insurance Company and sells standalone insurance products as well as products such as Loan Cover and Asset Cover.
- Collections – BPO Services – The Company runs 6 call centres with a capacity of over 1700 seats. These centres cover collection requirements at over 200 towns through its calling and field teams. Currently the company has a contract with your Bank for collection services.

As on March 31, 2012, HDBFS had 180 branches in 135 cities in order to distribute its products and services. During the financial year ended March 31, 2012, the company's total income increased by over 141% to ₹ 431.8 crore as compared to ₹ 178.9 crore in the previous year. During the same period the company's net profit was ₹ 51.1 crore as compared to ₹ 15.8 crore in the previous year.

In terms of the approval granted by the Government of India, the provisions contained under Section 212 (1) of the Companies Act, 1956 shall not apply in respect of the Bank's subsidiaries. Accordingly, a copy of the balance sheet, profit and loss account, report of the Board of Directors and the report of the auditors of HSL and HDBFS have not been attached to the accounts of the Bank for the year ended March 31, 2012.

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

MANAGEMENT'S DISCUSSIONS AND ANALYSIS

Macro-economic and Industry Developments

It was a challenging year for the Indian economy with lingering concerns over global growth prospects and financial stability weighing on external demand and international funding. Further, local headwinds such as inflation, rising interest rates and policy impediments have only exacerbated the impact of a shaky global environment on domestic growth. Aggressive monetary tightening curtailed leveraged spending pulling private consumption growth lower from 8.1% for the financial year ended March 31, 2011 to 6.5% for the financial year ended March 31, 2012, while policy hurdles such as land acquisition problems and environmental clearances dampened investment momentum dragging investment growth lower to 5.8% from 11.1% a year ago. The intensification of the debt crisis in Europe as well as a moderation in emerging markets across the globe pulled down export growth sharply in the second half of the financial year to 6% from close to 25% in first half of the financial year 2012, weakening a vital support to the GDP growth in the financial year 2012.

The drag from local and global dampeners was largely concentrated on the industrial sector with growth for the year at 3.9%, sharply lower than the 7.2% recorded a year ago. Agricultural growth too slowed down over the past year but this was largely because of an unfavorable base. While the monsoon season was more than adequate in the financial year 2012 and food grain production was strong, an adverse base pulled down agricultural growth in financial year 2012 to a lower but robust rate of 3.0% against a remarkably strong reading of 7.0% in financial year 2011. Meanwhile, service sector growth remained strong supported by structural drivers such as firm rural demand and low penetration and registered a growth of 9.4% against 9.3% in financial year 2011. On balance however, sturdy service sector growth was not enough to offset the drag from industry growth which pulled headline GDP growth in financial year 2012 lower to 6.9% against 8.4% a year ago.

While growth slowed down over the past year, inflation was slower to respond to this deceleration, remaining elevated through most of the financial year 2012. Exchange rate depreciation pressures driven by periods of extreme risk aversion exacerbated the impact of firm global commodity prices on domestic manufactured goods prices. Further, large fiscal imbalances and a relatively loose fiscal policy kept demand pressures on inflation intact. These led to the generalization of input price increases and have kept core inflation in the 7.5-8.0% range. Additionally, structural demand-supply mismatches in specific food items kept food inflation sticky. As a result, headline inflation averaged 8.8% in financial year 2012 only marginally lower than the average inflation rate of 9.5% a year ago.

The RBI therefore kept its vigil on inflation, hiking key policy rates by an aggressive 175 basis points between April, 2011-November, 2011. There are signs however that inflation is slowly moderating in response to subdued domestic demand and the lagged impact of past monetary tightening measures. While a favorable base helped, sequential price pressures also stabilized in recent months pulling headline inflation lower to 7.0% in February, 2012 from 9.5% a year ago. Further, core inflation came down from close to 8.0% a year ago to 5.7% in February, 2012. Given the attendant risks to growth and some signs of moderating inflation, the RBI diluted its hawkish stance in recent months, pausing its tightening cycle in December, 2011 and following this up with CRR cuts of 125 basis points since January, 2012 to address tight liquidity conditions.

As a result, while lending rates were hiked by a sharp 150 basis points on average, most of this increase has been concentrated in first half of the financial year 2012. Rising interest rates, inflation and weak domestic demand impacted credit growth taking it lower from 23% in April, 2011 to 16% in February, 2012. Interest rate sensitive segments such as retail housing, vehicle and personal loans came under pressure with credit growth in this category slowing to 11.0% in February, 2012 from 16.5% a year ago. Further, tardy infrastructure project execution and subdued capex especially in areas such as power took infrastructure loan growth lower to 18.8% in February, 2012 from 40.0% a year ago. Some segments such as roads and highways benefited from a turnaround in awarding activity which kept loan growth to the sector strong at 26-30% but this did little to arrest the slowdown in broader loan disbursements.

Firm interest rates and deposit rate hikes of nearly 150 basis points over September, 2010-July, 2011 boosted deposit growth in first half of the financial year 2012. However, subdued base money growth reflecting muted forex asset accretion and thin foreign inflows started impacting deposit mobilization which pulled deposit growth lower to 14-15%, thus creating a structural drag on domestic liquidity.

While liberalization in non-resident deposit rates helped growth in private remittances and transfers pushing it higher from 14% in financial year 2011 to over 25% in financial year 2012, firm commodity prices meant that import growth was much stronger. Further, growing global risk aversion boosted domestic demand for gold pushing the annual growth rate in gold imports to 75% from 25% a year ago. While subdued global demand drove export growth lower from 25% in first half of financial year 2012 to single digits in second half of financial year 2012, import growth remained strong at 25-30% thus widening the current account deficit close to 4% of GDP in financial year 2012 from 2.7% a year ago. On the other hand, muted global risk sentiment and periods of intense financial instability meant thin net capital inflows totaling USD 66 billion against USD 62 billion a year ago. As a result, the country saw net foreign outflows of USD 8-9 billion over the past year against net inflows of USD 13 billion a year ago. This kept the exchange rate under pressure leading to periods of extreme depreciation amidst a sharp fall in global risk sentiment and forcing the RBI to intervene and stabilize the domestic currency unit.

While thin foreign inflows and efforts by the RBI to stem the pace of currency depreciation kept domestic liquidity under pressure, the government's large market borrowing target only exacerbated the liquidity shortage. A combination of lower than budgeted revenue mobilization and an overshoot in subsidies drove the government to surpass its fiscal deficit target by more than 1% of GDP. This translated to extra borrowings of close to ₹ 1,00,000 crore through dated securities and a similar amount through treasury bills in second half of financial year 2012 on top of an already hefty dated securities draft of ₹ 4,17,000 crore budgeted for the year. As a result, the average banking system borrowing against surplus SLR (Statutory Liquidity Ratio) Securities from the RBI widened from ₹ 45,000 crore in first half of financial year 2012 to ₹ 1,20,000 crore in the second half of the year which kept government bond yields elevated taking the benchmark 10-yr yield to 8.55-8.60%, higher by 80 basis points over the previous year. Tight liquidity and aggressive monetary tightening over the year meant that the short-end of the curve came under pressure with the yield curve inverted and the 3-month T-bill yield largely ruled above the 10-yr benchmark yield. The overnight MIBOR shot up by 200 basis points to close the year at 8.80-9.0%

Since the intensification of the global financial crisis 2008, risks to domestic growth largely stemmed from the external environment. Over the last year however, domestic factors played a key role in pushing growth below potential. It follows then that policy initiatives to reverse this drag both in the form of monetary easing and addressing policy impediments and supply shortages will determine the trajectory of growth in financial year 2013. Some efforts have been made in resolving policy hurdles in recent months. For instance, efforts have been made to ease coal supply shortages in the power sector by securing coal supply agreements from state suppliers for power projects that have already been commissioned or would get commissioned on or before March, 2015. A draft bill has been formulated to smooth land acquisition bottlenecks. However most of these policy changes are yet to be fully implemented and were these delays to persist, could continue to impede domestic investment and ultimately impact growth.

While adequate capital provisioning and stringent prudential regulations largely shielded the domestic banking system from the global crisis, cyclical deterioration in asset quality remains a concern. Loans to the power sector where financial closure of projects has been delayed by policy hurdles, coal supply shortages and end-product pricing problems have come under stress. Further, there is some concern that a portion of the loans that banks were allowed to restructure may become impaired and will add to the stock of non-performing loans. As a result, the gross NPA ratio of the system is likely to move higher from 2.3% in financial year 2011 to 3.0% in financial year 2012. Recent stress tests have however revealed that the banking system as a whole remains robust enough to withstand a sharp increase in asset quality slippages and capitalization levels of stressed banks are likely to be maintained either through government assistance or further equity infusion.

While monetary easing in response to slowing domestic demand is likely to be modest it is likely to be enough to offset at least a part of the tightening over the last year. Leveraged consumer spending could thus gain some impetus. Further, while greenfield capex could remain restricted, brownfield capacity expansion involving minimal interface with regulatory hurdles could benefit from easing domestic funding conditions and firm private consumption. Besides, some sectors such as roads and highways that have seen considerable traction in activity over the last year are likely to remain an important support to investment momentum going ahead.

Despite a slowdown in growth over financial year 2012, India has continued to outperform the global economy. With world output growth likely to remain relatively feeble at 3.3% in 2012 against 3.8% in 2011, structural supports from a rapidly expanding rural and semi-urban economy, favorable demographics and low product penetration are likely to continue to keep domestic growth higher than world growth.

(Sources: Ministry of Finance, RBI, CSO, Ministry of Commerce)

Mission and Business Strategy

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

The Bank's business strategy emphasizes the following:

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

Financial Performance

The financial performance of your Bank during the financial year ended March 31, 2012 remained healthy with total net revenues (net interest income plus other income) increasing by 17.9% to ₹ 17,540.5 crore from ₹ 14,878.3 crore in the previous financial year. Revenue growth was driven by an increase in both, net interest income and other income. Net interest income grew by 16.6% due to acceleration in loan growth to 22.2% coupled with a net interest margin (NIM) of 4.2% for the year ending March 31, 2012.

From May 2011, the RBI mandated that interest payable on savings deposits be increased to 4% from 3.5%, which resulted in an impact of approximately 10-11 basis points on the bank's Net Interest Margins (NIM). Further, in November 2011, the same was de-regulated by RBI. Some of the small private sector banks increased the savings bank interest rate in the range of 6-7%, while most other banks maintained their savings deposit rate at 4%. In spite of price based competition, your Bank witnessed a strong growth of 16.6% in its savings deposits. Further, due to tight liquidity conditions that were prevalent in the monetary system during the financial year ended March 31, 2012, your Bank witnessed an increase of about 100 basis points in its retail term deposit rates during this period. Your Bank has however maintained steady NIMs by managing the yields across its various customer and product segments in line with its cost of funds.

Other income grew 21.0% over that in the previous year to ₹ 5,243.7 crore during the financial year ended March 31, 2012. This growth was driven primarily by an increase in fees and commissions earned and income from foreign exchange and derivatives, offset in part by a loss on sale / revaluation of investments of ₹ 195.9 crore as compared to a loss of ₹ 52.6 crore in the previous financial year. In the financial year ended March 31, 2012, commission income increased by 18.9% to ₹ 4,275.5 crore with the primary drivers being commissions from the distribution of fees on debit and credit cards, transactional charges and fees on deposit accounts and processing fees on retail assets. Regulatory changes resulted in the capping of earnings from the distribution of insurance products; however the increase in your Bank's sales volumes partly made up for the reduction in unit commissions. Foreign exchange and derivatives revenues grew by 44.8% from ₹ 786.3 crore in the previous financial year to ₹ 1,138.9 crore in the financial year ended March 31, 2012, primarily due to higher customer flows and also higher earnings from trading arising out of large volatility in foreign exchange markets through the year.

Operating (non-interest) expenses increased from ₹ 7,152.9 crore in the previous financial year to ₹ 8,590.1 crore in the year under consideration. During the year your Bank opened 558 new branches and over 3,400 ATMs which resulted in higher infrastructure and staffing expenses. As a result, the ratio of operating cost to core net revenues (excluding bonds gains / losses) for your Bank increased to 48.4% during the financial year ended March 31, 2012, from 47.9% in the previous year.

Total loan loss provisions consisting of specific provisions for non-performing assets and floating provisions decreased from ₹ 1,433.0 crore to ₹ 1,351.6 crore for the financial year ended March 31, 2012, on account of healthy asset quality across both retail and wholesale customer segments. Your Bank's provisioning policies for specific loan loss provisions remain higher than regulatory requirements, the coverage ratio based on specific provisions alone without including write-offs was 82.4% and that including general and floating provisions was 199.7% as on March 31, 2012. Your Bank made general provisions of ₹ 150.5 crore during the financial year ended March 31, 2012.

Your Bank's profit after tax increased by 31.6% from ₹ 3,926.4 crore in the previous financial year to ₹ 5,167.1 crore in the year ended March 31, 2012. Return on average net worth was 18.4% while the basic earnings per share increased from ₹ 17.00 to ₹ 22.11 per equity share.

As at March 31, 2012, your Bank's total balance sheet size was ₹ 337,909 crore an increase of 21.8% over ₹ 277,353 crore as at March 31, 2011. Total Deposits increased 18.3% from ₹ 208,586 crore as on March 31, 2011 to ₹ 246,706 crore as on March 31, 2012. Savings account deposits grew by 16.6% to ₹ 73,998 crore while current account deposits were at ₹ 45,408 crore as on March 31, 2012. Adjusting current account deposits for one offs, as at March 31, 2011, amounting to ₹ 4,000 crore, the growth was 6.9%. The proportion of core current and savings deposits (CASA) to total deposits was at 48.4% as on March 31, 2012. During the financial year under review, gross advances grew by 22.0% to ₹ 196,890 crore, while system loan growth was approximately 19%. Your Bank's loan growth was driven by an increase of 33.7% in retail advances to ₹ 107,126 crore, and an increase of 10.5% in wholesale advances to ₹ 89,764 crore. The Bank had a market share of 3.9% in total system deposits and 4.3% in total system advances. The Bank's Credit Deposit (CD) Ratio was 79.2% as on March 31, 2012.

Business Segments' Update

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

Retail Banking

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

The growth in your Bank's retail banking business was robust during the financial year ended March 31, 2012. The Bank's total retail deposits grew by over 27.6% to ₹ 178,657 crore in the financial year ended March 31, 2012, driven by retail term deposits which grew much faster at 45.4% during the same period. The Bank's retail assets grew by 33.7% to ₹ 107,126 crore during the financial year ended March 31, 2012 driven primarily by a growth in commercial vehicle loans, mortgages, business banking, and auto loans.

During this year your Bank expanded its distribution network from 1,986 branches in 996 cities as on March 31, 2011 to 2,544 branches in 1,399 Indian cities on March 31, 2012. The Bank's ATMs increased from 5,471 to 8,913 during the same period. Your Bank's branch network is deeply entrenched across the country with significant density in areas conducive to the growth of its businesses. The Bank's focus on semi-urban and under-banked markets continued, with over 75% of the Bank's branches now outside the top nine Indian cities. The Bank's customer base grew in line with the growth in its network and increased product penetration initiatives. This currently stands at 26 million customers. The Bank continues to provide unique products and services with customer centricity as a key objective.

In order to provide its customers increased choices, flexibility and convenience the Bank continued to make significant headway in its multi channel servicing strategy. Your Bank offered its customers the use of ATMs, internet, phone and mobile banking in addition to its expanded branch network to serve their banking needs.

The increase in the Bank's debit card base this year coupled with a growth in its ATM network translated to an increase in ATM transactions by 20%. The Bank also made strong inroads in its internet banking channel with around 60% of its registered customers now using net banking facilities for their banking requirements. Your bank now offers phone banking in 1397 locations in addition to giving its customers the convenience of accessing their bank accounts over their mobile phones. The success of the Bank's multi-channel strategy is evidenced in the fact that over 80% of customer initiated transactions are serviced through the non-branch channels.

Your Bank continued to grow at a healthy pace in almost all the retail loan products that it offers and further consolidated its position amongst the top retail lenders in India. The Bank grew its retail asset portfolio in a well balanced manner focusing on both returns as well as risk. While the Bank's auto finance business remained a key business driver for its retail asset portfolio, other retail loan products exhibited robust growth rates and good asset quality.

The Bank continued its focus on internal customers for its credit cards portfolio. Credit cards remained a profitable business for your Bank with 5.6 million cards in force as at March 31, 2012. As part of its strategy to drive usage of its credit cards the Bank also has a significant presence in the 'merchant acquiring' business with the total number of point-of-sale (POS) terminals installed at over 180,000.

In addition to the above products the Bank does home loans in conjunction with HDFC Limited. Under this arrangement the Bank sells loans provided by HDFC Limited through its branches. HDFC Limited approves and disburses the loans, which are booked in their books, with the Bank receiving a sourcing fee for these loans. HDFC Limited offers the Bank an option 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 by a direct assignment of loans; the balance is retained by HDFC Limited. Both the PTCs and the loans thus assigned are credit enhanced by HDFC Limited up to a AAA level. The Bank purchases these loans at the underlying home loan yields less a fee paid to HDFC Limited for the administration and servicing of the loans. Your Bank originated approximately an average ₹ 800 crore of mortgages every month in the financial year ended March 31, 2012, an increase from the ₹ 700 crore per month that it originated in the previous year. During the year the Bank also purchased from HDFC Ltd. under the "loan assignment" route approximately ₹ 4,900 crore of AAA credit enhanced home loans most of which qualified as priority sector advances.

Your Bank also distributes life, general insurance and mutual fund products through its tie-ups with insurance companies and mutual fund houses. The new regulations and product mix has adversely impacted fees from these sources, though increase in volumes of distribution has offset to some extent the drop in commission rates. Third party distribution income contributes approximately 17% of total fee income.

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

Wholesale Banking

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

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

The Bank's wholesale deposits grew by around 5.3%, adjusted for one off current account deposits of ₹ 4,000 crore at March 31, 2011, while wholesale advances showed a growth of over 10.5%. Your Bank provides its customers both working capital and term financing. The Bank witnessed an increase in the proportion of its medium tenor term lending, however working capital loans and short tenor term loans retained a large share of its wholesale advances. While the duration of the Bank's term loans largely remained small to medium term, the Bank did witness an increase in its longer duration term loans and project lending including loans to the infrastructure segment.

During the financial year ended March 31, 2012, growth in the wholesale banking business continued to be driven by new customer acquisition and higher cross-sell with a focus on optimizing yields and increasing product penetration. Your Bank's cash management and vendor & distributor (supply chain) finance products continued to be an important contributor to growth in the corporate banking business. Your Bank further consolidated its position as a leading player in the cash management business (covering all outstation collection, disbursement and electronic fund transfer products across the Bank's various customer segments) with volumes of over ₹ 25 trillion. The Bank also strengthened its market leadership in cash settlement services for major stock exchanges and commodity exchanges in the country. The Bank met the overall priority sector lending requirement of 40% of net bank credit and also strived for healthy growth in the sub-targets such as weaker sections, direct agriculture, and the micro and SME segments.

International Operations

The Bank has a wholesale banking branch in Bahrain, a branch in Hong Kong and two representative offices in UAE and Kenya. The branches offer the Bank's suite of banking services including treasury and trade finance products to its corporate clients. Your Bank has built up an asset book over USD 1.7 billion through its overseas branches. The Bank offers wealth management products, remittance facilities and markets deposits to the non-resident Indian community from its representative offices.

Treasury

The treasury group is responsible for compliance with reserve requirements and management of liquidity and interest rate risk on the Bank's balance sheet. On the foreign exchange and derivatives front, revenues are driven primarily by spreads on customer transactions based on trade flows and customers' demonstrated hedging needs. During the financial year ended March 31, 2012, revenues from foreign exchange and derivative transactions grew by 44.8% to ₹ 1,138.8 crore. These revenues were distributed across large corporate, emerging corporate, business banking and retail customer segments for plain vanilla foreign exchange products and across primarily large corporate and emerging corporate segments for derivatives. The Bank offers Indian rupee and foreign exchange derivative products to its customers, who use them to hedge their market risks. The Bank enters into foreign exchange and derivative deals with counterparties after it has set up appropriate counterparty credit limits based on its evaluation of the ability of the counterparty to meet its obligations in the event of crystallization of the exposure. Appropriate credit covenants may be stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk. Where the Bank enters into foreign currency derivative contracts with its customers it lays them off in the inter-bank market on a matched basis. For such foreign currency derivatives, the Bank does not have any open positions or assume any market risks but carries only the counterparty credit risk (where the customer has crystallized payables or mark-to-market losses). The Bank also deals in Indian rupee derivatives on its own account including for the purpose of its own balance sheet risk management. The Bank recognizes changes in the market value of all derivative instruments (other than those designated as hedges) in the profit and loss account in the period of change. Derivative contracts classified as hedge are recorded on an accrual basis.

Given the regulatory requirement of holding government securities to meet the statutory liquidity ratio (SLR) requirement, your Bank maintains a portfolio of government securities. While a significant portion of these SLR securities are held in the 'Held-to-Maturity' (HTM) category, some of these are held in the 'Available for Sale' (AFS) category.

Information Technology

Since its inception, your Bank has made and continues to make substantial investments in its technology platform and systems, built multiple distribution channels, including an electronically linked branch network, automated telephone banking, internet banking and banking through mobile phones, to offer its customers convenient access to various products. During this financial year, the bank has made further strides in adding more capability to the internet banking platform, launched mobile banking for 2G customers and launched applications for various mobile platforms.

Your Bank has templatized credit underwriting through automated customer data de-duplication and real-time scoring in its loan origination process. Having enhanced its cross selling and up-selling capabilities through data mining and analytical customer relationship management solutions, the Bank's technology enables it to have a 360^0 view of its customers. Your Bank employs event detection technology based customer messaging and has deployed an enterprise wide data warehousing solution as a back bone to its business intelligence system.

Implementation of risk management engine for internet transactions coupled with various multi factor authentication has reduced the phishing attacks significantly. The bank has also implemented a digital certificate based security engine for corporate internet banking customers. Credit and debit cards usage of the Bank's customers is secured by powerful proactive risk manager technology solutions which does rules based SMS alerts as well as prompts customer service representatives to call the customer on detecting abnormal usage behavior. This prevents frauds and minimizes losses to customers, if the card has been stolen and yet to be hot listed.

Sophisticated automated switch-over and switch-back solutions power the Bank's Business Continuity and Disaster Recovery management strategy for core banking and other key applications. The bank conducts drills periodically to upgrade this capability and to improve the availability of your Bank's services to its customers.

With the various initiatives that your Bank has taken using technology, it has been successful in driving the development of innovative product features, reducing operating costs, enhancing customer service delivery and minimizing inherent risks.

In April 2011, RBI issued Guidelines on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds and provided recommendations for implementation. The Bank remains committed towards complying with the requirements outlined in the guidelines and instituted a senior level internal team to oversee the implementation program for complying with the guidelines. The team supervised the various domains, performed gap analysis, and prepared remediation plan for each area where gaps were observed. Significant progress has been made towards remediation over the year and this has been reported to the board on a quarterly basis.

Service Quality Initiatives

Your Bank was one of the few banks in the country to have put in place a team dedicated to improve service quality through the Lean and Six Sigma methodologies with a focus on right origination, cost effective and error free operations and effective complaint resolution. The Bank continued driving improvements in Service Quality (SQ) initiatives encompassing all customer touch points namely branches, ATMs, phone banking, net-banking, e-mail service as well as back office support functions impacting customer service through a dedicated Quality Initiatives Group (QIG) team. Some of the key elements covered by the QIG team are workplace management, etiquette and courtesy, lobby management, complaints management, management of turn-around times, overall customer service and compliance with the Bank's internal processes as well as regulatory compliance. The group also runs programs such as 'voice of the customer' and 'voice of the employee' for effective complaint resolution and process improvement. Various departments of the Bank are empowered to deliver superior customer experience through improvements in products, processes and people skills.

In addition to above, your Bank continued with the ongoing service quality initiatives which include the audit of services as well as mystery shopping at various customer touch points to capture and improve customer experiences extending them to all new branches / centers. Your Bank has also set up a robust training mechanism; both on the online platform as well as using conventional class room sessions, to enable its employees improve the quality of customer service.

Under the institutional drive called "Transformation of Customer Service" your Bank is benchmarking with the best in class service providers in the banking space and launch newer and better products and services to delight the customers.

To this effect, your Bank has designed and implemented customized Lean Sigma Project Management (LSPM) methodology that incorporates the Lean philosophy into the Six Sigma framework to deliver faster and sustainable results clubbed with customer delight and improved profitability. Your Bank also takes advantage of various information technology platforms to improve products, processes and services. Your Bank does not believe in designing a product and fitting it into the customers' needs rather it designs products to meet customer needs. The Bank has always ensured that its products and services are delivered through processes which are in line with the prevalent regulatory framework and has adequate controls to safe-guard against possible misuse. Your Bank has taken various steps to improve the effectiveness of its Grievance re-dressal mechanism across its delivery channels. Some key measures taken up by the Bank include a three layered Grievance re-dressal mechanism, bank-wide online complaint resolution system, root cause remediation, customer service committees at the branch level and at the corporate headquarters level with representation from customers. The levels of customer service are periodically reviewed by the board of directors of the Bank. All these have helped in consistent reduction in the total number of customer complaints and the same is reflected in written appreciations received from the various offices of honorable Banking Ombudsman (BO) appointed by the Reserve Bank of India.

In order to ensure continued focus on customer service through standardized and controlled processes, your Bank has achieved coveted the ISO 9001:2008 Certification of the grievance handling processes of the bank.

Risk Management and Portfolio Quality

Taking on various types of risk is integral to the banking business. Of the various types of risks your Bank is exposed to, the most important are credit risk, market risk and operational risk. The identification, measurement, monitoring and management of risks remain a key focus area for the Bank. Sound risk management and balancing risk-reward trade-offs are critical to a bank's success. Business and revenue growth have therefore to be weighed in the context of the risks implicit in the Bank's business strategy. The Risk Policy and Monitoring Committee of the Board monitors the Bank's risk management policies and procedures, vets treasury risk limits before they are considered by the Board, and reviews portfolio composition and impaired credits.

For credit risk, distinct policies, processes and systems are in place for the retail and wholesale businesses. In the retail loan businesses, the credit cycle is managed through appropriate front-end credit, operational and collection processes. For each product, programs defining customer segments, underwriting standards, security structure etc., are specified to ensure consistency of credit buying patterns. Given the granularity of individual exposures, retail credit risk is monitored largely on a portfolio basis, across various products and customer segments. During the year the Bank obtained the ISO 9001:2008 re-certification of its retail credit underwriting unit, which was confirmed for 35 sites. For wholesale credit exposures, management of credit risk is done through target market definition, appropriate credit approval processes, ongoing post-disbursement monitoring and remedial management procedures. Overall portfolio diversification and periodic as well as proactive reviews facilitate risk mitigation and management. The credit quality in the wholesale segment continued to be robust. The Bank was largely insulated from the problems witnessed in the power, telecom, aviation, and other sectors due to its low exposure to project finance and the existence of superior credit filters which facilitate a high quality loan book. Some stress was observed in the micro finance portfolio of the Bank due to environmental factors, however, this portfolio is less than 0.2 percent of the Bank's advances, and all problem accounts are adequately provided for.

As of March 31, 2012, your Bank's ratio of gross non-performing assets (NPAs) to gross advances was 1.02%. Net non-performing assets (gross non-performing assets less specific loan loss provisions) were 0.2% of customer assets as of March 31, 2012. The specific loan loss provisions that the Bank has made for its non-performing assets continue to be more conservative than the regulatory requirement. In addition, the bank has made general provisions for standard assets which are as per regulatory prescription and dynamic counter cyclical provisions or floating provisions which are made as per board approved policy. The coverage ratio taking into account specific, general and floating provisions was 199.7% as of March 31, 2012.

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

INTERNAL AUDIT AND COMPLIANCE

Your Bank has Internal Audit and Compliance functions which are responsible for independently evaluating the adequacy of all internal controls and ensuring operating and business units adhere to internal processes and procedures as well as to regulatory and legal requirements. The audit function also pro-actively recommends improvements in operational processes and service quality. To ensure independence, the audit department has a reporting line to the Chairman of the Board of Directors and the Audit and Compliance Committee of the Board and only a dotted line to the Managing Director. To mitigate operational risks, the Bank has put in place extensive internal controls including restricted access to the Bank's computer systems, appropriate segregation of front and back office operations and strong audit trails. The Audit and Compliance Committee of the Board also reviews the performance of the audit and compliance functions and reviews the effectiveness of controls and compliance with regulatory guidelines.

CORPORATE SOCIAL RESPONSIBILITY

Your Bank has a defined guiding principle for all its social initiatives: 'Changing Lives by empowering individuals through Finance, Education and Training'.

An essential element of the Bank's Corporate Responsibility is its community initiatives which aim at empowering individuals at the bottom of the pyramid through developmental initiatives such as education and livelihood support. In the field of education its interventions are aimed at mainstreaming of school children and ensuring the quality of education they receive. Your Bank has undertaken a multitude of initiatives for retaining children in school and arrest the rate of dropouts. As part of this initiatives, pre-primary schools are run in communities with the objective of preparing and enrolling these children into mainstream education. Apart from providing basic nutritional and health needs, regular parent and community meetings are an integral part of this program which is currently running in Kolkata, Hyderabad and Delhi.

Your Bank in partnership with NGOs and the government has adopted state-run schools by providing educational support to the children and to train staff to ensure better levels of learning and lower rate of drop-out in state-run schools in Pune and Mumbai. Also needy and deserving children are identified based on set criteria and provided with educational support to cover the cost of their education in state-run schools. In a unique initiative supported by the Bank, 30 children from government schools have been integrated to DPS School in Ahmedabad. Your Bank launched its Educational Crisis Scholarship Support (ECSS) in 2011 to reach out to students, studying in private / government-aided schools, who due to personal / family constraints, are unable to continue bearing the cost of education and are at risk of dropping out of school.

Your Bank also undertakes programs that cover around 500 children through 'afterschool class' and out-of school children through 'bridge class' in Pune, Delhi and Kolkata, a rehabilitation program in Kashmir, Kolkata and Mumbai, where development, training and placement assistance is provided to differently abled individuals, so that they can lead a life of dignity, and financial literacy programs for children which are run in 458 schools in rural areas of Maharashtra, Tamil Nadu and Orissa to inculcate values of money and concept of savings.

Your Bank has also created a financial literacy module which is run by its employee volunteers. 'Power of Banking' is a two-hour-long interactive module designed for school children studying in Vth to VIIIth standards and covers simple concepts about money such as budgeting, saving and banking. Power of banking has also been redesigned to introduce financial concepts and values associated with money to street children.

Your Bank's livelihood initiatives are aimed at training and capacity development of youth and women in the age group of 18-30 years from economically weaker sections of society and to empower them to gain access to opportunities for sustainable livelihoods and growth. Your Bank's livelihood support programs are aimed at empowering competency-based, skill-oriented technical and vocational training. Such training programs have been carried out in Andhra Pradesh, Maharashtra and Gujarat. In Kolkata, your Bank has supported the setting up of a physiotherapy training unit where visually challenged candidates undergo a diploma in physiotherapy. In a pilot project undertaken in the same city, interest-free loans were given to school drop-outs who underwent training as laboratory technicians and were successfully placed in hospitals through industry interface. In addition to projects implemented through NGO partners, your Bank also drives direct community initiatives through its employees.

Changing Lives through Employee Engagement

Employees are an integral part of all volunteering programs. With an organization of over sixty thousand people, your Bank believes that it is in a unique position to leverage theknowledge base, skills and resources of its employees to 'Change Lives'. While employees are part of all the community-based interventions, the Bank also provides opportunities for employees to contribute through special programs that are centrally driven.

Payroll Giving: Under this program, employees are provided with an easy and convenient system to donate small amounts on monthly basis and accumulate it to reach a corpus thatallows them individually to donate to a charity of their choice. Your Bank matches their contribution, thereby endorsing the charity they choose to support. Currently, we have employees who have cumulatively supported over 50,000 individuals.

Make A Difference Day: Your Bank celebrates 'Make A Difference Day' annually as a community volunteering day where employees identify NGOs in their region and interact with beneficiaries. Employees conduct activities, competitions and workshops for the underprivileged community. 'Make A Difference Day' is celebrated as an opportunity for the employees to leave their laptops, conferences calls and emails and direct their passion, determination and skills for the benefit of communities.

HDFC Bank Fellowship: Your Bank supports the 'Teach for India' movement which is a nationwide campaign aiming to bridge the educational gap in India by placing young professionals in low-income schools to teach full-time for two years, advocating educational equity. Each year, two employees are selected for the fellowship and are given a two-year sabbatical, during which they continue to receive their basic salary.

Blood Donation: Employees of your Bank have been actively organizing blood camps at all India level since 2007. The journey started with a collection of 4,385 units of blood and today has increased to 25,758 units. Identifying a need for preserving the blood especially in rural areas, employees initiated a drive to identify and support the setup of blood banks. This year too, your bank supported this initiative and set up four blood banks.

Environmental Sustainability

Your Bank believes in taking responsibility for the effects of its operations on society and on the environment. It regards climate change mitigation and environmental improvements as essential elements of a sustainable business philosophy and this belief embodies the Bank's approach to reduction of carbon emissions.

It has conducted an inventory of energy-related emissions from its office buildings and retail branches and is taking steps to manage Green House Gas (GHG) emissions. Your Bank is also a signatory to the Carbon Disclosure Project (CDP).

An important aspect of your Bank's GHG management strategy is behavioral modifications and employees are constantly being made aware of the importance of conservation. Through all these measures, the Bank has embarked on a mission to make tangible and meaningful difference to people's lives. It will continue to walk the path and not rest till this goal is achieved.

FINANCIAL INCLUSION

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

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

The Banks financial inclusion initiatives have been integrated across its various businesses, across product groups. By March 31, 2012 your Bank has brought over 5 million households who were hitherto excluded from basic banking services under the fold of this program.

Rural Initiative

The Bank offers products and services such as savings, current, fixed & recurring deposits, loans, ATM facilities, investment products such as mutual funds and insurance, electronic funds transfers, drafts and remittances etc in its branches located in rural and under banked locations. The Bank also leverages some of these branches as hubs for other inclusion initiatives such as direct linkages to self-help groups and to promote Joint liability Group Loans, POS terminals and information technology enabled kiosks, as well as other ICT initiatives such as mobile banking in these locations. The Bank covers over 6,000 villages in the country through various distribution set ups, these include branches and business correspondents. Around half of the above villages are those having a population of less than 2,000 that have typically been financially excluded from the formal banking sector.

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

No Frills Savings Accounts

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

This product was launched by the Bank with a specific objective to provide customers a platform that enables them to inculcate the habit of savings. By not insisting on a requirement of a minimum balance, the entry barrier into the banking system has been removed, thereby giving the hitherto unbanked person to start experiencing benefits of banking.

These accounts are offered only to customers who do not have any other bank account (are un-banked) or who are either beneficiaries of a government welfare scheme or have annual incomes less than a defined threshold (constitute the bottom of the economic pyramid). Apart from the basic no frills savings account your Bank also offers these segments other accounts such as no frills salary accounts and limited KYC accounts.

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

The total number of No Frills Savings Accounts opened as on March 2012 was at 7.60 lac accounts as against 5.53 lac accounts as on March 2011.

Sustainable Livelihood Financing

Over the last one year, your Bank has accelerated its direct linkage program to self-help groups, where the Bank itself works at the grass root level with women in villages, conducts financial literacy programs, forms groups and then funds these groups for income generation activities. This enables the delivery of viable credit to the rural poor in a sustainable manner & at the same time also inculcates the saving and banking habits. Till date the Bank has lent to over 73,000 Self Help Groups and over 1,10,000 Joint Liability groups covering approximately 11.7 Lac households. Your Bank also disburses loans to its rural customers under the mutual guarantee micro loan product which is now termed as Joint liability group product. This product works on the principle of group guarantees and provides clean (not backed by any collateral) loans to the borrowers based on a guarantee by other borrowers.

Agriculture and Allied Activities

A large portion of India's un-banked population relies on agriculture as the main source of livelihood. We believe provision of credit to farmers through various methods that your Bank has employed replaces the traditional money lending channel, while at the same time providing income generating activities. The Bank provides various loans to farmers through its suite of specifically designed products such as the Kisan Gold Card, tractor and cattle loans etc. In addition, the Bank offers post-harvest cash credit, warehouse receipt financing and bill discounting facilities to mandi (markets for grain and other agricultural produce) participants and farmers. These facilities enable the mandi participants to make timely payments to farmers. The Bank carries out this business through over 400 branches that are located in close proximity to mandis.

The Bank targets specific sectors to capture supply chain of certain crops from the production stage to the sales stage. On the basis of these cashflows, your Bank is able to finance specific needs of the farmers. This is further supported by using Business Correspondents closer to their respective locations and helping them to create a savings and banking habit. This model has currently been implemented with dairy and sugarcane farmers.

The initiative currently underway includes the appointment of dairy societies and sugarcane co-operatives as business correspondents, through whom the Bank opens accounts of individual farmers attached to these societies. The societies route all payments to the farmers through this account.

Gold Loans

The Gold loan product is an offering which allows customers a reliable source of credit at the time of need. In the absence of this, either, credit would not have been available to these customers or would have been available at higher rates in form of unsecured loans. Gold loans provide a source of monetizing the household gold and at the same time provides an alternate source of funds. It provides financial independence to small traders, small entrepreneurs and house wives. It also substitutes borrowing at usurious rates, particularly by small borrowers and weaker sections.

Small and Micro Enterprises

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

Promoting Financial Awareness

In addition to providing various products and services to the financially excluded, the Bank believes that imparting education and training to these target segments is equally essential to ensure transparency and create awareness. To this effect the Bank has put in place various training programs, these are conducted by Bank staff in local languages and cover not only the customers but also various intermediaries such as the Bank's business correspondents. Through these programs the Bank provides credit counseling and information on parameters like savings habit, better utilization of savings, features of savings products, credit utilization, asset creation, insurance, income generation program etc. During the financial year ended March 31, 2012, over 5,400 financial awareness programs covering over 1,40,000 households were conducted. The bank also facilitates need based capacity building and market place for the customers with the objective of sustaining their livelihood in holistic manner.

HUMAN RESOURCES

The total number of employees of your Bank was 66,076 as of March 31, 2012. The Bank continued to focus on training its employees both – on the job as well as through training programs conducted by internal and external faculty. The Bank has consistently believed that broader employee ownership of its equity shares has a positive impact on its performance and employee motivation.

Your Bank lists 'people' as one of its stated core values. The Bank believes in empowering its employees and constantly takes various measures to achieve this objective.

STATUTORY DISCLOSURES

The information required under Section 217(2A) of the Companies Act, 1956 and the rules made thereunder as amended, are given in an annexure and forms part of this report. In terms of section 219(1)(iv) of the Act, the Report and Accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered Office of the Bank. The Bank had 66076 employees as on March 31, 2012. 120 employees employed throughout the year were in receipt of remuneration of more than ₹ 60 lac per annum and 12 employees employed for part of the year were in receipt of remuneration of more than ₹ 5 lac per month.

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

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

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

RESPONSIBILITY STATEMENT

The Board of Directors hereby state that

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

ii) We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as on March 31, 2012 and of the profit of the Bank for the year ended on that date;

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

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

DIRECTORS

Dr. Pandit Palande and Mr.Partho Datta will retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

Mr. Keki Mistry, who had ceased to be a director from the closing hours of business on March 26, 2011 on completing the permitted tenure of eight years under the Banking Regulation Act, 1949, was re-appointed as an additional director by the Board during the year in accordance with the relevant applicable guidelines of the Reserve Bank of India and holds office up to the conclusion of the ensuing Annual General Meeting. The Bank has received a notice pursuant to Section 257 of the Companies Act, 1956 from a shareholder proposing the candidature of Mr. Keki Mistry as Director of the Bank at the ensuing Annual General Meeting.

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

AUDITORS

The Auditors, M/s. BSR & Co., Chartered Accountants will retire at the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment. Members are requested to consider their re-appointment on an annual remuneration (statutory audit fees) of ₹ 1,05,60,000 (Previous year: ₹ 96,00,000) plus service tax as applicable, which is approved by the Audit and Compliance Committee of the Board.

ACKNOWLEDGEMENT

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

On behalf of the Board of Directors

Mr. C. M. Vasudev

Mumbai, April 18, 2012 **Chairman**

Annexure to Directors' Report for the year ended March 31, 2012

EMPLOYEES' STOCK OPTIONS

Details of the stock options granted, vested, exercised, forfeited and lapsed during the year under review are as under :

Scheme(s)	Options Granted	Options Vested	Options Exercised & Shares Allotted*	Options Forfeited	Options Lapsed	Total Options in Force as on March 31, 2012
A – 2000	-	-	14,500	-	35,000	-
B – 2003	-	-	1,634,200	2,500	99,000	1,950,300
C – 2005	-	-	3,276,000	1,500	16,500	3,421,500
D – 2007	-	-	13,476,250	-	47,750	26,489,250
E – 2010	35,603,250	24,063,100	1,250,500	875,000	-	66,270,250
eCBOP Key ESOP	-	-	44,000	-	-	33,595
eCBOP – General ESOP	-	-	864,400	-	18,025	1,707,845
Total	**35,603,250**	**24,063,100**	**20,559,850**	**879,000**	**216,275**	**99,872,740**

All numbers as above represent shares of face value of ₹ 2 each post sub-division of 1 equity share of face value of ₹ 10 each into 5 equity shares of face value of ₹ 2 each which was approved by the shareholders at the last Annual General Meeting held on 6th July, 2011.

Other details are as under :

Money realized by exercise of options	The Bank received ₹ 4.11 crore towards share capital and ₹ 526.15 crore towards share premium on account of 2,05,59,850 stock options exercised and allotted during the year.	
Pricing Formula for options granted under Plan E-2010	Closing market price on the stock exchange where there is highest trading volume on the immediately preceding working day of the date of grant. Options were granted at a price of ₹ 2,541.15 (post sub-division ₹ 508.23) on 6th July, 2011 and at a price of ₹ 468.40 on 18th January, 2012.	
Details of options granted to :	**Name**	**Options Granted**
i. Directors & Senior managerial personnel	Aditya Puri	900000
	Paresh Sukthankar	450000
	Harish Engineer	450000
	Anil Jaggia	184000
	Abhay Aima	184000
	Ashish Parthasarthy	184000
	Bhavesh Zaveri	184000
	Jimmy Tata	184000
	Kaizad Bharucha	184000
	Navin Puri	184000
	Pralay Mondal	184000
	Rajender Sehgal	184000
	Rahul Bhagat	184000
	Sashi Jagdishan	184000
ii. Other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year	None	

iii.	Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of the grant	None
	Diluted Earnings Per Share (EPS) pursuant to the issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) – 20 (Earnings Per Share)	The Diluted EPS of the Bank calculated after considering the effect of potential equity shares arising on account of exercise of options is ₹ 21.9
	Where the company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the company shall also be disclosed	Had the Bank followed fair value method for accounting the stock option compensation expense would have been higher by ₹ 377.8 crore. Consequently profit after tax would have been lower by ₹ 377.8 crore and the basic EPS of the Bank would have been ₹ 20.5 per share (lower by ₹ 1.6 per share) and the diluted EPS would have been ₹ 20.3 per share (lower by ₹ 1.6 per share)
	Weighted-average exercise prices and weighted average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock options	The weighted average price of the stock options exercised is ₹ 257.9 and the weighted average fair value is ₹ 91.5.
	A description of the method and significant assumptions used during the year to estimate the fair value of options, at the time of the grant including the following weighted average information:	The Securities Exchange Board of India (SEBI) has prescribed two methods to account for stock grants; (i) the intrinsic value method; (ii) the fair value method. The Bank adopts the intrinsic value method to account for the stock options it grants to the employees. The Bank also calculates the fair value of options at the time of grant, using internally developed and tested model with the following assumptions.
i.	Risk-free interest rate,	8.04% to 8.22%
ii.	Expected life,	1-6 years
iii.	Expected volatility,	29.35%
iv.	Expected dividends, and	0.65% to 0.70%
v.	The price of the underlying share in market at the time of option grant	The per share market price was ₹ 2,541.15 (post sub-division ₹ 508.2) and ₹ 468.4 at the time of grant of options under ESOS XVII and ESOS XVIII respectively.

Auditors' Report

To the Members of HDFC Bank Limited

We have audited the attached Balance Sheet of HDFC Bank Limited ('the Bank') as at 31 March 2012 and also the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, annexed thereto for the year ended on that date. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The Balance Sheet and the Statement of Profit and Loss have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211(1), (2) and (3C) of the Companies Act, 1956.

We report that:

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

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

c) the returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit.

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

We further report that:

a) the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this report are in agreement with the books of account and returns;

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

c) on the basis of written representations received from the directors, as on 31 March 2012, and taken on record by the Board of Directors, we report that none of the director is disqualified as on 31 March 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

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

a) in the case of the Balance Sheet, of the state of affairs of the Bank as at 31 March 2012;

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

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

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

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai
18 April, 2012

Balance Sheet

As at March 31, 2012

₹ in '000

	Schedule	As at 31-Mar-12	As at 31-Mar-11
CAPITAL AND LIABILITIES			
Capital	1	**4,693,377**	4,652,257
Reserves and surplus	2	**294,550,358**	249,111,291
Employees' stock options (grants) outstanding		**3,020**	29,135
Deposits	3	**2,467,064,459**	2,085,864,054
Borrowings	4	**238,465,086**	143,940,610
Other liabilities and provisions	5	**374,318,690**	289,928,565
	Total	**3,379,094,990**	2,773,525,912
ASSETS			
Cash and balances with Reserve Bank of India	6	**149,910,945**	251,008,158
Balances with banks and money at call and short notice	7	**59,466,318**	45,680,191
Investments	8	**974,829,094**	709,293,656
Advances	9	**1,954,200,292**	1,599,826,654
Fixed assets	10	**23,471,940**	21,706,480
Other assets	11	**217,216,401**	146,010,773
	Total	**3,379,094,990**	2,773,525,912
Contingent liabilities	12	**8,652,928,262**	5,751,224,839
Bills for collection		**186,924,956**	134,284,924
Significant accounting policies and notes to the financial statements	17 & 18		
The schedules referred to above form an integral part of the Balance Sheet.			

As per our report of even date.

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

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai, 18 April, 2012

For and on behalf of the Board

C. M. Vasudev
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President (Legal) & Company Secretary

Harish Engineer
Executive Director

Paresh Sukthankar
Executive Director

A. N. Roy
Ashim Samanta
Bobby Parikh
Dr. Pandit Palande
Keki Mistry
Partho Datta
Renu Karnad
Directors

Statement of Profit and Loss

For the year ended March 31, 2012

₹ in '000

		Schedule	Year Ended 31-Mar-12	Year Ended 31-Mar-11
I	**INCOME**			
	Interest earned	13	**272,863,517**	199,282,122
	Other income	14	**52,436,949**	43,351,527
		Total	**325,300,466**	242,633,649
II	**EXPENDITURE**			
	Interest expended	15	**149,895,780**	93,850,839
	Operating expenses	16	**85,900,571**	71,529,141
	Provisions and contingencies		**37,833,208**	37,989,660
		Total	**273,629,559**	203,369,640
III	**PROFIT**			
	Net profit for the year		**51,670,907**	39,264,009
	Profit brought forward		**61,742,416**	45,327,948
		Total	**113,413,323**	84,591,957
IV	**APPROPRIATIONS**			
	Transfer to Statutory Reserve		**12,917,726**	9,816,002
	Proposed dividend		**10,090,760**	7,676,224
	Tax (including cess) on dividend		**1,636,973**	1,245,275
	Dividend (including tax / cess thereon) pertaining to previous year paid during the year		**21,240**	26,484
	Transfer to General Reserve		**5,167,091**	3,926,401
	Transfer to Capital Reserve		**-**	3,568
	Transfer to / (from) Investment Reserve Account		**(416,937)**	155,587
	Balance carried over to Balance Sheet		**83,996,470**	61,742,416
		Total	**113,413,323**	84,591,957
V	**EARNINGS PER EQUITY SHARE (Face value ₹ 2 per share)**		₹	₹
	Basic		**22.11**	17.00
	Diluted		**21.91**	16.81
	Significant accounting policies and notes to the financial statements	17 & 18		
	The schedules referred to above form an integral part of the Statement of Profit and Loss.			

As per our report of even date.

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

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai, 18 April, 2012

For and on behalf of the Board

C. M. Vasudev
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President (Legal) & Company Secretary

Harish Engineer
Executive Director

Paresh Sukthankar
Executive Director

A. N. Roy
Ashim Samanta
Bobby Parikh
Dr. Pandit Palande
Keki Mistry
Partho Datta
Renu Karnad
Directors

For the year ended March 31, 2012

₹ in '000

Particulars	Year Ended 31-Mar-12	Year Ended 31-Mar-11
Cash flows from operating activities		
Net profit before income tax	**75,131,659**	**58,186,567**
Adjustments for :		
Depreciation on fixed assets	5,425,150	4,974,057
(Profit) / loss on revaluation of investments	897,174	(310,616)
Amortisation of premia on held to maturity investments	783,012	2,268,463
(Profit) / loss on sale of fixed assets	(15,132)	8,153
Provision for non performing assets	6,515,777	7,630,184
Provision for diminution in value of investment	934,030	-
Floating provisions	7,000,000	6,700,000
Provision for standard assets	1,504,993	-
Provision for wealth tax	5,500	6,000
Contingency provisions	(1,587,844)	4,730,918
	96,594,319	**84,193,726**
Adjustments for :		
(Increase) / decrease in investments	(268,052,486)	(119,275,342)
(Increase) / decrease in advances	(360,930,722)	(349,150,899)
Increase / (decrease) in borrowings (excluding subordinated debt, perpetual debt and upper Tier II instruments)	57,398,476	4,384,185
Increase / (decrease) in deposits	381,200,405	411,819,660
(Increase) / decrease in other assets	(67,229,825)	(82,711,986)
Increase / (decrease) in other liabilities and provisions	75,079,689	69,739,220
	(85,940,144)	**18,998,564**
Direct taxes paid (net of refunds)	(27,615,921)	(22,756,830)
Net cash flow from / (used in) operating activities	**(113,556,065)**	**(3,758,266)**
Cash flows from / (used in) investing activities		
Purchase of fixed assets	(6,817,318)	(5,418,214)
Proceeds from sale of fixed assets	45,952	90,829
Investment in subsidiaries and / or joint ventures	(97,168)	(5,900,000)
Net cash used in investing activities	**(6,868,534)**	**(11,227,385)**

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Cash Flow Statement

For the year ended March 31, 2012

₹ in '000

Particulars	Year Ended 31-Mar-12	Year Ended 31-Mar-11
Cash flows from financing activities		
Money received on exercise of stock options by employees	5,306,601	8,281,642
Proceeds from issue of upper & lower Tier II capital instruments	36,500,000	11,050,000
Redemption of subordinated debt	(2,000)	(620,000)
Dividend paid during the year	(7,695,463)	(5,519,403)
Tax on dividend	(1,247,276)	(912,305)
Net cash generated from financing activities	**32,861,862**	**12,279,934**
Effect of exchange fluctuation on translation reserve	**251,651**	**(29,922)**
Net increase / (decrease) in cash and cash equivalents	**(87,311,086)**	**(2,735,639)**
Cash and cash equivalents as at April 1st	**296,688,349**	**299,423,988**
Cash and cash equivalents as at March 31st	**209,377,263**	**296,688,349**

As per our report of even date.

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

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai, 18 April, 2012

For and on behalf of the Board

C. M. Vasudev
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Ashim Samanta
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Dr. Pandit Palande
Keki Mistry
Partho Datta
Renu Karnad
Directors

As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
SCHEDULE 1 - CAPITAL			
Authorised capital			
2,75,00,00,000 (31 March, 2011 : 55,00,00,000 of ₹ 10/- each) Equity shares of ₹ 2/- each		**5,500,000**	5,500,000
Issued, subscribed and paid-up capital			
2,34,66,88,270 (31 March, 2011 : 46,52,25,684 of ₹ 10/- each) Equity shares of ₹ 2/- each		**4,693,377**	4,652,257
	Total	**4,693,377**	4,652,257
SCHEDULE 2 - RESERVES AND SURPLUS			
I Statutory reserve			
Opening balance		**40,175,045**	30,359,043
Additions during the year		**12,917,726**	9,816,002
	Total	**53,092,771**	40,175,045
II General reserve			
Opening balance		**14,235,625**	10,309,224
Additions during the year		**5,167,091**	3,926,401
	Total	**19,402,716**	14,235,625
III Balance in profit and loss account		**83,996,470**	61,742,416
IV Share premium account			
Opening balance		**118,996,370**	110,789,552
Additions during the year		**5,265,482**	8,206,818
	Total	**124,261,852**	118,996,370
V Amalgamation reserve			
Opening balance		**10,635,564**	10,635,564
Additions during the year		**-**	-
	Total	**10,635,564**	10,635,564
VI Capital reserve			
Opening balance		**2,954,677**	2,951,109
Additions during the year		**-**	3,568
	Total	**2,954,677**	2,954,677
VII Investment reserve account			
Opening balance		**416,937**	261,350
Additions during the year		**178**	155,620
Deductions during the year		**(417,115)**	(33)
	Total	**-**	416,937
VIII Foreign currency translation account			
Opening balance		**(45,343)**	(15,421)
Additions during the year		**251,651**	(29,922)
	Total	**206,308**	(45,343)
	Total	**294,550,358**	249,111,291

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As at March 31, 2012

₹ in '000

			As at 31-Mar-12	As at 31-Mar-11
SCHEDULE 3 - DEPOSITS				
A I	**Demand deposits**			
	(i) From banks		**9,122,028**	10,184,754
	(ii) From others		**444,956,398**	454,420,134
		Total	**454,078,426**	464,604,888
II	**Savings bank deposits**		**739,980,381**	634,477,904
III	**Term deposits**			
	(i) From banks		**13,839,859**	14,267,601
	(ii) From others		**1,259,165,793**	972,513,661
		Total	**1,273,005,652**	986,781,262
		Total	**2,467,064,459**	2,085,864,054
B I	**Deposits of branches in India**		**2,457,706,643**	2,083,220,954
II	**Deposits of branches outside India**		**9,357,816**	2,643,100
		Total	**2,467,064,459**	2,085,864,054
SCHEDULE 4 - BORROWINGS				
I	**Borrowings in India**			
	(i) Reserve Bank of India		**400,000**	1,200,000
	(ii) Other banks		**8,693,256**	7,050,564
	(iii) Other institutions and agencies		**28,182,425**	9,270,356
	(iv) Upper and lower Tier II capital and innovative perpetual debts		**105,969,000**	69,471,000
		Total	**143,244,681**	86,991,920
II	**Borrowings outside India***		**95,220,405**	56,948,690
		Total	**238,465,086**	143,940,610

** Includes upper Tier II debt of ₹ 508,75 lacs (previous year : ₹ 445,95 lacs)*
Secured borrowings included in I & II above : ₹ Nil (previous year : ₹ Nil)

			As at 31-Mar-12	As at 31-Mar-11
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS				
I	Bills payable		**54,657,302**	56,361,491
II	Interest accrued		**52,070,840**	27,936,880
III	Others *(including provisions)*		**246,754,935**	189,105,808
IV	Contingent provisions against standard assets		**9,107,880**	7,602,887
V	Proposed dividend *(including tax on dividend)*		**11,727,733**	8,921,499
		Total	**374,318,690**	289,928,565

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As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA			
I Cash in hand (including foreign currency notes)		**43,069,643**	29,979,543
II Balances with Reserve Bank of India :			
(a) In current accounts		**104,841,302**	220,028,615
(b) In other accounts		**2,000,000**	1,000,000
	Total	**106,841,302**	221,028,615
	Total	**149,910,945**	251,008,158
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE			
I In India			
(i) Balances with banks :			
(a) In current accounts		**1,638,043**	2,297,452
(b) In other deposit accounts		**18,519,848**	9,748,134
	Total	**20,157,891**	12,045,586
(ii) Money at call and short notice :			
(a) With banks		**2,700,000**	10,700,000
(b) With other institutions		**2,157,684**	1,250,000
	Total	**4,857,684**	11,950,000
	Total	**25,015,575**	23,995,586
II Outside India			
(i) In current accounts		**1,534,618**	4,637,720
(ii) In deposit accounts		**4,070,000**	2,452,725
(iii) Money at call and short notice		**28,846,125**	14,594,160
	Total	**34,450,743**	21,684,605
	Total	**59,466,318**	45,680,191
SCHEDULE 8 - INVESTMENTS			
A Investments in India in			
(i) Government securities		**762,178,489**	536,512,756
(ii) Other approved securities		**4,919**	4,906
(iii) Shares		**836,086**	934,931
(iv) Debentures and bonds		**9,628,460**	5,347,672
(v) Subsidiaries / joint ventures		**7,548,159**	7,450,991
(vi) Others (units, CDs / CPs, PTCs, security receipts and NABARD deposits)		**194,626,948**	158,158,091
	Total	**974,823,061**	708,409,347
B Investments outside India in			
Other investments			
(a) Shares		**6,033**	6,033
(b) Debentures and bonds		**-**	878,276
	Total	**6,033**	884,309
	Total	**974,829,094**	709,293,656

As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
C Investments			
(i) Gross value of investments			
(a) In India		**977,092,379**	708,833,996
(b) Outside India		**6,033**	884,309
	Total	**977,098,412**	709,718,305
(ii) Provision for depreciation			
(a) In India		**2,269,318**	424,649
(b) Outside India		**-**	-
	Total	**2,269,318**	424,649
(iii) Net value of investments			
(a) In India		**974,823,061**	708,409,347
(b) Outside India		**6,033**	884,309
	Total	**974,829,094**	709,293,656

SCHEDULE 9 - ADVANCES

		As at 31-Mar-12	As at 31-Mar-11
A (i) Bills purchased and discounted		**122,124,431**	97,111,818
(ii) Cash credits, overdrafts and loans repayable on demand		**686,271,861**	535,418,826
(iii) Term loans		**1,145,804,000**	967,296,010
	Total	**1,954,200,292**	1,599,826,654
Loans with tenor of less than one year are classified under A (ii) above Previous year's figures have accordingly been regrouped			
B (i) Secured by tangible assets*		**1,420,597,632**	1,174,928,949
(ii) Covered by bank / government guarantees		**55,552,871**	33,137,271
(iii) Unsecured		**478,049,789**	391,760,434
	Total	**1,954,200,292**	1,599,826,654
** Including advances against book debts*			
C I Advances in India			
(i) Priority sector		**638,630,006**	547,812,252
(ii) Public sector		**70,538,519**	54,001,024
(iii) Banks		**3,714,239**	286,035
(iv) Others		**1,182,101,828**	951,191,921
	Total	**1,894,984,592**	1,553,291,232
II Advances outside India			
(i) Due from banks		**18,418,646**	13,809,946
(ii) Due from others			
(a) Bills purchased and discounted		**35,333**	1,074,676
(b) Syndicated loans		**13,166,585**	10,579,336
(c) Others		**27,595,136**	21,071,464
	Total	**59,215,700**	46,535,422
	Total	**1,954,200,292**	1,599,826,654

Advances are net of provisions

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As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
SCHEDULE 10 - FIXED ASSETS			
A **Premises** (including land)			
Gross block			
At cost on 31 March of the preceding year		**10,272,964**	9,797,080
Additions during the year		**264,145**	667,766
Deductions during the year		**(17,212)**	(191,882)
	Total	**10,519,897**	10,272,964
Depreciation			
As at 31 March of the preceding year		**2,106,522**	1,777,823
Charge for the year		**394,965**	397,220
On deductions during the year		**(12,611)**	(68,521)
	Total	**2,488,876**	2,106,522
Net block		**8,031,021**	8,166,442
B **Other fixed assets** (including furniture and fixtures)			
Gross block			
At cost on 31 March of the preceding year		**37,622,202**	32,735,743
Additions during the year		**6,959,523**	5,317,816
Deductions during the year		**(346,144)**	(431,357)
	Total	**44,235,581**	37,622,202
Depreciation			
As at 31 March of the preceding year		**24,082,164**	19,605,108
Charge for the year		**5,032,423**	4,837,275
On deductions during the year		**(319,925)**	(360,219)
	Total	**28,794,662**	24,082,164
Net block		**15,440,919**	13,540,038
C **Assets on lease** (plant and machinery)			
Gross block			
At cost on 31 March of the preceding year		**4,546,923**	4,546,923
Additions during the year		**-**	-
	Total	**4,546,923**	4,546,923

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As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
	Depreciation		
	As at 31 March of the preceding year	**4,104,467**	4,026,245
	Charge for the year	**-**	78,222
	Total	**4,104,467**	4,104,467
	Lease adjustment account		
	As at 31 March of the preceding year	**442,456**	442,456
	Charge for the year	**-**	-
	Total	**442,456**	442,456
	Unamortised cost of assets on lease	**-**	-
	Total	**23,471,940**	21,706,480

SCHEDULE 11 - OTHER ASSETS

		As at 31-Mar-12	As at 31-Mar-11
I	Interest accrued	**32,001,760**	22,919,250
II	Advance tax / tax deducted at source (net of provisions)	**12,091,296**	10,005,305
III	Stationery and stamps	**165,891**	221,712
IV	Non banking assets acquired in satisfaction of claims	**311**	5,934
V	Security deposit for commercial and residential property	**3,819,367**	3,482,838
VI	Others*	**169,137,776**	109,375,734
	Total	**217,216,401**	146,010,773

** Includes deferred tax asset (net) of ₹ 1,448,89 lacs (previous year : ₹ 1,188,71 lacs)*

SCHEDULE 12 - CONTINGENT LIABILITIES

		As at 31-Mar-12	As at 31-Mar-11
I	Claims against the bank not acknowledged as debts - taxation	**13,567,900**	12,191,400
II	Claims against the bank not acknowledged as debts - others	**2,876,193**	1,317,087
III	Liability on account of outstanding forward exchange contracts	**5,648,764,494**	3,014,172,486
IV	Liability on account of outstanding derivative contracts	**2,626,390,521**	2,439,713,427
V	Guarantees given on behalf of constituents :		
	- In India	**133,170,215**	112,672,890
	- Outside India	**436,144**	354,073
VI	Acceptances, endorsements and other obligations	**209,182,124**	154,406,109
VII	Other items for which the bank is contingently liable	**18,540,671**	16,397,367
	Total	**8,652,928,262**	5,751,224,839

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For the year ended March 31, 2012

₹ in '000

			Year Ended 31-Mar-12	Year Ended 31-Mar-11
SCHEDULE 13 - INTEREST EARNED				
I	Interest / discount on advances / bills		**205,366,009**	150,850,114
II	Income from investments		**65,045,894**	46,754,416
III	Interest on balance with RBI and other inter-bank funds		**1,371,409**	1,480,831
IV	Others		**1,080,205**	196,761
		Total	**272,863,517**	199,282,122
SCHEDULE 14 - OTHER INCOME				
I	Commission, exchange and brokerage		**42,754,956**	35,967,188
II	Profit / (loss) on sale of investments (net)		**(1,061,596)**	(836,846)
III	Profit / (loss) on revaluation of investments (net)		**(897,174)**	310,616
IV	Profit / (loss) on sale of building and other assets (net)		**15,132**	(8,153)
V	Profit on exchange transactions (net)		**12,653,760**	9,208,434
VI	Income earned by way of dividends from subsidiaries / companies and / or joint ventures abroad / in India		**11,655**	4,468
VII	Miscellaneous income		**(1,039,784)**	(1,294,180)
		Total	**52,436,949**	43,351,527
SCHEDULE 15 - INTEREST EXPENDED				
I	Interest on deposits		**126,896,720**	80,283,096
II	Interest on RBI / inter-bank borrowings		**22,528,622**	13,364,445
III	Other interest		**470,438**	203,298
		Total	**149,895,780**	93,850,839
SCHEDULE 16 - OPERATING EXPENSES				
I	Payments to and provisions for employees		**33,999,068**	28,360,445
II	Rent, taxes and lighting		**7,161,306**	6,262,969
III	Printing and stationery		**2,339,263**	2,227,794
IV	Advertisement and publicity		**1,524,816**	1,589,462
V	Depreciation on bank's property		**5,425,150**	4,974,057
VI	Directors' fees, allowances and expenses		**4,423**	4,676
VII	Auditors' fees and expenses		**11,725**	10,218
VIII	Law charges		**317,465**	315,037
IX	Postage, telegram, telephone etc.		**3,529,781**	3,001,915
X	Repairs and maintenance		**6,184,142**	5,084,702
XI	Insurance		**2,418,023**	1,987,777
XII	Other expenditure*		**22,985,409**	17,710,089
		Total	**85,900,571**	71,529,141

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

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For the year ended March 31, 2012

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2012.

A BACKGROUND

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

B BASIS OF PREPARATION

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

Use of estimates :

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

C PRINCIPAL ACCOUNTING POLICIES

1 Investments

Classification :

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

The Bank follows 'Settlement Date' accounting for recording purchase and sale of transactions in securities except in case of equity shares where 'Trade Date' accounting is followed.

Basis of classification :

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

Investments which the Bank intends to hold till maturity are classified as HTM securities. Investments in the equity of subsidiaries / joint ventures are categorised as HTM in accordance with the RBI guidelines.

Investments which are not classified in the above categories are classified under AFS category.

Acquisition cost :

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

Disposal of investments :

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

Short sale :

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

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Valuation :

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

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

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

The valuation of other unquoted fixed income securities (viz. State government securities, Other approved securities, Bonds and debentures) wherever linked to the YTM rates, is computed with a mark-up (reflecting associated credit and liquidity risk) over the YTM rates for government securities published by FIMMDA. Special bonds such as Oil bonds, Fertiliser bonds etc. which are directly issued by Government of India ('GOI') that do not qualify for SLR are also valued by applying the mark up above the corresponding yield on GOI securities. Unquoted equity shares are valued at the break-up value, if the latest Balance Sheet is available or at ₹ 1 as per the RBI guidelines. Units of mutual funds are valued at the latest repurchase price / net asset value declared by the mutual fund. Treasury bills, commercial papers and certificate of deposits being discounted instruments, are valued at carrying cost.

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

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

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

Repo and reverse repo transactions :

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

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

2 Advances

Classification :

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

Provisioning :

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of wholesale and retail advances, subject to the minimum provisioning level prescribed by the RBI. The specific provision levels for retail non-performing assets are also based on the nature of product and delinquency levels.

The Bank maintains general provision for standard assets including credit exposures computed as per the current marked to market value of interest rate and foreign exchange derivative contracts and gold at levels stipulated by RBI from time to time. Provision for standard assets held by the Bank is not reversed. In the case of overseas branches, general provision on standard advances is maintained at the higher of the levels stipulated by the respective overseas regulator or RBI. Provision for standard assets is included under Schedule 5 - "Other Liabilities".

Provisions made in excess of these regulatory requirements or provisions which are not made with respect to specific non-performing assets are categorised as floating provisions. Creation of further floating provisions is considered by the Bank up to a level approved by the Board of Directors. Floating provisions are not reversed by credit to Statement of Profit and Loss and can be used only for contingencies under extraordinary circumstances for making specific provisions towards impaired accounts after obtaining Board approval and with prior permission of RBI. Floating provisions have been included under Schedule 5 - "Other Liabilities"

In accordance with the RBI guidelines, the Bank makes provision for the entire amount of overdue and future receivables relating to positive marked to market value of non-performing derivative contracts.

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

In addition to the above, the Bank on a prudential basis makes provisions on advances or exposures which are not NPAs, but has reasons to believe on the basis of the extant environment or specific information, the possible slippage of a specific advance or a group of advances or exposures or potential exposures. These are classified as contingent provisions and included under Schedule 5 - "Other Liabilities".

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

3 Securitisation and transfer of assets

The Bank securitises out its receivables to Special Purpose Vehicles ('SPVs') in securitisation transactions. Such securitised-out receivables are de-recognised in the Balance Sheet when they are sold (true sale criteria being fully met with) and consideration is received by the Bank. Sales / transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings.

In respect of receivable pools securitised-out, the Bank provides liquidity and credit enhancements, as specified by the rating agencies, in the form of cash collaterals / guarantees and / or by subordination of cash flows. The Bank also acts as a servicing agent for receivable pools securitised-out.

The RBI issued guidelines on securitisation of standard assets vide its circular dated February 1, 2006. Pursuant to these guidelines, the Bank amortises any profit / premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognised in the Statement of Profit and Loss for the period in which the sale occurs.

The Bank also enters into securitised-out transactions through the direct assignment route, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by Pass through Certificates ('PTCs'). The Bank amortises any profit / premium arising on account of sale of receivables through the direct assignment route over the tenure of the loans sold out while any loss arising on account of sale of receivables is recognised in the Statement of Profit and Loss for the period in which the sale occurs.

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

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

The Bank also invests in PTCs and buys loans through the direct assignment route. These are accounted for at the deal value. The PTCs are classified as investments and loan assignments are classified as advances.

4 Fixed assets and depreciation

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

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

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

Improvements to lease hold premises are charged off over the remaining primary period of lease.

Items (excluding staff assets) costing less than ₹ 5,000 and point of sale terminals are fully depreciated in the year of purchase.

All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.

For assets purchased and sold during the year, depreciation is provided on pro-rata basis by the Bank.

The Bank undertakes assessment of the useful life of an asset at periodic intervals taking into account changes in environment, changes in technology, the utility and efficacy of the asset in use, etc. Whenever there is a revision of the estimated useful life of an asset, the unamortized depreciable amount is charged over the revised remaining useful life of the said asset.

5 Impairment of assets

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

6 Transactions involving foreign exchange

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

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

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

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

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

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

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

7 Derivative contracts

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

Derivative contracts designated as hedges are not marked to market unless their underlying transaction is marked to market. In respect of derivative contracts that are marked to market, changes in the market value are recognised in the Statement of Profit and Loss in the relevant period. Gains or losses arising from hedge ineffectiveness, if any, are recognised in the Statement of Profit and Loss.

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

8 Revenue and expense recognition

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

Interest income is recognised net of commission paid to sales agents (net of non-volume based subvented income from dealers, agents and manufacturers) - (hereafter called “net commission”) for originating fixed tenor retail loans. Net commission paid to sales agents for originating other retail loans is expensed in the year in which it is incurred.

Interest income on investments in PTCs and loans bought out through the direct assignment route is recognised at their effective interest rate.

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

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

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

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

9 Employee benefits

Employee Stock Option Scheme (‘ESOS’)

The Employee Stock Option Scheme (‘the Scheme’) provides for the grant of equity shares of the Bank to its employees. The Scheme provides that employees are granted an option to acquire equity shares of the Bank that vests in a graded manner. The options may be exercised within a specified period. The Bank follows the intrinsic value method to account for its stock-based employee compensation plans. Compensation cost is measured by the excess, if any, of the fair market price of the underlying stock over the exercise price on the grant date as determined under the option plan. The fair market price is the latest available closing price, prior to the date of grant, on the stock exchange on which the shares of the Bank are listed. Compensation cost, if any is amortised over the vesting period.

Gratuity

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on resignation, retirement, death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. In respect of erstwhile Lord Krishna Bank ('eLKB') employees, the Bank makes contribution to a fund set up by eLKB and administered by the board of trustees. The defined gratuity benefit plans are valued by an independent actuary as at the Balance Sheet date using the projected unit credit method as per the requirement of AS-15 (Revised 2005), Employee benefits, to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations, which include assumptions about demographics, early retirement, salary increases and interest rates. Actuarial gain or loss is recognised in the Statement of Profit and Loss.

Superannuation

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

Provident fund

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

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

Leave encashment / compensated absences

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

Pension

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

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

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

10 Debit and credit cards reward points

The Bank estimates the probable redemption of debit and credit card reward points and cost per point using an actuarial method by employing an independent actuary. Provision for the said reward points is then made based on the actuarial valuation report as furnished by the said independent actuary.

11 Bullion

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

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

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

12 Lease accounting

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

13 Income tax

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

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

14 Earnings per share

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

15 Segment information - basis of preparation

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

(a) Treasury

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

(b) Retail banking

The retail banking segment serves retail customers through a branch network and other delivery channels.

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

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

(c) Wholesale banking

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

(d) Other banking business

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

(e) Unallocated

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

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

Geographic segments

Since the Bank does not have material earnings emanating outside India, the Bank is considered to operate in only the domestic segment.

16 Accounting for provisions, contingent liabilities and contingent assets

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

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

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

17 Cash and cash equivalents

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

SCHEDULE 18 - NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2012

1 Sub-division of equity shares

The shareholders of the Bank at the 17th Annual General Meeting held on July 6, 2011 approved sub-division (split) of one equity share of the Bank from nominal value of ₹ 10/- each into five equity shares of nominal value of ₹ 2/- each. All shares and per share information in the financial statements reflect the effect of sub-division (split) retrospectively.

2 Capital adequacy

The Bank's Capital to Risk-weighted Asset Ratio ('Capital Adequacy Ratio') is calculated in accordance with the RBI's 'Prudential Guidelines on Capital Adequacy and Market Discipline - Implementation of the New Capital Adequacy Framework' ('Basel II'). Under the Basel II framework, the Bank is required to maintain a minimum capital adequacy ratio of 9% on an ongoing basis for credit risk, market risk and operational risk, with a minimum Tier I capital ratio of 6%. Further, the minimum capital maintained by the Bank as on March 31, 2012 is subject to a prudential floor, which is the higher of the following amounts :

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

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

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

(₹ lacs)

Particulars	As per Basel I framework		As per Basel II framework	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Tier I capital	28,113,56	23,770,41	28,067,49	23,718,35
Tier II capital	11,898,97	7,743,81	11,898,97	7,743,81
Total capital	40,012,53	31,514,22	39,966,46	31,462,16
Risk weighted assets	254,764,29	205,720,62	241,896,32	193,960,26
Minimum capital required	22,928,79	18,514,86	21,770,67	17,456,42
Capital adequacy ratios				
Tier I	11.04%	11.56%	11.60%	12.23%
Tier II	4.67%	3.76%	4.92%	3.99%
Total	15.71%	15.32%	16.52%	16.22%

The Bank's capital funds as on March 31, 2012 are higher than the minimum required under the Basel I and Basel II framework.

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

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

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Amount raised by issue of Innovative Perpetual Debt Instruments (IPDI) during the year	-	-
Amount raised by issue of upper Tier II instruments during the year	-	1,105,00
Amount raised by issue of lower Tier II instruments during the year	3,650,00	-

Subordinated debt (lower Tier II capital), upper Tier II capital and Innovative perpetual debt instruments outstanding as at March 31, 2012 are ₹ 6,981,00 lacs (previous year : ₹ 3,331,20 lacs), ₹ 3,924,65 lacs (previous year : ₹ 3,861,85 lacs) and ₹ 200,00 lacs (previous year : ₹ 200,00 lacs) respectively.

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

Particulars	Date of allotment	Coupon rate (%)	Tenure	Amount (₹ lacs)
Lower Tier II bonds	May 12, 2011	9.48%	15 Years[1]	3,650,00

Note : 1) Call option exercisable on May 12, 2021 at par with the prior approval of RBI.

The details of the bonds raised during the year ended March 31, 2011 are given below :

Particulars	Date of allotment	Coupon rate (%)	Tenure	Amount (₹ lacs)
Upper Tier II bonds	July 7, 2010	8.70%[1]	15 Years[2]	1,105,00

Note :

1) Coupon rate of 8.70% per annum payable for first 10 years and stepped-up coupon rate of 9.20% per annum for next 5 years if call option is not exercised at the end of 10 years from the date of allotment.

2) Call option exercisable on July 7, 2020 at par with the prior approval of RBI.

Based on the balance term to maturity as at March 31, 2012, 93% of the book value of subordinated debt (lower Tier II capital) and upper Tier II capital is considered as Tier II capital for the purpose of capital adequacy computation.

Reconciliation of accounting capital and regulatory capital under Basel II, as on 31 March, 2012 :

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
(a) Subscribed capital	469,34	465,23
(b) Reserves and surplus	29,455,04	24,911,12
(c) Accounting capital (a+b)	29,924,38	25,376,35
(d) Innovative perpetual debt	200,00	200,00
(e) Adjustments :		
- Deferred tax asset	(1,448,89)	(1,188,71)
- Securitisation exposures (50% from Tier I)	(179,49)	(223,18)
- Investment in subsidiaries (50% from Tier I)	(361,81)	(356,88)
- Valuation adjustment for illiquid positions	(46,07)	(52,06)
- Others	(20,63)	(37,17)
Total adjustments	(2,056,89)	(1,858,00)
(f) Total Tier I capital (c+d+e)	28,067,49	23,718,35
(g) Total Tier II capital	11,898,97	7,743,81
Total regulatory capital (f+g)	**39,966,46**	**31,462,16**

3 Earnings per equity share

Basic and diluted earnings per equity share have been calculated based on the net profit after taxation of ₹ 5,167,09 lacs (previous year : ₹ 3,926,40 lacs) and the weighted average number of equity shares outstanding during the year was 233,67,04,062 (previous year : 230,90,34,888) (previous year numbers are restated, refer note 1 to Schedule 18)

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

Particulars	For the year ended (₹)	
	March 31, 2012	March 31, 2011
Nominal value per share	2.00	2.00
Basic earnings per share	22.11	17.00
Effect of potential equity shares (per share)	(0.20)	(0.19)
Diluted earnings per share	21.91	16.81

Basic earnings per equity share have been computed by dividing net profit after taxation by the weighted average number of equity shares outstanding for the year. Diluted earnings per equity share have been computed by dividing net profit after taxation by the weighted average number of equity shares and dilutive potential equity shares outstanding during the year.

There is no impact of dilution on profits in the current year and previous year.

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

Particulars	For the year ended	
	March 31, 2012	March 31, 2011
Weighted average number of equity shares used in computing basic earnings per equity share	233,67,04,062	230,90,34,888
Effect of potential equity shares outstanding	2,16,25,067	2,72,75,584
Weighted average number of equity shares used in computing diluted earnings per equity share	235,83,29,129	233,63,10,472

4 Reserves and surplus

Draw down from reserves

There has been no draw down from reserves during the year ended March 31, 2012 and the year ended March 31, 2011.

General reserve

The Bank has made an appropriation of ₹ 516,71 lacs (previous year : ₹ 392,64 lacs) out of profits for the year ended March 31, 2012 to General Reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

Investment reserve account

During the year, the Bank has transferred ₹ 41,69 lacs (net) from Investment reserve account to Statement of Profit and Loss. In the previous year, the Bank transferred ₹ 15,56 lacs (net) from Statement of Profit and Loss to Investment reserve account.

5 Accounting for employee share based payments

The shareholders of the Bank approved grant of equity share options under Plan "A" in January 2000, Plan "B" in June 2003, Plan "C" in June 2005, Plan "D" in June 2007 and Plan "E" in June 2010. Under the terms of each of these Plans, the Bank may issue Equity Stock Options ('ESOPs') to employees and directors of the Bank, each of which is convertible into one equity share. All the plans were framed in accordance with the SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 as amended from time to time. Plan A provides for the issuance of options at the recommendation of the Compensation Committee of the Board (the "Compensation Committee") at an average of the daily closing prices on the Bombay Stock Exchange Limited during the 60 days preceding the date of grant of options. Plans B, C, D and E provide for the issuance of options at the recommendation of the Compensation Committee at the closing price on the working day immediately preceding the date when options are granted. For Plan B the price is that quoted on an Indian stock exchange with the highest trading volume during the preceding two weeks, while for Plan C, Plan D and Plan E the price is that quoted on an Indian stock exchange with the highest trading volume as of working day preceding the date of grant.

Such options vest at the discretion of the Compensation Committee. These options are exercisable for a period following vesting at the discretion of the Compensation Committee, subject to a maximum of five years, as set forth at the time of grant. Modifications, if any, made to the terms and conditions of ESOPs as approved by the Compensation Committee are disclosed separately.

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

1) Key ESOP

2) General ESOP

The outstanding options granted under each of the above schemes and the grant prices were converted into equivalent HDFC Bank options and prices in the swap ratio of 1:29 i.e. 1 stock option of HDFC Bank for every 29 stock options granted and outstanding of eCBoP as on May 23, 2008, the effective date of the amalgamation, in accordance with Clause 9.9 of the scheme of amalgamation of eCBoP with the Bank. The vesting dates for the said stock options granted in various tranches were revised as per Clause 9.9 of the Scheme. All the aforesaid stock options are exercisable within a period of 5 years from the date of vesting. Key options were granted at an exercise price, which was less than the then fair market price of the shares. General options were granted at the fair market price. The fair market price was the latest available closing price, prior to the date of meeting of the Board of Directors in which options were granted or shares were issued, on the stock exchange on which the shares of the Bank were listed. If the shares were listed on more than one stock exchange, then the stock exchange where there was highest trading volume on the said date was considered.

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

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

Method used for accounting for shared based payment plan

The Bank has elected to use intrinsic value method to account for the compensation cost of stock options to employees and directors of the Bank. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the option. Following is the activity in the options outstanding under the Employee Stock Options Plan as at March 31, 2012 and as at March 31, 2011. These tables reflect an adjustment effected in the current year to include the effect of options forfeited / lapsed in respect of resigned employees.

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

Particulars	**Options**	**Weighted average exercise price (₹)**
Options outstanding, beginning of year	8,59,24,615	325.27
Granted during the year	3,56,03,250	468.67
Exercised during the year	2,05,59,850	257.91
Forfeited / lapsed during the year	10,95,275	381.23
Options outstanding, end of year	9,98,72,740	389.52
Options exercisable	5,64,15,090	332.53

Activity in the options outstanding under the employee stock options plan as at March 31, 2011

Particulars	**Options**	**Weighted average exercise price (₹)**
Options outstanding, beginning of year	9,23,47,270	241.54
Granted during the year	3,29,67,500	440.16
Exercised during the year	3,74,12,060	221.36
Forfeited / lapsed during the year	19,78,095	296.38
Options outstanding, end of year	8,59,24,615	325.27
Options exercisable	5,31,32,115	254.36

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

Plan	**Range of exercise price (₹)**	**Number of shares arising out of options**	**Weighted average life of options (in years)**	**Weighted average exercise price (₹)**
Plan A	73.26	-	-	-
Plan B	71.72 to 219.74	19,50,300	1.16	207.68
Plan C	126.12 to 219.74	34,21,500	0.93	191.41
Plan D	219.74 to 340.96	2,64,89,250	2.12	276.03
Plan E	440.16 to 508.23	6,62,70,250	1.84	455.47
Key ESOP	23.20	33,595	1.04	23.20
General ESOP	88.45 to 251.72	17,07,845	1.88	202.65

For the year ended March 31, 2012

Following summarises the information about stock options outstanding as at March 31, 2011

Plan	Range of exercise price (₹)	Number of shares arising out of options	Weighted average life of options (in years)	Weighted average exercise price (₹)
Plan A	73.26	49,500	0.69	73.26
Plan B	71.72 to 219.74	36,86,000	1.95	197.67
Plan C	126.12 to 219.74	67,15,500	1.72	182.98
Plan D	219.74 to 340.96	4,00,13,250	3.09	275.63
Plan E	440.16	3,27,92,500	4.97	440.16
Key ESOP	23.20	77,595	2.04	23.20
General ESOP	88.45 to 251.72	25,90,270	2.85	201.92

Fair value methodology

The fair value of options used to compute proforma net income and earnings per equity share have been estimated on the dates of each grant using the binomial option-pricing model. The Bank estimated the volatility based on the historical share prices. The various assumptions considered in the pricing model for the ESOPs granted during the year ended March 31, 2012 are :

Particulars	March 31, 2012	March 31, 2011
Dividend yield	0.65% to 0.70%	0.55%
Expected volatility	29.35%	30%
Risk-free interest rate	8.04% to 8.22%	7.53% to 7.62%
Expected life of the option	1 to 6 years	1 to 6 years

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

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

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Net profit (as reported)	5,167,09	3,926,40
Add : Stock-based employee compensation expense included in net income	-	-
Less : Stock-based compensation expense determined under fair value based method (proforma)	377,83	223,21
Net profit (proforma)	4,789,26	3,703,19
	(₹)	(₹)
Basic earnings per share (as reported)	22.11	17.00
Basic earnings per share (proforma)	20.50	16.04
Diluted earnings per share (as reported)	21.91	16.81
Diluted earnings per share (proforma)	20.31	15.85

6 Other liabilities

Other liabilities includes contingent provisions towards standard assets of ₹ 910,79 lacs (previous year : ₹ 760,29 lacs). In line with RBI guidelines, provision for standard assets has been made @ 0.40% except for direct advances to agriculture and SME sectors where provision is made @ 0.25%, for advances to commercial real estate sector where provision is made @ 1%, for restructured standard advances where provision is made@ 2% and for housing loans offered at a comparatively lower rate of interest in the first few years, after which rates are reset at higher rates, where provision is made @ 2%. Provision for standard assets of overseas branches has been made at higher of rates prescribed by the overseas regulator or RBI.

As per the recommendatory provisions of AS-31, Financial Instruments : Presentation, the Bank has grossed up unrealised gain on foreign exchange and derivative contracts under other assets and unrealised loss on foreign exchange and derivative contracts under other liabilities. Accordingly, other liabilities as on March 31, 2012 includes unrealized loss on foreign exchange and derivative contracts of ₹ 12,735,50 lacs (previous year : ₹ 7,369,45 lacs)

7 **Investments**

- **Value of investments** (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Gross value of investments		
- In India	97,709,24	70,883,40
- Outside India	60	88,43
Provisions for depreciation on investments		
- In India	226,93	42,46
- Outside India	-	-
Net value of investments		
- In India	97,482,31	70,840,94
- Outside India	60	88,43

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

Particulars	March 31, 2012	March 31, 2011
Opening balance	42,46	58,42
Add : Provision made during the year (*)	184,51	15,11
Less : Write-off, write back of excess provision during the year	4	31,07
Closing balance	226,93	42,46

** The movement in provision for depreciation on investments is reckoned on a yearly basis.*

- **Repo transactions**

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

(₹ lacs)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	Outstanding as at March 31, 2012
Securities sold under repo				
i. Corporate debt securities	-	-	-	-
ii. Government securities	-	9,800,00	454,36	-
Securities purchased under reverse repo				
i. Corporate debt securities	-	115,80	13,55	110,80
ii. Government securities	-	524,00	65,16	-

The above excludes deals done under LAF / MSF with the RBI.

✓ Details of repo / reverse repo deals (in face value terms) done during the year ended March 31, 2011

(₹ lacs)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily average outstanding during the year	Outstanding as at March 31, 2011
Securities sold under repo				
i. Corporate debt securities	-	-	-	-
ii. Government securities	-	1,700,00	16,36	-
Securities purchased under reverse repo				
i. Corporate debt securities	-	-	-	-
ii. Government securities	-	1,970,00	10,85	-

The above excludes deals done under LAF with the RBI.

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- **Non-SLR investment portfolio**

✓ Issuer-wise composition of non-SLR investments as at March 31, 2012 **(₹ lacs)**

No.	Issuer	Amount	Extent of private placement	Extent of "below investment grade" securities	Extent of "unrated securities"*	Extent of "unlisted securities"**
1	Public sector undertakings	75,00	75,00	-	-	75,00
2	Financial institutions	12,800,56	12,784,57	-	-	-
3	Banks	4,384,09	3,048,09	-	-	-
4	Private corporate	2,060,34	1,885,68	-	142,49	555,75
5	Subsidiaries / Joint ventures	754,82	754,82	-	-	-
6	Others	1,370,94	374,88	-	-	-
7	Provision held towards depreciation	(181,18)	-	-	-	-
	Total	**21,264,57**	**18,923,04**	**-**	**142,49**	**630,75**

** Excludes equity shares, units of mutual fund, Rural Infrastructure Development Fund ('RIDF'), Priority Sector Lending ('PSL') and Weaker Section Lending ('WSL') investments.*

*** Excludes equity shares, units of mutual fund, pass through certificates, security receipts, commercial paper, certificate of deposits.*

✓ Issuer-wise composition of non-SLR Investments as at March 31, 2011 **(₹ lacs)**

No.	Issuer	Amount	Extent of private placement	Extent of "below investment grade" securities	Extent of "unrated securities"*	Extent of "unlisted securities"**
1	Public sector undertakings	90,05	40,00	-	-	-
2	Financial institutions	9,268,44	9,268,44	-	-	10,00
3	Banks	5,111,68	4,860,96	-	-	-
4	Private corporate	1,505,77	1,503,59	-	66,63	66,80
5	Subsidiaries / Joint ventures	745,10	745,10	-	-	-
6	Others	573,91	573,91	-	-	-
7	Provision held towards depreciation	(17,34)	-	-	-	-
	Total	**17,277,60**	**16,992,00**	**-**	**66,63**	**76,80**

** Excludes equity shares, units of mutual fund, RIDF, PSL and WSL investments.*

*** Excludes equity shares, units of mutual fund, pass through certificates, security receipts, commercial paper, and certificate of deposits.*

Equity shares and PTC of ₹ 1,324,28 lacs and RIDF / WSL / PSL of ₹ 9,258,43 lacs included in unrated & unlisted categories in the previous year have been excluded to be consistent with the current year's presentation.

✓ Non performing non-SLR investments **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Opening balance	17,87	2,23
Additions during the year	94,52	15,64
Reductions during the year	-	-
Closing balance	112,39	17,87
Total provisions held	**112,09**	**17,34**

- **Details of investments category-wise**

The details of investments held under the three categories viz. 'Held for Trading', 'Available for Sale' and 'Held to Maturity' is as under :

(₹ lacs)

Particulars	As at March 31, 2012				As at March 31, 2011			
	Held for trading	Available for sale	Held to maturity	Total	Held for trading	Available for sale	Held to maturity	Total
Government securities	6,885,52	22,417,47	46,914,86	76,217,85	103,20	12,410,10	41,137,97	53,651,27
Other approved securities	-	49	-	49	-	49	-	49
Shares	-	84,21	-	84,21	29	93,81	-	94,10
Debentures and bonds	442,81	520,04	-	962,85	222,88	346,30	53,42	622,60
Subsidiary / Joint ventures	-	-	754,82	754,82	-	-	745,10	745,10
Others	1,954,96	4,753,16	12,754,57	19,462,69	2,161,54	13,654,27	-	15,815,81
Total	**9,283,29**	**27,775,37**	**60,424,25**	**97,482,91**	**2,487,91**	**26,504,97**	**41,936,49**	**70,929,37**

- Investments include securities of Face Value (FV) aggregating ₹ 1,345,00 lacs (previous year : FV ₹ 820,00 lacs) which are kept as margin for clearing of securities and of FV ₹ 5,732,27 lacs (previous year : FV ₹ 2,150,00 lacs) which are kept as margin for Collateral Borrowing and Lending Obligation (CBLO) with the Clearing Corporation of India Ltd.
- Investments include securities of FV aggregating ₹ 6,00 lacs (previous year : FV ₹ 6,00 lacs) which are kept as margin with National Securities Clearing Corporation of India Ltd. ('NSCCIL') and of FV ₹ 5,00 lacs (previous year : FV ₹ 5,00 lacs) which are kept as margin with MCX - SX Clearing Corporation Ltd.
- Investments having FV amounting to ₹ 25,631,20 lacs (previous year : FV ₹ 30,556,80 lacs) are kept as margin with the RBI towards Real Time Gross Settlement (RTGS).
- Other investments include certificate of deposits : ₹ 4,382,09 lacs (previous year : ₹ 4,854,46 lacs), commercial paper : ₹ 1,039,11 lacs (previous year : ₹ 1,161,17 lacs), investment in debt mutual fund units : ₹ 897,28 lacs (previous year : ₹ Nil), pass through certificates ₹ 338,86 lacs (previous year : ₹ 516,72 lacs), security receipts issued by reconstruction companies : ₹ 50,78 lacs (previous year : ₹ 25,04 lacs), deposits with National Bank of Agriculture and Rural Development ("NABARD") under the RIDF Deposit Scheme : ₹ 9,115,48 lacs (previous year : ₹ 6,503,04 lacs), deposits with Small Industries Development Bank of India ("SIDBI") and NHB under the Priority / Weaker Sector Lending Schemes : ₹ 3,639,09 lacs (previous year : ₹ 2,755,38 lacs).
- The Bank has made investments in certain companies wherein it holds more than 25% of the equity shares of those companies. Such investments do not fall within the definition of a joint venture as per AS-27, Financial Reporting of Interest in Joint Ventures, issued by the ICAI, and the said accounting standard is thus not applicable. However, pursuant to RBI circular DBOD. NO. BP.BC.3/21.04.141/2002, dated July 11, 2002, the Bank has classified these investments as joint ventures.
- During financial year ended March 31, 2012, there has been no sale from HTM categories in excess of 5% of the book value of investments held in HTM category at the beginning of the year. There has been no transfer to or from HTM categories during the financial year ended March 31, 2012.

  During the year, the Bank classified its investments of ₹ 9,233,86 lacs in deposits with development banks such as the NABARD and SIDBI, under Held to Maturity category. These deposits were hitherto reported under AFS category.

8 Derivatives

- **Forward rate agreements / Interest rate swaps** (₹ lacs)

S. No.	Particulars	March 31, 2012	March 31, 2011
i)	The total notional principal of swap agreements	226,907,33	197,950,87
ii)	Total losses which would be incurred if counter parties failed to fulfill their obligations under the agreements	1,150,56	1,855,86
iii)	Concentration of credit risk arising from swaps (with banks)	77.93%	91.11%
iv)	Collateral required by the Bank upon entering into swaps	-	-
v)	The fair value of the swap book	(7,15)	(119,59)

For the year ended March 31, 2012

The nature and terms of IRS (₹) as on March 31, 2012 are set out below :

Nature	Nos.	Notional principal (₹ lacs)	Benchmark	Terms
Trading	25	860,00	INBMK	Fixed receivable v/s Floating payable
Trading	25	1,085,00	INBMK	Floating receivable v/s Fixed payable
Trading	4	1,250,00	INCMT	Floating receivable v/s Fixed payable
Trading	1	50,00	FIX TO FIX	Fixed receivable v/s Fixed payable
Trading	1,400	104,384,88	OIS	Fixed receivable v/s Floating payable
Trading	1,415	99,618,45	OIS	Floating receivable v/s Fixed payable
Trading	280	12,122,00	MIFOR	Fixed receivable v/s Floating payable
Trading	191	7,287,00	MIFOR	Floating receivable v/s Fixed payable
Trading	10	250,00	MIOIS	Floating receivable v/s Fixed payable
		226,907,33		

The nature and terms of IRS (₹) as on March 31, 2011 are set out below :

Nature	Nos.	Notional principal (₹ lacs)	Benchmark	Terms
Hedging	1	25,00	INBMK	Fixed receivable v/s Floating payable
Trading	4	1,250,00	INCMT	Floating receivable v/s Fixed payable
Trading	1	50,00	FIX TO FIX	Fixed receivable v/s Fixed payable
Trading	26	950,00	INBMK	Fixed receivable v/s Floating payable
Trading	28	1,425,00	INBMK	Floating receivable v/s Fixed payable
Trading	1,525	85,988,00	OIS	Fixed receivable v/s Floating payable
Trading	1,527	86,901,87	OIS	Floating receivable v/s Fixed payable
Trading	322	12,621,00	MIFOR	Fixed receivable v/s Floating payable
Trading	255	8,740,00	MIFOR	Floating receivable v/s Fixed payable
		197,950,87		

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

S. No.	Particulars	March 31, 2012	March 31, 2011
i)	The total notional principal amount of exchange traded interest rate derivatives undertaken during the year, (instrument-wise) (a) 91 days Treasury bill	2	Nil
ii)	The total notional principal amount of exchange traded interest rate derivatives outstanding as of March 31, (instrument-wise)	Nil	Nil
iii)	The notional principal amount of exchange traded interest rate derivatives outstanding and not 'highly effective', as of March 31, (instrument-wise)	Nil	Nil
iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not 'highly effective', as of March 31, (instrument-wise)	Nil	Nil

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

Overview of business and processes

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

Interest rate contracts

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

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

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

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

Exchange rate contracts

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

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

Currency options give the buyer, on payment of a premium, the right but not an obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date. Option premia paid or received is recorded in Statement of Profit and Loss for rupee options at the expiry of the option and for foreign currency options on premium settlement date.

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

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

Constituents involved in derivative business

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

Derivative policy

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

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

Classification of derivatives book

The derivative book is classified into trading and hedging book. Classification of books is made on the basis of the definitions of the trading and hedging books as specified in the RBI guidelines Ref. No. DBOD. No. BP.(SC). BC.98/ 21.04.103/99 dated October 7, 1999. The trading book is managed within the trading limits approved by the RPMC.

Hedging policy

For derivative contracts in the hedging book designated as hedge, the Bank documents at inception the relationship between the hedging instrument and the hedged item, the risk management objective for undertaking the hedge and the methods used to assess the hedge effectiveness. The assessment is done on an on-going basis to test if the derivative is still effective. Hedge effectiveness is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

The hedging book consists of transactions to hedge Balance Sheet assets or liabilities. The hedge may be against a single asset or liability or against a portfolio of asset or liability in specific tenor buckets. The tenor of derivative hedges may be less than or equal to tenor of underlying asset or liability. If the underlying asset or liability is not marked to market, then the hedge is also not marked to market.

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

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

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

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

S. No.	Particulars	Currency derivatives		Interest rate derivatives	
		March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
1	Derivatives (notional principal amount)				
	a) Hedging	1,074,81	1,217,21	-	25,00
	b) Trading	26,330,70	38,140,24	235,233,55	204,588,89
2	Marked to market positions (*)				
	a) Asset (+)	589,55	622,76	1,178,29	1,895,30
	b) Liability (-)	(413,58)	(568,15)	(1,235,38)	(2,083,37)
3	Credit exposure	1,225,81	1,331,41	2,856,75	3,550,27
4	Likely impact of one percentage change in interest rate (100*PV01)				
	a) On hedging derivatives	59	32	-	83
	b) On trading derivatives	13,85	12,66	120,18	130,94
5	Maximum of 100*PV01 observed during the year				
	a) On hedging	76	56	83	21,11
	b) On trading	15,64	18,05	151,46	135,43
6	Minimum of 100*PV01 observed during the year				
	a) On hedging	18	11	-	37
	b) On trading	12,42	12,55	119,66	86,77

(*) *As per the recommendatory provisions of AS-31, Financial Instruments : Presentation, marked to market position is reported on gross basis from March 31, 2011 onwards.*

✓ The notional principal amount of foreign exchange contracts classified as hedging and trading outstanding as on March 31, 2012 amounted to ₹ Nil (previous year : ₹ Nil) and ₹ 564,876,45 lacs (previous year : ₹ 301,417,25 lacs) respectively.

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

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

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

- ✓ The Bank has computed maximum and minimum of PV01 for the year based on balances at the end of every month.
- ✓ In respect of derivative contracts, the Bank evaluates the credit exposure arising therefrom, in line with the RBI Circular DBOD. NO. BP.BC.57/21.04.157/2008-09 dated October 13, 2008. Credit exposure has been computed using the current exposure method which is the sum of
  - (a) the current replacement cost (marked to market value including accruals) of the contract or zero whichever is higher, and
  - (b) the Potential Future Exposure (PFE). PFE is a product of the notional principal amount of the contract and a factor. The factor used is based on the RBI-Basel II grid of credit conversion factors, and is applied on the basis of the residual maturity and the type of contract.

9 Asset quality

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

Particulars	**March 31, 2012**	**March 31, 2011**
(i) Net NPAs to net advances (%)	0.18%	0.19%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	1,694,34	1,816,76
(b) Additions (fresh NPAs) during the year	1,574,90	1,450,98
(c) Reductions during the year :	1,269,85	1,573,40
(1) Upgradations	197,08	252,35
(2) Recoveries (excluding recoveries made from upgraded accounts)	131,45	152,53
(3) Write-offs	941,32	1,168,52
(d) Closing balance	1,999,39	1,694,34
(iii) Movement of net NPAs		
(a) Opening balance	296,41	392,05
(b) Additions during the year	176,47	35,12
(c) Reductions during the year	120,55	130,76
(d) Closing balance	352,33	296,41
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
(a) Opening balance	1,397,93	1,424,71
(b) Additions during the year	1,398,43	1,415,86
(c) Write-off	941,32	1,168,52
(d) Write-back of excess provisions	207,98	274,12
(e) Closing balance	1,647,06	1,397,93

NPAs include all assets that are classified as non-performing by the Bank. Till the year ended March 31, 2011, additions, upgradations or recoveries in retail NPAs were computed at a portfolio level. From the year ended March 31, 2012, these movements are computed at an account / contract level by comparing non-performing accounts outstanding at the beginning and at the end of the year. Previous year's figures have been reclassified accordingly.

- Sector-wise NPAs

Particulars	**Percentage of NPAs to total advances in that sector (%)**	
	March 31, 2012	**March 31, 2011**
Agriculture and allied activities	0.92	0.54
Industry (Micro & small, medium and large)	1.30	1.67
Services	0.94	1.59
Personal loans	0.52	0.55

- Floating provisions of ₹ 1,435,03 lacs (previous year : ₹ 735,03 lacs) have been included under 'other liabilities'. Movement in floating provision is given below : **(₹ lacs)**

Particulars	**March 31, 2012**	**March 31, 2011**
Opening balance	735,03	65,03
Provisions made during the year	700,00	670,00
Draw down made during the year	-	-
Closing balance	1,435,03	735,03

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- Details of accounts subjected to restructuring as on March 31, 2012 **(₹ lacs except numbers)**

Particulars of accounts restructured		Outstanding as at March 31, 2012		
		CDR mechanism	**SME debt restructuring**	**Others**
Standard advances restructured	No. of borrowers	5	-	4
	Amount outstanding	145,14	-	11,33
	Sacrifice (diminution in the fair value)	740	-	17
Substandard advances restructured	No. of borrowers	6	-	1
	Amount outstanding	302,55	-	13,92
	Sacrifice (diminution in the fair value)	15,11	-	57
Doubtful advances restructured	No. of borrowers	6	-	3
	Amount outstanding	120,52	-	33,80
	Sacrifice (diminution in the fair value)	15,27	-	45
Loss advances restructured	No. of borrowers	1	-	-
	Amount outstanding	10,04	-	-
	Sacrifice (diminution in the fair value)	1,80	-	-
Total	No. of borrowers*	17	-	8
	Amount outstanding	578,25	-	59,05
	Sacrifice (diminution in the fair value)	39,58	-	1,19

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

- Details of accounts subjected to restructuring as on March 31, 2011 **(₹ lacs except numbers)**

Particulars of accounts restructured		Outstanding as at March 31, 2011		
		CDR mechanism	**SME debt restructuring**	**Others**
Standard advances restructured	No. of borrowers	4	-	4
	Amount outstanding	184,34	-	56,01
	Sacrifice (diminution in the fair value)	11,00	-	70
Substandard advances restructured	No. of borrowers	2	-	3
	Amount outstanding	44,28	-	25,24
	Sacrifice (diminution in the fair value)	-	-	-
Doubtful advances restructured	No. of borrowers	4	-	1
	Amount outstanding	49,35	-	870
	Sacrifice (diminution in the fair value)	-	-	-
Total	No. of borrowers	10	-	8
	Amount outstanding	277,97	-	89,95
	Sacrifice (diminution in the fair value)	11,00	-	70

- Details of financial assets sold to securitization / reconstruction companies (SC / RC) for asset reconstruction are as under :

(₹ lacs except numbers)

Particulars	March 31, 2012	March 31, 2011
No. of Accounts	Nil	3
Aggregate value (net of provisions) of accounts sold to SC / RC	Nil	5,53
Aggregate consideration	Nil	18,75
Additional consideration realised in respect of accounts transferred in earlier years	Nil	Nil
Aggregate gain over net book value	Nil	13,22

- During the years ended March 31, 2012 and March 31, 2011, there were no non-performing financial assets sold, excluding those sold to SC / RC.

- During the years ended March 31, 2012 and March 31, 2011, there were no non-performing financial assets that were purchased by the Bank.

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

- **Details of exposure to real estate sector** **(₹ lacs)**

Category	March 31, 2012	March 31, 2011
(a) Direct exposure :	**20,720,10**	**26,572,67**
(i) Residential mortgages (*)	14,263,76	19,661,85
(of which housing loans eligible for inclusion in priority sector advances)	(12,843,01)	(9,791,63)
(ii) Commercial real estate	6,146,90	6,454,23
(iii) Investments in mortgage backed securities (MBS) and other securitised exposures :		
(a) Residential	309,44	456,59
(b) Commercial real estate	-	-
(b) Indirect exposure :	4,300,16	3,704,50
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs)	4,300,16	3,704,50
Total real estate exposure	**25,020,26**	**30,277,17**

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

Of the above, exposure to real estate developers is 0.4% (previous year : 0.6%) of total advances.

- **Details of capital market exposure**

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

S. No.	Particulars	March 31, 2012	March 31, 2011
(i)	Investments made in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt	54,97	55,78
(ii)	Advances against shares, bonds, debentures or other securities or on clean basis to individuals for investment in shares (including IPO's / ESOPS), convertible bonds, convertible debentures and units of equity oriented mutual funds	104,27	95,26
(iii)	Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security	1,388,77	1,317,65
(iv)	Advances for any other purposes to the extent secured by collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds does not fully cover the advances	78,41	111,99
(v)	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	4,671,30	4,425,73
(vi)	Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources	1,008,10	-
(vii)	Bridge loans to companies against expected equity flows / issues	-	-
(viii)	Underwriting commitments taken up in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds	-	-
(ix)	Financing to stockbrokers for margin trading	-	-
(x)	All exposures to venture capital funds (both registered and unregistered)	1,70	14,17
	Total exposure to capital market	**7,307,52**	**6,020,58**

- Details of risk category wise country exposure (₹ lacs)

Risk Category	March 31, 2012		March 31, 2011	
	Exposure (net)	Provision held	Exposure (net)	Provision held
Insignificant	5,684,50	-	4,143,66	-
Low	3,537,80	-	1,597,36	-
Moderately low	400,12	-	190,57	-
Moderate	11,58	-	2,16	-
Moderately high	1,33	-	11,78	-
High	94	-	-	-
Very high	-	-	-	-
Total	**9,636,27**	-	**5,945,53**	-

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

  During the years ended March 31, 2012 and March 31, 2011, the Bank's credit exposure to single borrowers and group borrowers were within the limits prescribed by RBI.

- **Unsecured advances**

  During the years ended March 31, 2012 and March 31, 2011, there are no unsecured advances for which intangible securities such as charge over the rights, licenses, authority, etc. has been taken by the Bank.

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

a) Concentration of deposits (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Total deposits of twenty largest depositors	21,165,79	18,299,45
Percentage of deposits of twenty largest depositors to total deposits of the Bank	8.6%	8.8%

b) Concentration of advances (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Total advances to twenty largest borrowers	50,459,18	43,687,61
Percentage of advances of twenty largest borrowers to total advances of the Bank	14.9%	16.1%

Advances comprise credit exposure (funded and non-funded credit limits) including derivative transactions computed as per Current Exposure Method in accordance with RBI guidelines under reference DBOD. No. Dir. BC. 7/13.03.00/2011-12 - Master Circular - Exposure Norms, dated July 1, 2011.

c) Concentration of exposures (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Total exposure to twenty largest borrowers/customers	59,358,08	49,449,11
Percentage of exposure of twenty largest borrowers/customers to total exposure of the Bank on borrowers/customers	16.5%	17.1%

Advances comprise credit exposure (funded and non-funded credit limits) including derivative transactions and investment exposure in accordance with RBI guidelines under reference DBOD. No. Dir. BC. 7/ 13.03.00/2011-12 - Master Circular - Exposure Norms, dated July 1, 2011.

d) Concentration of NPAs (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Total exposure to top four NPA accounts (funded)	292,47	305,03

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11 Other fixed assets (including furniture and fixtures)

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

Particulars	March 31, 2012	March 31, 2011
Cost		
As at March 31 of the previous year	706,33	610,57
Additions during the year	123,77	95,80
Deductions during the year	-	4
Total (a)	**830,10**	**706,33**
Depreciation		
As at March 31 of the previous year	456,81	360,29
Charge for the year	106,93	96,56
On deductions during the year	-	4
Total (b)	**563,74**	**456,81**
Net value as at March 31 of the current year (a-b)	**266,36**	**249,52**

12 Other assets

- Other assets include deferred tax asset (net) of ₹ 1,448,89 lacs (previous year : ₹ 1,188,71 lacs). The break-up of the same is as follows : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Deferred tax asset arising out of :		
Loan loss provisions	926,03	689,62
Employee benefits	65,06	56,23
Others	519,81	519,04
Total (a)	**1,510,90**	**1,264,89**
Deferred tax liability arising out of :		
Depreciation	(62,01)	(76,18)
Total (b)	**(62,01)**	**(76,18)**
Deferred tax asset (net) (a-b)	**1,448,89**	**1,188,71**

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

Particulars	March 31, 2012	March 31, 2011
Unrealised gain on foreign exchange and derivative contracts (*)	13,279,22	7,582,70
Deferred tax assets	1,448,89	1,188,71
Deposits & amounts paid in advance	1,096,42	839,15
Accounts receivable	720,79	580,45
Margin for LAF with RBI	350,00	300,00
Bullion outstanding (**)	-	414,99
Residuary items	18,46	31,57
Total	**16,913,78**	**10,937,57**

(*) As per the recommendatory provisions of AS-31, Financial Instruments : Presentation, the Bank has grossed up unrealised gain on foreign exchange and derivative contracts under other assets and unrealised loss on foreign exchange and derivative contracts under other liabilities.

(**) From March 31, 2012, bullion outstanding representing stock on consignment is not reflected on the Balance Sheet.

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13 Maturity pattern of key assets and liabilities

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

(₹ lacs)

As at March 31, 2012	1 day	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans & advances	4,590,86	3,897,12	3,436,29	5,602,93	21,689,00	15,679,94	21,102,35	87,736,25	15,087,02	16,598,27	195,420,03
Investments	19,151,21	2,747,12	1,531,68	2,120,47	4,589,17	6,118,01	5,404,05	30,283,24	3,822,34	21,715,62	97,482,91
Deposits	2,425,80	5,810,52	7,032,17	6,707,56	21,192,10	19,813,10	9,623,67	109,965,96	864,61	63,270,96	246,706,45
Borrowings	1,340,40	1,528,96	211,57	168,03	4,623,94	1,736,01	1,017,50	2,474,43	2,501,92	8,243,75	23,846,51
Foreign currency assets	744,14	3,304,88	529,40	1,074,89	3,649,66	3,892,58	730,47	2,146,96	1,340,15	333,02	17,746,15
Foreign currency liabilities	1,558,13	499,86	263,39	414,03	2,632,30	2,075,80	1,735,10	3,273,15	381,12	508,75	13,341,63

(₹ lacs)

As at March 31, 2011	1 day	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Loans & advances	3,080,57	2,889,19	2,111,27	5,366,03	21,684,86	15,214,51	19,494,88	64,413,55	11,953,86	13,773,95	159,982,67
Investments	3,296,51	3,236,65	1,232,92	2,233,43	5,202,50	4,136,80	4,249,40	28,325,87	7,360,94	11,654,35	70,929,37
Deposits	4,501,20	9,834,41	4,382,69	4,805,50	19,598,83	10,480,73	7,605,39	105,687,27	21,444,69	20,245,70	208,586,41
Borrowings	78,42	844,34	458,74	1,269,18	1,696,61	2,267,45	297,30	89,19	1,616,00	5,776,83	14,394,06
Foreign currency assets	855,98	1,600,67	365,19	1,209,00	2,952,22	2,214,70	1,611,04	2,012,04	735,31	130,48	13,686,63
Foreign currency liabilities	405,41	234,08	496,96	526,87	1,884,29	2,456,87	1,089,12	1,659,17	111,02	445,98	9,309,77

14 Provisions, contingent liabilities and contingent assets

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

a) Movement in provision for credit card and debit card reward points

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Opening provision for reward points	59,33	34,00
Provision for reward points made during the year	55,10	47,07
Utilisation / write back of provision for reward points	(22,10)	(18,37)
Effect of change in rate for accrual of reward points	(6,53)	1,78
Effect of change in cost of reward points	-	(5,15)
Closing provision for reward points	85,80	59,33

b) Movement in provision for legal and other contingencies

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Opening provision	316,60	271,28
Movement during the year (net)	(30,57)	45,32
Closing provision	286,03	316,60

c) **Description of contingent liabilities**

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

**Also refer Schedule 12 - Contingent Liabilities*

15 Business ratios / information

Particulars	March 31, 2012	March 31, 2011
Interest income as a percentage to working funds[1]	9.37%	8.04%
Net interest income as a percentage to working funds	4.22%	4.25%
Non-interest income as a percentage to working funds	1.80%	1.75%
Operating profit[2] as a percentage to working funds	3.07%	3.12%
Return on assets (average)	1.77%	1.58%
Business[3] per employee (₹ lacs)	6,54	6,53
Profit per employee[4] (₹ lacs)	8.12	7.37
Percentage of net non-performing assets[5] to customer assets[6]	0.18%	0.18%
Percentage of net non-performing assets to net advances[7]	0.18%	0.19%
Gross non-performing assets to gross advances	1.02%	1.05%
Provision coverage ratio[8]	82.38%	82.51%

Definitions :

1. *Working funds is the daily average of total assets during the year.*
2. *Operating profit is net profit for the year before provisions and contingencies.*
3. *"Business" is the total of net advances and deposits (net of inter-bank deposits).*
4. *Productivity ratios are based on average employee numbers.*

5. *Net NPAs are non-performing assets net of interest in suspense, specific loan loss provisions, ECGC claims received, provisions for funded interest term loans classified as NPAs and provisions in lieu of diminution in the fair value of restructured assets classified as NPAs.*
6. *Customer assets include net advances, credit substitutes like debentures, commercial papers and loans and investments in securitised assets bought in.*
7. *Net advances are equivalent to gross advances net of bills rediscounted, specific loan loss provisions, interest in suspense, ECGC claims received, provision for funded interest term loans classified as NPA and provisions in lieu of diminution in the fair value of restructured assets.*
8. *Provision coverage ratio does not include assets written off.*

16 Interest income

Interest income under the sub-head Income from Investments includes dividend received during the year ended March 31, 2012 on units of mutual funds, equity and preference shares amounting to ₹ 299,61 lacs (previous year : ₹ 187,88 lacs).

17 Earnings from standard assets securitised-out

During the years ended March 31, 2012 and March 31, 2011, there were no standard assets securitised-out by the Bank.

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

The Bank has provided credit and liquidity enhancements in the form of cash collaterals / guarantees / subordination of cash flows etc., to the senior pass through certificates (PTCs). The total value of credit enhancement outstanding in the books as at March 31, 2012 was ₹ 358,97 lacs (previous year : ₹ 446,21 lacs) and liquidity enhancement was ₹ 8,10 lacs (previous year : ₹ 16,65 lacs). Outstanding servicing liability was ₹ 40 lacs (previous year : ₹ 62 lacs).

18 Other income

- **Commission, exchange and brokerage income**
  - Commission, exchange and brokerage income is net of correspondent bank charges
  - Commission income includes fees / remuneration (net of service tax) of ₹ 563,13 lacs (previous year : ₹ 713,25 lacs) in respect of the bancassurance business undertaken by the Bank during the year.
- **Miscellaneous income**

  Miscellaneous income includes loss of ₹ 126,53 lacs (previous year : ₹ 134,50 lacs) pertaining to derivative transactions.

19 Other expenditure

Other expenditure includes outsourcing fees amounting to ₹ 516,40 lacs (previous year : ₹ 419,38 lacs) exceeding 1% of the total income of the Bank. Further, during previous year, expenses on collections and recoveries amounting to ₹ 320,74 lacs was exceeding 1% of the total income of the Bank.

20 The break-up of 'Provisions and contingencies' included in the Statement of Profit and Loss is given below :

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Provision for income tax		
- Current	2,606,25	2,237,46
- Deferred	(260,18)	(345,20)
Provision for wealth tax	55	60
Provision for NPAs	651,58	763,02
Provision for diminution in value of non performing investments	93,40	-
Provision for standard assets	150,50	-
Other provisions and contingencies*	541,22	1,143,09
Total	**3,783,32**	**3,798,97**

** Includes (write-back) / provisions for : tax, legal and other contingencies ₹ (16,449) lacs (previous year : ₹ 474,90 lacs), floating provisions ₹ 700,00 lacs (previous year : ₹ 670,00 lacs), securitised-out assets ₹ 9,84 lacs (previous year : ₹ 2,59 lacs) and restructured assets ₹ (4,13) lacs (previous year : ₹ (4,40) lacs).*

21 Employee benefits

Gratuity (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Reconciliation of opening and closing balance of the present value of the defined benefit obligation		
Present value of obligation as at April 1	136,08	99,20
Interest cost	11,57	7,80
Current service cost	28,36	26,95
Benefits paid	(9,14)	(8,17)
Actuarial (gain) / loss on obligation :		
Experience adjustment	1,25	9,56
Assumption change	(1,82)	74
Present value of obligation as at March 31	**166,30**	**136,08**
Reconciliation of opening and closing balance of the fair value of the plan assets		
Fair value of plan assets as at April 1	66,00	51,74
Expected return on plan assets	6,31	2,36
Contributions	29,62	20,06
Benefits paid	(9,14)	(8,17)
Actuarial gain / (loss) on plan assets :		
Experience adjustment	(93)	1
Assumption change	-	-
Fair value of plan assets as at March 31	**91,86**	**66,00**
Amount recognised in Balance Sheet		
Fair value of plan assets as at March 31	91,86	66,00
Present value of obligation as at March 31	(166,30)	(136,08)
Asset / (liability) as at March 31	**(74,44)**	**(70,08)**
Expenses recognised in Statement of Profit and Loss		
Interest cost	11,57	7,80
Current service cost	28,36	26,95
Expected return on plan assets	(6,31)	(2,35)
Net actuarial (gain) / loss recognised in the year	36	10,29
Net cost	**33,98**	**42,69**
Actual return on plan assets	5,39	2,37
Estimated contribution for the next year	41,01	17,21
Assumptions		
Discount rate	8.8% per annum	8.2% per annum
Expected return on plan assets	8.0% per annum	8.0% per annum
Salary escalation rate	9.0% per annum	8.5% per annum

Experience adjustment (₹ lacs)

Particulars	Year ended March 31, 2012	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2009	Year ended March 31, 2008
Plan assets	91,86	66,00	51,74	45,38	22,37
Defined benefit obligation	166,30	136,08	99,20	72,57	38,09
Surplus / (deficit)	(74,44)	(70,08)	(47,46)	(27,19)	(15,72)
Experience adjustment gain / (loss) on plan assets	(93)	1	7,40	(3,68)	(1,03)
Experience adjustment (gain) / loss on plan liabilities	1,25	9,56	(5,02)	(8,53)	(1,15)

For the year ended March 31, 2012

Pension (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Reconciliation of opening and closing balance of the present value of the defined benefit obligation		
Present value of obligation as at April 1	57,38	40,70
Interest cost	4,61	3,05
Current service cost	1,51	1,76
Benefits paid	(10,09)	(6,99)
Actuarial (gain) / loss on obligation :		
Experience adjustment	1,36	18,50
Assumption change	2,08	36
Present value of obligation as at March 31	**56,85**	**57,38**
Reconciliation of opening and closing balance of the fair value of the plan assets		
Fair value of plan assets as at April 1	43,35	38,78
Expected return on plan assets	3,78	3,28
Contributions	15,39	5,43
Benefits paid	(10,09)	(6,99)
Actuarial gain / (loss) on plan assets :		
Experience adjustment	(1,29)	2,85
Assumption change	-	-
Fair value of plan assets as at March 31	**51,14**	**43,35**
Amount recognised in Balance Sheet		
Fair value of plan assets as at March 31	51,14	43,35
Present value of obligation as at March 31	(56,85)	(57,38)
Asset / (liability) as at March 31	**(5,71)**	**(14,03)**
Expenses recognised in Statement of Profit and Loss		
Interest cost	4,61	3,05
Current service cost	1,51	1,76
Expected return on plan assets	(3,78)	(3,28)
Net actuarial (gain) / loss recognised in the year	4,73	16,01
Net cost	**7,07**	**17,54**
Actual return on plan assets	2,49	6,13
Estimated contribution for the next year	6,28	35
Assumptions		
Discount rate	8.8% per annum	8.2% per annum
Expected return on plan assets	8.0% per annum	8.0% per annum
Salary escalation rate	9.0% per annum	8.5% per annum

Expected rate of return on investments is determined based on the assessment made by the Bank at the beginning of the year with regard to its existing portfolio. The Bank's investments have been made in insurance funds and securities.

The Bank does not have any unfunded defined benefit plan.

The Bank contributed ₹ 116,54 lacs (previous year : ₹ 92,88 lacs) to the provident fund and ₹ 32,71 lacs (previous year : ₹ 25,86 lacs) to the superannuation plan.

Experience adjustment* (₹ lacs)

Particulars	Year ended March 31, 2012	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2009
Plan assets	51,14	43,35	38,78	36,90
Defined benefit obligation	56,85	57,38	40,70	34,60
Surplus / (deficit)	(5,71)	(14,03)	(1,92)	2,30
Experience adjustment gain / (loss) on plan assets	(1,29)	2,85	2,78	(2,69)
Experience adjustment (gain) / loss on plan liabilities	1,36	18,50	2,12	(8,06)

** Pension liability relates to employees of eLKB which was merged with eCBOP. Since eCBOP was merged with the Bank in the year ended March 31, 2009, there are no figures for financial year ended March 31, 2008.*

Provident fund

The guidance note on AS-15, Employee Benefits, states that employer established provident funds, where interest is guaranteed are to be considered as defined benefit plans and the liability has to be valued. The Actuary Society of India (ASI) has issued a guidance note on valuation of interest rate guarantees on exempt provident funds. The actuary has accordingly valued the same and the Bank has made a provision of ₹ 9,77 lacs towards the present value of the guaranteed interest benefit obligation. The actuary has followed deterministic approach as prescribed by the guidance note.

Assumptions :

Discount rate (GOI security yield)	8.8% per annum
Expected guaranteed interest rate	8.3% (1 year) & Average 8.6% thereafter

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

Compensated absences

The actuarial liability of compensated absences of accumulated privileged and sick leaves of the employees of the Bank as of March 31, 2012 is given below : **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Privileged leave	169,98	131,86
Sick leave	34,98	26,36
Total actuarial liability	204,96	158,22
Assumptions		
Discount rate	8.8% per annum	8.2% per annum
Salary escalation rate	9% per annum	8.5% per annum

22 Segment reporting

Segment reporting for the year ended March 31, 2012 is given below : **(₹ lacs)**

S. No.	Particulars	Treasury	Retail banking	Wholesale banking	Other banking operations	Total
1	Segment revenue	7,823,56	26,529,26	15,804,29	2,900,78	53,057,89
2	Unallocated revenue					96,48
3	Less : Inter-segment revenue					20,624,33
4	Income from operations (1) + (2) - (3)					32,530,04
5	Segment results	381,99	3,486,82	3,271,85	1,277,54	8,418,20
6	Unallocated expenses					905,05
7	Income tax expense (including deferred tax)					2,346,08
8	Net profit (5) - (6) - (7)					5,167,07
9	Segment assets	121,349,00	112,840,91	92,710,51	7,521,95	334,422,37
10	Unallocated assets					3,487,12
11	Total assets (9) + (10)					337,909,49
12	Segment liabilities	26,142,72	189,990,26	76,404,04	727,56	293,264,58
13	Unallocated liabilities					14,720,53
14	Total liabilities (12) + (13)					307,985,11
15	Capital employed (9) - (12) (segment assets - segment liabilities)	95,206,28	(77,149,35)	16,306,47	6,794,39	41,157,79
16	Unallocated (10) - (13)					(11,233,41)
17	Total (15) + (16)					2,992,438
18	Capital expenditure	43,29	539,74	78,93	60,41	72,237
19	Depreciation	36,54	365,44	75,09	65,45	542,52

For the year ended March 31, 2012

Segment reporting for the year ended March 31, 2011 is given below : **(₹ lacs)**

S. No.	Particulars	Treasury	Retail banking	Wholesale banking	Other banking operations	Total
1	Segment revenue	5,391,16	19,505,03	11,612,89	2,483,69	38,992,77
2	Less : Inter segment revenue					14,729,41
3	Income from operations (1) - (2)					24,263,36
4	Segment results	96,12	3,014,57	2,423,31	1,018,36	6,552,36
5	Unallocated expenses					733,71
6	Income tax expense (including deferred tax)					1,892,26
7	Net profit (4) - (5) - (6)					3,926,39
8	Segment assets	95,392,16	88,065,88	85,074,76	5,293,65	273,826,45
9	Unallocated assets					3,526,14
10	Total assets (8) + (9)					277,352,59
11	Segment liabilities	15,369,43	147,061,74	75,414,37	502,68	238,348,22
12	Unallocated liabilities					13,628,01
13	Total liabilities (11) + (12)					251,976,23
14	Capital employed (8) - (11)	80,022,73	(58,995,86)	9,660,39	4,790,97	35,478,23
15	Unallocated (9) - (12)					(10,101,87)
16	Total (14) + (15)					25,376,36
17	Capital expenditure	60,73	423,87	90,04	23,92	598,56
18	Depreciation	53,98	324,36	87,52	31,55	497,41

An amount of ₹ 5,003,64 lacs pertaining to grossed up unrealised gain on foreign exchange and derivatives contracts has been reclassified from ‘Unallocated’ to ‘Treasury’ segment in the segmental capital employed (asset - liabilities) as at March 31, 2011.

23 Related party disclosures

As per AS-18, Related party disclosure, issued by the ICAI, the Bank's related parties are disclosed below :

Promoter

Housing Development Finance Corporation Limited

Enterprises under common control of the promoter

HDFC Asset Management Company Limited

HDFC Standard Life Insurance Company Limited

HDFC Developers Limited

HDFC Holdings Limited

HDFC Investments Limited

HDFC Trustee Company Limited

GRUH Finance Limited

HDFC Realty Limited

HDFC ERGO General Insurance Company Limited

HDFC Venture Capital Limited

HDFC Ventures Trustee Company Limited

HDFC Sales Private Limited

HDFC Property Ventures Limited

HDFC Asset Management Company (Singapore) Pte. Limited

Griha Investments

Credila Financial Services Private Limited

HDFC Education and Development Services Private Limited

Subsidiaries

HDFC Securities Limited

HDB Financial Services Limited

Associates

Atlas Documentary Facilitators Company Private Limited

HBL Global Private Limited

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

International Asset Reconstruction Company Private Limited

Welfare trust of the Bank

HDB Employees Welfare Trust

Key management personnel

Aditya Puri, Managing Director

Paresh Sukthankar, Director

Harish Engineer, Director

Related parties to key management personnel

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

In accordance with paragraph 5 of AS 18, the Bank has not disclosed certain transactions with key management personnel and relatives of key management personnel as they are in the nature of banker-customer relationship.

The significant transactions between the Bank and related parties for year ended March 31, 2012 are given below. A specific related party transaction is disclosed as a significant related party transaction wherever it exceeds 10% of all related party transactions in that category :

- Purchase of fixed assets : HBL Global Private Limited ₹ 20 lacs (previous year : ₹ 10 lacs); HDFC Securities Limited - ₹ Nil (previous year : ₹ 59 lacs).
- Sale of fixed assets : HDB Financial Services Limited ₹ 14 lacs (previous year : ₹ Nil); Atlas Documentary Facilitators Company Private Limited ₹ 13 lacs (previous year : ₹ Nil).
- Interest paid : Housing Development Finance Corporation Limited ₹ 7,55 lacs (previous year : ₹ 4,88 lacs); HDFC Securities Limited - ₹ Nil (previous year : ₹ 2,37 lacs). HDFC ERGO General Insurance Company Limited ₹ 2,04 lacs (previous year : ₹ Nil); Atlas Documentary Facilitators Company Private Limited ₹ 4,04 lacs (previous year : ₹ 2,05 lacs).
- Interest received : HDB Financial Services Limited ₹ 44,09 lacs (previous year : ₹ 22,94 lacs).
- Rendering of services : Housing Development Finance Corporation Limited ₹ 106,97 lacs (previous year : ₹ 96,47 lacs); HDFC Standard Life Insurance Company Limited ₹ 456,37 lacs (previous year : ₹ 669,64 lacs); HDFC ERGO General Insurance Company Limited ₹ 110,44 lacs (previous year : ₹ 77,99 lacs)
- Receiving of services : HBL Global Private Limited ₹ 360,40 lacs (previousyear : ₹ 290,19 lacs); Atlas Documentary Facilitators Company Private Limited ₹ 324,43 lacs (previous year : ₹ 266,66 lacs).
- Dividend paid : Housing Development Finance Corporation Limited ₹ 129,76 lacs (previous year : ₹ 94,37 lacs); HDFC Investments Limited ₹ 49,50 lacs (previous year : ₹ 36,00 lacs);

  During the year, the Bank purchased 6,851,61 shares of HDFC Securities Limited for ₹ 9,87 lacs from HDB Employees Welfare Trust. The deposit outstanding from HDB Employees Welfare Trust as of March 31, 2012 was ₹ 44,59 lacs (March 31, 2011 : ₹ 34,13 lacs). The Bank also paid interest on deposit from HDB Employees Welfare Trust aggregating to ₹ 2,85 lacs (previous year : ₹ 2,10 lacs).

For the year ended March 31, 2012

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

Items / related party	Promoter	Enterprises under common control of the promoter	Subsidiaries	Associates	Key management personnel	Total
Deposits taken	2,110,77	360,10	141,44	45,71	10,83	2,668,85
	(2,110,77)	(360,10)	(171,46)	(45,71)	(10,83)	(2,698,87)
Deposits placed	15	-	9,76	30,95	2,22	43,08
	(15)	-	(9,76)	(77,60)	(2,22)	(89,73)
Advances given	-	-	518,22	27,90	73	546,85
	-	-	(518,22)	(34,36)	(73)	(553,31)
Fixed assets purchased from	-	-	-	20	-	20
Fixed assets sold to	-	-	14	13	-	27
Interest paid to	7,55	2,36	1,38	4,15	43	15,87
Interest received from	-	-	44,09	1,39	3	45,51
Income from services rendered to	106,97	619,73	10,52	20,93	-	758,15
Expenses for receiving services from	24,79	36,62	57,08	685,50	60	804,59
Equity / Other investments	-	-	723,62	66,13	-	789,75
	-	-	(723,62)	(66,58)	-	(790,20)
Dividend paid to	129,76	49,50	-	-	-	179,26
Dividend received from	-	-	57	1	-	58
Receivable from	13,65	77,32	26	-	-	91,23
	(13,65)	(77,32)	(1,21)	(7,15)	-	(99,33)
Payable to	8,35	-	6,31	50,89	-	65,55
	(8,35)	-	(6,63)	(63,32)	-	(78,30)
Remuneration paid	-	-	-	-	9,98	9,98
Loans purchased from	4,977,62	-	28,40	-	-	5,006,02

Figures in bracket indicate maximum balance outstanding during the year based on comparison of the total outstanding balances at each quarter end.

Remuneration paid excludes value of employee stock options exercised during the year.

The Bank being an authorised dealer, deals in foreign exchange and derivative transactions with certain parties which includes the promoter and related group companies. The foreign exchange and derivative transactions are undertaken in line with the RBI guidelines. The notional principal amount of foreign exchange and derivative contracts transacted with the promoter that were outstanding as on March 31, 2012 is ₹ 250,00 lacs (previous year : ₹ 250,00 lacs). The contingent credit exposure pertaining to these contracts computed in line with the extant RBI guidelines on exposure norms is ₹ 15,23 lacs (previous year : ₹ 11,08 lacs).

The Bank's related party balances and transactions for the year ended March 31, 2011 are summarized as follows : (₹ lacs)

Items / related party	Promoter	Enterprises under common control of the promoter	Subsidiaries	Associates	Key management personnel	Total
Deposits taken	1,619,82	192,42	271,02	45,59	7,21	2,136,06
	(1,619,82)	(320,00)	(271,02)	(53,26)	(12,88)	(2,276,98)
Deposits placed	15	34	9,76	30,60	2,22	43,07
	(15)	(34)	(9,76)	(32,55)	(2,22)	(45,02)
Advances given	-	-	411,37	-	73	412,10
	-	-	(411,37)	-	(73)	(412,10)
Fixed assets purchased from	-	-	66	10	-	76
Interest paid to	4,88	1,00	2,40	2,08	18	10,54
Interest received from	-	-	22,94	-	4	22,98
Income from services rendered to	96,47	794,50	12,04	20,98	-	923,99
Expenses for receiving services from	17,48	31,29	46,27	559,02	60	654,66
Equity / Other investments	-	-	713,76	40,15	-	753,91
	-	-	(713,76)	(42,64)	-	(756,40)
Dividend paid to	94,37	36,00	-	-	-	130,37
Dividend received from	-	-	44	-	-	44
Receivable from	8,29	53,14	17	-	-	61,60
	(9,59)	(122,56)	(1,99)	(4,30)	-	(138,44)
Payable to	-	-	7,63	38,52	-	46,15
	-	-	(11,74)	(63,21)	-	(74,95)
Guarantees given	-	-	7,00	-	-	7,00
	-	-	(13,00)	-	-	(13,00)
Remuneration paid	-	-	-	-	8,27	8,27
Loans purchased from	4,378,97	-	-	-	-	4,378,97
Financial assets sold to securitization / reconstruction company	-	-	-	10,75	-	10,75

Figures in bracket indicate maximum balance outstanding during the year based on comparison of the total outstanding balances at each quarter-end.

Remuneration paid excludes value of employee stock options exercised during the year.

24 Leases

Operating leases primarily comprise office premises, staff residences and ATMs, which are renewable at the option of the Bank. The details of maturity profile of future operating lease payments are given below : **(₹ lacs)**

Period	March 31, 2012	March 31, 2011
Not later than one year	515,21	437,89
Later than one year and not later than five years	1,743,06	1,475,80
Later than five years	731,13	631,40
Total	**2,989,40**	**2,545,09**
The total of minimum lease payments recognized in the Statement of Profit and Loss for the year	538,20	463,07
Total of future minimum sub-lease payments expected to be received under non-cancellable subleases	66,47	74,28
Sub-lease payments recognized in the Statement of Profit and Loss for the year	24,17	18,13

During the previous year, the Bank has entered into an operating lease agreement with a counter-party for leasing certain assets. These are in the process of being deployed. The future lease payment for this lease is linked to volume of usage of the leased assets and accordingly, the future minimum lease payments cannot be estimated at this stage.

The Bank has sub-leased certain of its properties taken on lease. There are no provisions relating to contingent rent.

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

25 Penalties levied by the RBI

The RBI issued a show cause notice in October 2010 to the Bank for having contravened the guidelines issued by the RBI and provisions of Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulation 2000 in respect of derivative deals done by the Bank as observed in its annual financial inspection of the Bank with respect to its financial position as at and for the years ended March 31, 2007 and March 31, 2008. Subsequently, the Bank, vide its letter dated October 19, 2010, submitted a detailed response to the RBI explaining the Bank's position and clarifying that the Bank was in compliance with the RBI guidelines. While RBI accepted some of the submissions made by the Bank, few other submissions made in the matter were not accepted by RBI. RBI, accordingly, imposed a penalty of ₹ 15 lacs for non-compliance of the RBI's directions and instructions in terms of Section 47A(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949. The stated amount was paid by the Bank during the fiscal year ended 2012.

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

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

27 Disclosure for customer complaints / unimplemented awards of Banking Ombudsman

Customer complaints

Particulars	March 31, 2012	March 31, 2011
(a) No. of complaints pending at the beginning of the year	1,124	1,900
(b) No. of complaints received during the year	138,769	157,857
(c) No. of complaints redressed during the year	138,457	158,663
(d) No. of complaints pending at the end of the year	1,436	1,124

Unimplemented awards of Banking Ombudsmen

Particulars	March 31, 2012	March 31, 2011
(a) No. of unimplemented awards at the beginning of the year	Nil	Nil
(b) No. of awards passed by the Banking Ombudsmen during the year	1	7
(c) No. of awards implemented during the year	1	7
(d) No. of unimplemented awards at the end of the year	Nil	Nil

For the year ended March 31, 2012

28 Disclosure of Letter of Comforts (LoCs) issued by the Bank

The Bank has not issued any letter of comfort during the years ended March 31, 2012 and March 31, 2011.

29 Changes in accounting estimates

Useful life of fixed assets

During the previous year ended March 31, 2011, the Bank revised the estimated useful life of point of sale machines and certain information technology servers. Depreciation on these assets is charged prospectively over the revised useful life of the asset. Consequently, profit after tax for the previous year was lower by ₹ 39,05 lacs.

30 Small and micro industries

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

31 Overseas assets, NPAs and revenue **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Total assets	8,693,39	5,207,59
Total NPAs	Nil	Nil
Total revenue	227,26	102,90

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

33 Comparative figures

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

For and on behalf of the Board

C. M. Vasudev
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President (Legal) &
Company Secretary

Mumbai, 18 April, 2012

Harish Engineer
Executive Director

Paresh Sukthankar
Executive Director

A. N. Roy
Ashim Samanta
Bobby Parikh
Dr. Pandit Palande
Keki Mistry
Partho Datta
Renu Karnad
Directors

HDFC BANK
We understand your world

Statement pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary Companies

(In terms of the direction u/s 212(8) of the Companies Act, 1956 issued by the Ministry of Corporate Affairs vide General Circular no. 2/2011 dated February 8, 2012

(As on/for the year ended March 31, 2012) **(₹ lacs)**

Name of the subsidiary	**HDFC Securities Ltd.**	**HDB Financial Services Ltd.**
Capital	1,513	41,061
Reserves & Surplus	28,795	36,017
Total Assets (excluding investments)	46,047	4,06,458
Total Liabilities (excluding capital & reserves)	15,823	3,29,731
Investments	84	350
Turnover (total income)	21,001	432
Profit before taxation	8,007	7,065
Provision for taxation	2,598	1,954
Profit after taxation	5,409	5,111
Proposed Dividend including tax thereon	141	0.00

HDB Financial Services is a leading Non Banking Financial Company (NBFC) that caters to the growing needs of an increasingly affluent middle market.

- A strong, well capitalised business, it enjoys a CARE AAA rating for long term bank facilities and PR1+ rating for short term debt and commercial papers.
- HDB takes pride in offering customised financial solutions to both retail and commercial customers, via a gamut of products including:
  - Loans for personal and business purposes
  - Various asset backed loans such as Loan against Property, Loan against Lease Rentals, Loan against ESOP and Shares, Loan against Securities, Loan against Mutual Funds, Loan against Gold and many others
  - Commercial Vehicle loans
  - Life Insurance and General Insurance.
- HDB has operations in over 180 branches, across more than 135 cities with almost 40,000 customers.
- The Collections BPO line of business is an end-to-end specialised Collections service provider with expertise in Collections Telecalling, Recovery Management, Collections Analytics and Cash Reconciliation Management. Its infrastructure includes six state-of- the-art Call Centers with over 1500 seats.

1. Scope of Application :

a) The name of the top bank in the group to which the framework applies :

The New Capital Adequacy Framework (Basel II) is applicable to HDFC Bank Limited (hereinafter referred to as the Bank) and its two subsidiaries (HDFC Securities Limited and HDB Financial Services Limited) which together constitute the group in line with Reserve Bank of India (RBI) guidelines on preparation of consolidated prudential reports issued vide circular DBOD.No.BP.BC.72/21.04.018/2001-02 dated February 25, 2003.

b) An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group :

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

For the purpose of consolidated prudential regulatory reports, the consolidated Bank includes all group entities under its control, except group companies which are engaged in insurance business and businesses not pertaining to financial services.

Details of subsidiaries and associates of the Bank along with the consolidation status for accounting and regulatory purposes are given below :

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

**Centillion ceased to be an associate of the Bank from December 31, 2011.*

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

c) There is no capital deficiency in the subsidiaries of the Bank as of March 31, 2012.

d) As of March 31, 2012, the Bank does not have investment in any insurance entity.

2. Capital Structure :

a) Summary information on the main features of all capital instruments eligible for inclusion under Tier I and Tier II capital :

Capital funds are classified into Tier I and Tier II capital under the capital adequacy framework. Tier I capital includes paid-up equity capital, statutory reserves, other disclosed free reserves, capital reserves and innovative perpetual debt instruments (Tier I bonds) eligible for inclusion in Tier I capital that comply with the requirements specified by RBI.

Elements of Tier II capital include revaluation reserve, if any, general provision for standard assets, floating provisions, upper Tier II instruments and subordinated debt instruments (lower Tier II bonds) eligible for inclusion in Tier II capital.

The Bank has issued debt instruments that form part of Tier I and Tier II capital. The terms and conditions that are applicable for these instruments comply with the stipulated regulatory requirements.

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

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

The lower Tier II bonds have an original maturity upto 15 years. Bonds issued in May 2011 amounting to ₹ 3,650,00 lacs have a call option at the end of 10^{th} year from the date of allotment. The interest on lower Tier II capital instruments is payable annually.

The details of outstanding debt instruments as on March 31, 2012 are given below : **(₹ lacs)**

Type of instrument	Currency	Year of issue	Year of maturity	Year of call	Amount
Perpetual Debt	INR	2006-07	-	2016-17	200,00
Upper Tier II	INR	2006-07	2021-22	2016-17	300,00
Upper Tier II	INR	2006-07	2021-22	2016-17	300,00
Upper Tier II	INR	2006-07	2021-22	2016-17	35,90
Upper Tier II	USD	2006-07	2021-22	2016-17	508,75
Upper Tier II	INR	2008-09	2023-24	2018-19	578,00
Upper Tier II	INR	2008-09	2023-24	2018-19	200,00
Upper Tier II	INR	2008-09	2023-24	2018-19	797,00
Upper Tier II	INR	2007-08	2022-23	2017-18	100,00
Upper Tier II	INR	2010-11	2025-26	2020-21	1,105,00
Lower Tier II	INR	2003-04	2014-15	-	395,00
Lower Tier II	INR	2003-04	2017-18	-	5,00
Lower Tier II	INR	2004-05	2014-15	-	15,00
Lower Tier II	INR	2004-05	2014-15	-	4,00
Lower Tier II	INR	2005-06	2015-16	-	414,00
Lower Tier II	INR	2005-06	2015-16	-	231,00
Lower Tier II	INR	2005-06	2015-16	-	257,00
Lower Tier II	INR	2005-06	2015-16	-	300,00
Lower Tier II	INR	2006-07	2016-17	-	169,00
Lower Tier II	INR	2006-07	2016-17	-	241,00
Lower Tier II	INR	2008-09	2018-19	-	1,150,00
Lower Tier II	INR	2008-09	2018-19	-	150,00
Lower Tier II	INR	2011-12	2026-27	2021-22	3,650,00
Total					**11,105,65**

b) The details of Tier I capital of the Bank are given below : **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
- Paid-up share capital	469,34	465,23
- Reserves	29,692,93	25,054,02
- Innovative perpetual debt	200,00	200,00
(a) Gross Tier I	**30,362,27**	**25,719,25**
Deductions :		
- Deferred tax asset	(1,465,34)	(1,189,29)
- Securitisation exposures*	(179,49)	(223,18)
- Market risk charge on account of valuation adjustment for illiquid positions of derivatives and non derivative portfolio.	(46,07)	(52,06)
(b) Total deductions	**(1,690,90)**	**(1,464,53)**
(c) Total Tier I capital (net of deductions) (a-b)	**28,671,37**	**24,254,72**

** Principally comprises credit enhancements*

c) The details of Tier II capital of the Bank are given below : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Upper Tier II capital	3,924,65	3,861,85
Lower Tier II capital	6,169,80	2,925,00
Provision for standard assets	920,79	763,45
Floating provision	1435,03	735,03
Investment reserve account	-	41,69
Securitisation exposures*	(179,49)	(223,18)
Total Tier II capital (net of deductions)	**12,270,78**	**8,103,84**

* *Principally comprises credit enhancements*

d) Debt capital instruments eligible for inclusion in Upper Tier II capital are given below : **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Total amount outstanding	3,924,65	3,861,85
Of which amounts raised during the year	-	1,105,00
Amount eligible to be reckoned as capital funds	3,924,65	3,861,85

e) Subordinated debt eligible for inclusion in Lower Tier II capital is given below : **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Total amount outstanding	6,981,00	3,331,20
Of which amounts raised during the year	3,650,00	-
Amount eligible to be reckoned as capital funds	6,169,80	2,925,00

f) Other deductions from capital : Nil (previous year : Nil).

g) The total eligible capital of the Bank outstanding as of March 31, 2012 amounts to ₹ 40,942,15 lacs (previous year : ₹ 32,358,56 lacs).

3. Capital Adequacy :

a) Summary discussion of the Bank's approach to assess the adequacy of capital to support current and future activities :

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

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

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

- Credit risk, including residual risks
- Market risk
- Operational risk
- Interest rate risk in the banking book
- Liquidity risk
- Intraday risk
- Credit concentration risk
- Business risk
- Strategic risk
- Compliance risk
- Reputation risk
- Technology risk

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

b) Capital requirements for credit risk : **(₹ lacs)**

Particulars	**March 31, 2012**	**March 31, 2011**
Portfolios subject to standardised approach	18,764,98	14,338,09
Securitisation exposures	995,38	924,00
Total	**19,760,36**	**15,262,09**

c) Capital requirements for market risk : Standardised duration approach : **(₹ lacs)**

Particulars	**March 31, 2012**	**March 31, 2011**
Interest rate risk	390,44	863,87
Equity risk	60,12	37,25
Foreign exchange risk (including gold)	9,00	27,00
Total	**459,56**	**928,12**

d) Capital requirements for operational risk : **(₹ lacs)**

Particulars	**March 31, 2012**	**March 31, 2011**
Basic indicator approach	1,892,68	1,514,23

e) Total and Tier I capital ratio :

Particulars	**Standalone**		**Consolidated**	
	March 31, 2012	**March 31, 2011**	**March 31, 2012**	**March 31, 2011**
Tier I capital ratio	11.60%	12.23%	11.67%	12.33%
Total capital ratio	16.52%	16.22%	16.66%	16.45%

4. Credit risk :

a) Credit risk management :

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

Architecture

The Bank has comprehensive credit risk management architecture. The board of directors of the Bank endorses the credit risk strategy and approves the credit risk policies of the Bank. This is done taking into consideration the Bank's risk appetite, derived from perceived risks in the business, balanced by the targeted profitability level for the risks taken up. The board oversees the credit risk management functions of the Bank. The RPMC, which is a committee of the board, guides the development of policies, procedures and systems for managing credit risk, towards implementing the credit risk strategy of the Bank. RPMC ensures that these are adequate and appropriate to changing business conditions, the structure and needs of the Bank and the risk appetite of the Bank.

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

Credit process

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

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

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

The Bank's credit policies & procedures manual and credit programs, where applicable, form the core to controlling credit risk in various activities and products. These articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance. These policies define the Bank's overall credit granting criteria, including the general terms and conditions. The policies / programs generally address such areas as target markets / customer segmentation, qualitative-quantitative assessment parameters, portfolio mix, prudential exposure ceilings, concentration limits, price and non-price terms, structure of limits, approval authorities, exception reporting system, prudential accounting and provisioning norms, etc. They take cognisance of prudent and prevalent banking practices, relevant regulatory requirements, nature and complexity of the Bank's activities, market dynamics etc.

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

- Borrower / business group
- Industry
- Risk grading

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

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

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

Definition of non-performing assets

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

(i) Interest and / or installment of principal remain overdue for a period of more than 90 days in respect of a term loan. Any amount due to the Bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the Bank.

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

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

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

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

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

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

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

The Bank will classify an account as NPA if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

When a particular facility of a borrower has turned a NPA, the facilities granted by a Bank to a borrower (whether a wholesale or retail borrower) will be classified as NPA and not the particular facility alone which triggered the NPA classification for that borrower.

Advances against term deposits, national savings certificates eligible for surrender, indira vikas patras, kisan vikas patras and life insurance policies need not be treated as NPAs, provided adequate margin is available in the accounts. Credit facilities backed by the central government though overdue may be treated as NPA only when the government repudiates its guarantee when invoked. State government guaranteed advances and investments in state government guaranteed securities would attract asset classification and provisioning norms if interest and / or principal or any other amount due to the Bank remains overdue for more than 90 days.

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

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

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

(i) Substandard assets - A substandard asset is one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower / guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

(ii) Doubtful assets - A doubtful asset is one, which remained NPA for a period exceeding 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

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

Interest on NPAs is not recognised in the Statement of Profit and Loss until received. Specific provision for NPAs is made based on management’s assessment of their degree of impairment subject to the minimum provisioning level prescribed by RBI.

Definition of ‘Overdue’

Any amount due to the Bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the Bank.

b) Total gross credit risk exposures : **(₹ lacs)**

Category	March 31, 2012	March 31, 2011
Fund based*	215,587,45	174,757,06
Non-fund based**	34,278,85	26,743,31
Total	**249,866,30**	**201,500,37**

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

c) Geographic distribution of exposures : **(₹ lacs)**

Category	March 31, 2012		March 31, 2011	
	Fund based	Non-fund based	Fund based	Non-fund based
Domestic	209,665,88	34,233,84	170,015,69	26,664,56
Overseas	5,921,57	45,01	4,741,37	78,75
Total	**215,587,45**	**34,278,85**	**174,757,06**	**26,743,31**

d) **Industry-wise distribution of exposures :** (₹ lacs)

Industry	March 31, 2012	
	Fund based	Non-fund based
Agriculture and allied activities	4,559,18	63,65
Automobile and auto ancillary	7,117,29	1,366,76
Banks and financial institutions	16,597,72	392,27
Capital market intermediaries	1,534,99	1,782,84
Cement and cement products	788,33	387,78
Chemical and chemical products	1,862,55	429,09
Coal and petroleum products	2,394,83	6,331,01
Infrastructure (construction and development)	2,646,08	1,007,19
Consumer durables	632,42	240,91
Drugs and pharmaceuticals	1,300,57	255,19
Engineering	3,348,70	3,525,72
Fertilisers and pesticides	1,876,41	1,215,98
Food and beverage	4,644,41	470,56
Gems and jewellery	2,899,24	155,93
Housing finance companies	1,246,78	-
Information technology	1,100,40	305,09
Iron and steel	4,085,17	1,872,91
Mining and minerals	1,386,50	488,94
NBFC / financial intermediaries	5,528,23	39,45
Non-ferrous metals and products	972,20	3,586,44
Paper, printing and stationery	823,53	197,04
Plastic and products	549,97	193,58
Power	4,738,59	1,020,20
Real estate and property services *	2,547,99	605,26
Retail assets **	98,981,40	1,126,68
Road transport ***	13,040,72	140,78
Services	3,971,70	1,097,36
Telecom	2,050,87	613,66
Textiles and garments	1,962,23	1,034,83
Wholesale and retail trade	16,322,65	3,433,56
Other industries ****	4,075,80	898,19
Total	**215,587,45**	**34,278,85**

* *Classification of exposure to real estate sector under "Exposures in sensitive sector", as disclosed in the notes to the financial statements in the Balance Sheet of the Bank, is as per RBI guidelines, which includes exposure to borrowers in the real estate industry, investment in home finance institutions, securitisation, etc.*

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

*** *Includes retail commercial vehicle financing.*

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

e) **Residual contractual maturity breakdown of assets :**

As on March 31, 2012 **(₹ lacs)**

Maturity buckets	Cash and balances with RBI	Balances with banks and money at call and short notice	Investments	Advances*	Fixed assets	Other assets	Grand total
1 to 14 days	3,198,67	3,746,57	23,430,01	11,986,19	-	4,525,62	46,887,06
15 to 28 days	282,87	75,53	2,120,47	5,606,52	-	4,225,06	12,310,45
29 days to 3 months	775,38	599,47	4,589,17	21,779,27	-	-	27,743,29
3 to 6 months	1,289,87	638,16	6,118,01	15,826,26	-	-	23,872,30
6 months to 1 year	476,27	944,22	5,404,05	21,419,89	-	-	28,244,43
1 to 3 years	5,598,91	168,62	30,283,24	88,968,32	-	13,118,62	138,137,71
3 to 5 years	25,96	-	3,822,34	15,809,59	-	-	19,657,89
Above 5 years	3,343,70	10,96	21,027,82	17,441,49	2,377,91	-	44,201,88
Total	**14,991,63**	**6,183,53**	**96,795,11**	**198,837,53**	**2,377,91**	**21,869,30**	**341,055,01**

As on March 31, 2011 **(₹ lacs)**

Maturity buckets	Cash and balances with RBI	Balances with banks and money at call and short notice	Investments	Advances*	Fixed assets	Other assets	Grand total
1 to 14 days	13,164,19	3,538,45	7,766,08	8,104,64	-	3,044,40	35,617,76
15 to 28 days	404,08	180,54	2,233,43	5,367,87	-	2,293,03	10,478,95
29 days to 3 months	859,94	501,66	5,232,50	21,696,30	-	-	28,290,40
3 to 6 months	923,91	196,81	4,136,80	15,243,42	-	-	20,500,94
6 months to 1 year	459,64	244,08	4,249,41	19,570,62	-	-	24,523,75
1 to 3 years	6,516,46	65,70	28,325,86	64,588,51	-	9,478,20	108,974,73
3 to 5 years	1,423,21	-	7,360,95	12,149,45	-	-	20,933,61
Above 5 years	1,349,46	10,15	10,971,64	14,110,61	2,200,94	-	28,642,80
Total	**25,100,89**	**4,737,39**	**70,276,67**	**160,831,42**	**2,200,94**	**14,815,63**	**277,962,94**

** Excludes exposure under bills re-discounted.*

f) **Amount of gross NPAs :** **(₹ lacs)**

NPA classification	March 31, 2012	March 31, 2011
Sub Standard	969,28	743,96
Doubtful *		
- Doubtful 1	353,51	360,24
- Doubtful 2	185,48	89,67
- Doubtful 3	36,55	27,86
Loss	458,35	476,75
Total	**2,003,17**	**1,698,48**

** Doubtful 1, 2 and 3 categories correspond to the period for which asset has been doubtful - Up to one year (Doubtful 1), One to three years (Doubtful 2) and More than three years (Doubtful 3).*

g) **Amount of net NPAs :** **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Gross NPAs	2,003,17	1,698,48
Less : Provisions	1,648,98	1,399,86
Net NPAs	354,19	298,62

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h) **NPA ratios :** **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Gross NPAs as a ratio to gross advances	1.00%	1.05%
Net NPAs as a ratio to net advances	0.18%	0.19%

i) **Movement of NPAs (Gross) :** **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Opening balance	1,698,48	1,821,89
Additions during the year	1,578,02	1,437,75
Reductions	(1,273,33)	(1,561,16)
Closing balance	2,003,17	1,698,48

NPAs include all assets that are classified as non-performing by the Bank. Till the year ended March 31, 2011, additions, upgradations or recoveries in retail NPAs were computed at a portfolio level. From the year ended March 31, 2012, these movements are computed at an account / contract level by comparing non-performing accounts outstanding at the beginning and at the end of the year. Previous year's figures have been reclassified accordingly.

j) **Movement of provisions for NPAs :** **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Opening balance	1,399,86	1,427,26
Provisions made during the year	1,400,12	1,448,15
Write-off	(943,03)	(1,184,13)
Write-back of excess provisions	(207,98)	(291,42)
Closing balance	1,648,97	1,399,86

k) **Amount of Non performing investments :** **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Gross non-performing investments	112,39	17,87
Provisions held for non-performing investments	(112,09)	(17,34)
Net non-performing investments	30	53

l) **Movement of provisions for depreciation on investments :** **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Opening balance	42,46	58,41
Provisions made during the year	184,51	15,12
Write-off	-	-
Write-back of excess provisions	(4)	(31,07)
Closing balance	226,93	42,46

5. Credit Risk : Portfolios subject to the standardised approach

a) The Bank has used the standardised approach for the entire credit portfolio.

Name of credit rating agencies used :

- The Bank is using the ratings assigned by the following domestic external credit rating agencies, approved by RBI, for risk weighting claims on domestic entities
  1) Credit Analysis and Research Limited (CARE)
  2) Credit Rating Information Services of India Limited (CRISIL)
  3) Fitch India
  4) ICRA Limited (ICRA)
- The Bank is using the ratings assigned by the following international credit rating agencies, approved by RBI, for risk weighting claims on overseas entities

1) Fitch
2) Moodys
3) Standard & Poor's

Types of exposures for which each agency is used :

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

Process used to transfer public issue ratings onto comparable assets in the banking book :

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

Issue Specific Ratings

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

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

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

Short term rating (eqv.)	P1+	P1	P2	P3	P4 / P5	Unrated
Risk weight	20%	30%	50%	100%	150%	100%

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

Inferred ratings

- The specific rating assigned by a credit rating agency to a debt or issue of a borrower or counterparty (which the Bank may or may not have extended / invested in), which the Bank applies to an un-assessed claim of the Bank on such borrower or counterparty is considered by the Bank as Inferred ratings.
- In terms of NCAF guidelines, the Bank uses a long term rating as an Inferred rating for an unassessed long term claim on the borrower, where the following conditions are met.
  - (i) Where the Bank's claim ranks pari passu or senior to the specific rated debt in all respects.
  - (ii) The maturity of the Bank's claim is not later than the maturity of the rated claim.
- The unassessed long term claim is assigned the risk weight corresponding to a inferred long term rating as given in the table under issue specific ratings.

- For an unassessed short term claim, the Bank uses a long term or short term rating as an inferred rating, where the Bank's claim ranks pari passu to the specified rated debt.
- Where a long term rating is used as an inferred rating for a short term unassessed claim, the risk weight corresponding to an inferred long term rating as given in the table under issue specific rating is considered by the Bank.
- Where a short term rating is used as an inferred rating for a short term unassessed claim, the risk weight corresponding to an inferred short term rating as given in the table under issue specific rating is considered, however with notch up of the risk weight. Notwithstanding the restriction on using an issue specific short term rating for other short term exposures, an unrated short term claim on a counterparty is given a risk weight of at least one level higher than the risk weight applicable to the rated short term claim on that counter party. If a short term rated facility to a counterparty attracts a 20% or a 50% risk weight, the unrated short term claims to the same counter party will get a risk weight not lower than 30% or 100% respectively.
- If long term ratings corresponding to different risk weights are applicable for a long term exposure, the highest of the risk weight is considered by the Bank. Similarly, if short term ratings corresponding to different risk weights are applicable for a short term exposure, the highest of the risk weight is considered. However, where both long term and short term corresponding to different risk weights are applicable to a short term exposure, the highest of the risk weight is considered by the Bank for determination of capital charge.
- If counterparty has a long term exposure with an external long term rating that warrants a risk weight of 150%, all unrated claims on the same counterparty, whether short term or long term, receives a 150% risk weight, unless recognised credit risk mitigation techniques have been used for such claims. Similarly, if counterparty has a short term exposure with an external short term rating that warrants a risk weight of 150%, all unrated claims on the same counter party, whether long term or short term, receives a 150% risk weight.

Issuer ratings

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

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

Particulars	March 31, 2012	March 31, 2011
Below 100% risk weight	104,730,86	83,038,55
100% risk weight	79,932,69	67,929,47
More than 100% risk weight	65,202,75	50,532,35
Deducted	-	-
Total	**249,866,30**	**201,500,37**

Includes exposure under bills re-discounting transactions of ₹ Nil (previous year : ₹ 746,00 lacs)

6. Credit risk mitigation : Disclosures for standardised approaches

a) Policies and process :

The Bank's credit policies & procedures manual and product programs include the risk mitigation and collateral management policy of the Bank. The policy covers aspects on the nature of risk mitigants / collaterals acceptable to the Bank, the documentation and custodial arrangement of the collateral, the manner and periodicity of valuation etc.

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

- Cash deposit with the Bank
- Gold, including bullion and jewellery
- Securities issued by central and state governments
- Kisan vikas patra and national savings certificates (Kisan vikas patra is a safe and long term investment option backed by the Government of India and provides interest income similar to bonds; National savings certificates are certificates issued by the department of post, Government of India - it is a long term safe savings option for the investor and combines growth in money with reductions in tax liability as per the provisions of the Indian Income Tax Act, 1961)
- Life insurance policies with a declared surrender value of an insurance company which is regulated by the insurance sector regulator
- Debt securities rated at least BBB (-) / PR3 / P3 / F3 / A3
- Units of mutual funds, where the investment is in instruments mentioned above

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

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

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

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

b) Total exposure covered by eligible financial collateral after the application of haircuts : **(₹ lacs)**

Particulars	**March 31, 2012**	**March 31, 2011**
Total exposure covered by eligible financial collateral	13,495,21	11,968,12

c) The total exposure for each separately disclosed credit risk portfolio that is covered by guarantees / credit derivatives : **(₹ lacs)**

Particulars	**March 31, 2012**	**March 31, 2011**
Total exposure covered by guarantees	1,909,71	1,095,58

7. Securitisation exposures: Disclosure for standardised approach

a) Objectives, Policies, Monitoring :

The Bank undertakes securitisation / loan assignment transactions with the objective of maximising return on capital employed, managing liquidity, meeting priority sector lending requirements and maximising yield on asset opportunities.

The Bank undertakes both ‘purchase’ and ‘sale‘, transactions through the securitisation route from time to time. For this purpose, the Bank has put in place a Board approved policy which lays down the overall framework for undertaking securitisation transactions. The policy is in line with the extant RBI guidelines on securitisation of standard assets.

The Bank also regularly undertakes 'purchase' and 'sale' transactions through the direct assignment route. Such transactions are similar to securitisation transactions undertaken through the Special Purpose Vehicles (SPV) route, without the issuance of any securities and / or formation of any SPV. For this purpose, the Bank has a separate Board approved policy which lays down the overall framework for undertaking loan assignment transactions.

The Bank participates in securitisation and loan assignment transactions in any or all of the following roles :

(i) Originator - Sources / underwrites / acquires assets in its own book and down sells them through the securitisation or assignment route.

(ii) Servicing and collection agent - For sold assets, undertakes the activity of collections and other servicing activities such as managing collections and monthly payouts to investors / assignee with respect to the underlying assets.

(iii) Investor - Invests in Pass Through Certificates (PTCs) for yield and priority sector lending opportunities.

(iv) Assignee - Purchases loans through the direct assignment route for asset opportunities.

(v) Liquidity facility provider - In sell-down transactions, the Bank also provides the liquidity facility for the transactions. The liquidity facility is a type of credit support used to meet temporary collection mismatches on account of timing differences between the receipt of cash flows from the underlying performing assets and the fulfillment of obligations to the beneficiaries. The Bank may also undertake to be a third party liquidity facility provider.

(vi) Credit enhancement provider - Provides credit enhancement on sale transactions undertaken by the Bank for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold. In some cases, Bank also acts as a third party credit enhancement provider for a fee.

(vii) Underwriter of Securities - Devolvement of un-subscribed portions of securitised debt issuances on the Bank as permitted by the extant guidelines.

The major risks inherent in securitisation / loan assignment transactions are :

(i) Credit Risk : Risk arising from defaults / delinquencies by the underlying obligors. The investor / assignee bear the loss in the event of the shortfalls in the transaction which exceed the credit enhancement provided.

(ii) Market Risk :

  a) Liquidity Risk : Risk arising on account of absence of secondary market to provide exit options to the investors / participants.

  b) Interest Rate Risk : Mark to market risks arising on account of interest rate fluctuations.

(iii) Prepayment Risk : Prepayments in the securitised pool result in early amortisation and loss of future interest (re-investment risk) to the investor on the prepaid amounts.

(iv) Co-mingling Risk : Risk arising from co-mingling of funds which belong to the investor(s) with that of the originator and / or servicer. This risk occurs when there is a time lag between collection of amounts due from the obligors and payouts being made to the investors / assignee.

(v) Servicer Risk : Risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors as well as operational difficulties in processing the payments. In long tenor pools, the investor is exposed to the risk of servicer defaulting or discontinuing its operations in totality.

(vi) Regulatory Risk : Risk arising due to non-compliance with extant guidelines. There could also be a conflict between the extant regulations and applicable laws.

(vii) Legal Risk : Risk arising on account of non compliance with laws. In some cases, some laws may get applied retrospectively. Major legal risk on transactions may arise on account of courts not holding a transaction as "True Sale". This may result in transaction being invalid. Also, in case of imperfection in transferring of rights, enforceability of the security may also be a challenge.

(viii) Pipeline and Warehousing Risk : The Bank has no exposure to pipeline and warehousing risks which pertain to an event where originating banks are unable to off-load assets, which were originated with an intention of selling thus potentially exposing them to losses arising on declining values of these assets. The Bank undertakes sale of assets only for strategic reasons including liquidity management and is not involved in originate and distribute activity.

The overall framework for both securitisation and loan assignment transactions is specified in the respective policies, which define the covenants for evaluation and the key requirements that need to be adhered to for all such transactions. This briefly covers pool selection, credit enhancement, structuring, rating, legal documentation etc. Additionally, for purchase transactions, the Bank examines the profile and track record of the originator, the type and nature of underlying assets, pool characteristics and rating, credit enhancement provided, listing status (in case of securitisation) etc.

The Bank also has a process for monitoring the performance of all pools purchased (whether under the securitisation or loan assignment route), basis inputs received from the servicer. On an ongoing basis, performance of pools is measured by analysing collection ratios, credit enhancement utilisation, level of available credit enhancement etc. The Bank undertakes regular review with senior management on performance of pools which show concerning trends. In case of sold pools, a note on transactions undertaken is put up to the audit & compliance committee of the board on a quarterly basis.

b) Accounting policy of the Bank for securitisation transactions :

The Bank securitises out its receivables to SPVs in securitisation transactions. Such securitised-out receivables are de-recognised in the balance sheet when they are sold (true sale criteria being fully met with) and consideration is received by the Bank. Sales / transfers that do not meet these criteria for surrender of control are accounted for as secured advances.

In respect of receivable pools securitised-out, the Bank provides liquidity and credit enhancements, as specified by the rating agencies, in the form of cash collaterals / guarantees and / or by subordination of cash flows. The Bank also acts as a servicing agent for receivable pools securitised-out.

The Bank amortises any profit / premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognised in the Statement of Profit and Loss for the period in which the sale occurs.

The Bank also enters into securitised-out transactions through the direct assignment route, which are similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by PTCs. The Bank amortises any profit / premium arising on account of sale of receivables through the direct assignment route over the tenure of the loans sold out while any loss arising on account of sale of receivables is recognised in the Statement of Profit and Loss for the period in which the sale occurs.

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

The Bank also invests in PTCs and buys loans through the direct assignment route. These are accounted for at the deal value. The PTCs are classified as investments and are valued using the Yield-to-Maturity (YTM) rates with a markup over the YTM rates for government securities as published by FIMMDA. Loan assignments are classified as advances.

Appropriate provisions are made as per the approved policy of the Bank for investments and purchases in securitisation and loan assignment transactions respectively.

There have been no changes during the fiscal year ended March 31, 2012 in the methods or key assumptions deployed in accounting of securitisation transactions.

c) In the banking book, following were the external credit rating agencies involved with the Bank's securitisation and loan assignment transactions :

1) Credit Analysis and Research Limited (CARE)
2) Credit Rating Information Services of India Limited (CRISIL)
3) Fitch India
4) ICRA Limited (ICRA)

The ratings declared / issued by the above agencies were used to cover the following securitisation and loan assignment exposures :

1) Securitised debt instruments / PTCs / Purchased assets
2) Second loss credit enhancement facilities
3) Liquidity facilities

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Banking Book

d) The total amount of exposures securitised by the Bank :

(i) Total outstanding amount securitised was ₹ 535,50 lacs (previous year : ₹ 809,66 lacs).

(ii) Deals done during the year :

The Bank has not securitised out any component of its standard asset portfolio, impaired / past due assets during the year (previous year impaired / past due : ₹ 18,75 lacs).

e) Losses recognised by the Bank during the current period for auto and commercial vehicle exposures securitised earlier : ₹ 68 lacs.

f) Amount of assets intended to be securitised within a year :

The Bank has made no projection of the assets it intends to securitise-out during the fiscal year beginning April 01, 2012.

The securitisations transactions are undertaken on a need basis to meet the objectives articulated in section (a) above.

g) Of (f), amount of assets originated within a year before securitisation : Not applicable.

h) The total amount of exposures securitised and unrecognised gain or losses on sale by exposure type :

(₹ lacs)

Exposure Type	**March 31, 2012**		**March 31, 2011**	
	Outstanding amount of exposures securitised	**Outstanding unrecognised gain or losses on sale**	**Outstanding amount of exposures securitised**	**Outstanding unrecognised gain or losses on sale**
Auto loans	30,41	-	87,86	-
Commercial vehicle loans	2,95	-	22,25	-
Loans against property	114,94	-	183,71	-
Housing loans	351,20	-	478,79	-
Loans against rent receivables	36,00	-	37,05	-
Total	**535,50**	-	**809,66**	-

i) Aggregate amount of :

- On-balance sheet securitisation exposures retained or purchased broken down by exposure type :

(₹ lacs)

Particulars	**March 31, 2012**	**March 31, 2011**
Commercial vehicle loans	750,00	1,413,43
Housing loans	13,928,50	11,069,95
Personal loans	54,94	51,36
Two wheeler loans	5,73	3,51
Mixed assets*	758,45	1,089,27
Construction equipment loans	65,39	144,25
Tractor loans	720,62	915,79
Total	**16,283,63**	**14,687,56**

- Off-balance sheet securitisation exposures broken down by exposure type : **(₹ lacs)**

Particulars	**March 31, 2012**	**March 31, 2011**
Housing loans	175,96	180,32
Mixed assets*	182,57	265,45
Commercial vehicle loans	44	44
Total	**358,97**	**446,21**

** includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.*

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j) Aggregate amount of securitisation exposures retained or purchased and the associated capital charges, broken down between exposures and further broken down into different risk weight bands for each regulatory capital approach : **(₹ lacs)**

Risk weight bands	Exposure type	March 31, 2012		March 31, 2011	
		Exposure	Capital charge	Exposure	Capital charge
Less than 100%	Housing loans	9,599,59	440,06	7,253,63	334,20
	Commercial vehicle loans	745,31	50,31	1413,43	95,41
	Mixed assets*	698,58	47,15	1,118,73	75,51
	Tractor loans	720,62	48,64	915,79	61,82
	Construction equipment loans	65,39	4,41	144,25	9,74
	Personal loans	-	-	14,27	96
At 100%	Housing loans	4,279,64	385,17	3,756,64	338,10
More than 100%	Housing loans	49,27	5,54	59,68	6,71
	Commercial vehicle loans	4,69	53	-	-
	Personal loans	54,94	6,18	-	-
	Mixed assets*	5,987	6,74	7,63	86
	Two wheeler loans	5,73	64	3,51	39
	Total	**16,283,63**	**995,37**	**14,687,56**	**923,70**

- Exposures that have been deducted entirely from Tier I capital, credit enhancing Interest Only Strips (I/Os) deducted from total capital and other exposures deducted from total capital (by exposure type) :

As on March 31, 2012 **(₹ lacs)**

Exposure type	Exposure deducted entirely from Tier I capital	Credit enhancing I/Os deducted from from total capital	Other exposure deducted from total capital
Commercial vehicle loans	-	-	44
Housing loans	-	-	175,96
Mixed assets*	-	-	182,57
Total	-	-	**358,97**

** includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.*

As on March 31, 2011 **(₹ lacs)**

Exposure type	Exposure deducted entirely from Tier I capital	Credit enhancing I/Os deducted from from total capital	Other exposure deducted from total capital
Commercial vehicle loans	-	-	44
Housing loans	-	-	180,32
Mixed assets*	-	-	265,45
Total	-	-	**446,21**

** includes auto loans, commercial vehicle loans, two wheeler loans, loans against property and loans against rent receivables.*

Trading book

k) Aggregate amount of exposure securitised-out by the Bank for which the Bank has retained some exposure and which is subject to market risk approach, by exposure type as of March 31, 2012 : ₹ Nil (previous year : ₹ 15 lacs).

l) Aggregate amount of :

- On-balance sheet securitisation exposures retained or purchased broken down by exposure type :

(₹ lacs)

Exposure Type	March 31, 2012	March 31, 2011
Hire purchase receivables	7,64	11,57
Housing loans	309,44	456,58
Mixed assets	-	15
Micro finance	-	48,41
Total	**317,08**	**516,71**

- Off-balance sheet securitisation exposures broken down by exposure type : Nil (previous year : Nil)

m) Aggregate amount of securitisation exposures retained or purchased, subject to the securitisation framework for specific risk broken down into different risk weight bands :

- The capital requirements for the securitisation exposures, subject to the securitisation framework broken down into different risk weight bands (book value) : **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Less than 100 %	317,08	516,56
100%	-	-
More than 100%	-	-
Total	**317,08**	**516,56**

n) Aggregate amount of :

- The capital requirements for the securitisation exposures, subject to the securitisation framework broken down into different risk weight bands (capital charge) : **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Less than 100 %	12,17	20,01
100%	-	-
More than 100%	-	-
Total	**12,17**	**20,01**

- Securitisation exposures that are deducted entirely from Tier I capital, credit enhancing I/Os deducted from total capital and exposures deducted from total capital (by exposure type) :

As on March 31, 2012 : Nil

As on March 31, 2011 : **(₹ lacs)**

Exposure type	Exposure deducted entirely from Tier I capital	Credit enhancing I/Os deducted from from total capital	Other exposure deducted from total capital
Mixed assets	-	-	15

8. Market risk in trading book

a) Market risk management policy :

Strategy and processes :

The Bank has a market risk management process, which consists of risk identification, limits setting and risk monitoring. The process ensures that the risks assumed by treasury desks are within the stipulated risk appetite of the Bank. This risk appetite is handed down as limits in a hierarchical manner within the treasury. The treasury limits are a function of budgeted revenues for each desk. The treasury limits are reviewed and finalised by the market risk unit. The treasury mid-office, an independent unit, monitors and reports the limit utilisations as per documented procedures. The Bank has a stress testing framework and a Board approved stress testing policy. Stress testing is carried out periodically for the trading book on the basis of specified stress scenarios. This provides a way to assess the Bank's financial ability to withstand extreme but plausible fluctuations in market prices.

Structure and organisation :

The market risk process includes the following key participants.

- The Risk Policy & Monitoring Committee (RPMC), inter-alia, evaluates the Bank's market risk policies and procedures, approves and reviews dealing authorities / limits for the Bank's treasury operations and reviews the Bank's risk monitoring systems and risk control procedures.
- The Market risk unit, part of the credit and market risk group, plays its role in the market risk limit approval process, lays down risk assessment and monitoring methods, and periodically evaluates the portfolio in the deliberations of the various committees as well as bilaterally with Treasury Group.
- The treasury mid-office has the role of the day to day monitoring and reporting of market risk controls, valuations etc. It reports limit transgressions to the senior management.
- The investment committee oversees the investments in equities and equity linked investments.
- Treasury desks, which includes foreign exchange, money market, interest rate trading derivatives, institutional sales, equities and precious metal desks. These are the basic levels of day to day management of the various portfolios and market risk.

Risk reporting and measurement systems :

Limits are control measures which seek to reduce risk within or across the desks. The objective of a limit is to ensure that the negative earnings impact of price risks are within the risk taking appetite of the desks and of the Bank. The nature of limits could typically include position limits, gap limits, tenor and duration limits, stop loss trigger level, Value-at-Risk (VaR) limits. These limits are appropriately selected for the relevant portfolios. Limits are monitored using various information technology software packages, including Straight Through Processing (STP) software systems.

Policies for hedging and / or mitigating risk :

The derivative book is classified into trading and banking books. When the Bank deals in derivatives on its own account (trading activity), principally for the purpose of generating a profit from short term fluctuations in price or yields, these transactions are classified as trading book. The trading book is managed within the trading limits approved by the RPMC. All other derivative transactions are classified as a part of the banking book. For derivative contracts designated as hedge, the Bank documents, at the inception of the relationship between the hedging instrument and the hedged item, the risk management objective for undertaking the hedge and the methods used to assess the effectiveness of the hedge. The assessment is done on an on-going basis to test if the derivative is still effective in offsetting the changes in the fair value of the hedged item.

The banking book consists of transactions to hedge balance sheet assets or liabilities. The hedge may be against a single asset or liability or against a portfolio of asset or liability in specific tenor buckets. The tenor of derivative hedges may be less than or equal to tenor of underlying asset or liability. These derivative transactions are classified as banking-hedge book. If the underlying asset or liability is not marked to market, then the hedge is also not marked to market.

The Bank enters into derivative deals with counter parties based on their financial strength and understanding of derivative products and its risks. In this regard the Bank has a customer suitability and appropriateness policy in place. The Bank sets up appropriate limits having regard to the ability of the counterparty to honour its obligations in the event of crystallisation of the exposure. Appropriate credit covenants are stipulated where required as trigger events to call for collaterals or terminate a transaction and contain the risk.

The Bank, at the minimum, conforms to the RBI guidelines with regard to provisioning requirements. On a conservative basis, the Bank may make incremental provisions based on its assessment of impairment of the credit. The Bank maintains capital charge for market risk under the standardised approach.

b) Capital requirements : **(₹ lacs)**

Category	March 31, 2012	March 31, 2011
Interest rate risk	390,44	863,87
Equity position risk	60,12	37,25
Foreign Exchange risk (including gold)	9,00	27,00
Total	**459,56**	**928,12**

9. Operational risk

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

Strategies

The Bank's operational risk framework have been reviewed by risk and control teams. Key aspects towards effective operational risk management include identification, assessment, review, control and reporting of key operational risks.

Process and measurement

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

The Bank has robust information technology with disaster recovery capability for critical components apart from having an integrated Business Continuity Planning (BCP) initiatives for business operations of the Bank. A BCP committee oversees strategy and implementation of disaster and business continuity framework of the Bank. The Bank has information security committee which oversees strategy and implementation of information security policies and procedures for the entire Bank.

Risk reporting

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

Mitigation

The Bank manages its various operational risks by ways of adopting best practices in business processes through checks and balances, embedding monitoring and control mechanisms as a part of day-to-day operations and having an effective internal audit process. Various operational risk exposures are monitored regularly and reviewed periodically by the Bank to ensure effective implementation. Control and mitigation guidelines are part of various product, process operation manual and documents of the Bank. The Bank covers risk on account of natural disaster through appropriate insurance.

Operational risk capital

Currently the Bank is following the 'Basic indicator approach' for operational risk capital assessment as mandated by RBI.

10. Interest rate risk in the banking book

Interest Rate Risk in the Banking Book (IRRBB) refers to the potential adverse financial impact on the Bank's banking book from changes in interest rates. The banking book comprises of assets and liabilities which are contracted on account of relationship or for steady income and statutory obligations and are generally held till maturity. The Bank carries various assets, liabilities and off-balance sheet items across markets, maturities and benchmarks exposing it to risks from changing interest rates.

The Bank's objective is to maintain IRRBB within tolerable limits.

Strategy and processes :

The entire Bank's branches are connected to a central database. Hence for the IRRBB process, the Bank is able to cover the entire balance sheet and also relevant off-balance sheet items. The Bank has an interest rate risk management process, which consists of risk identification, limits setting and risk monitoring.

Structure and organisation :

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

a. The board of directors

b. The Risk Policy & Monitoring Committee (RPMC)

c. The Asset Liability Committee (ALCO)

d. ALM operational groups

a. The board of directors : has the overall responsibility for management of risks. The board decides the risk management policy of the Bank and sets limits for liquidity, interest rate, foreign exchange and equity price risks.

b. The Risk Policy & Monitoring Committee (RPMC) : monitors the Bank's credit and market risk policies and procedures, approves and reviews dealing authorities / limits for the Bank's treasury operations and reviews its risk monitoring systems and risk reporting procedures.

c. The Asset Liability Committee (ALCO) : is a decision-making unit responsible for balance sheet planning from risk-return perspective including strategic management of interest rate and liquidity risks. The role of the ALCO in the Bank includes the following :

(i) Product pricing for deposits and advances.

(ii) Deciding the desired maturity profile and mix of incremental assets and liabilities.

(iii) Articulating interest rate view of the Bank and deciding on the future business strategy.

(iv) Reviewing and articulating funding policy.

(v) Reviewing the economic and political impact on the balance sheet.

(vi) Ensuring the adherence to the limits set by the board of directors.

(vii) Overseeing market risk exposure of the Bank.

d. ALM Operational groups : consists of balance sheet management desk (Treasury), Market risk department, Financial control and treasury mid-office. The groups are responsible for analysing, monitoring and reporting the relevant risk profiles to the ALCO or an ALCO sub-committee duly created by the ALCO specifically for this purpose.

Risk measurement systems and reporting :

IRRBB is measured and controlled using both earnings perspective (traditional gap analysis) and economic value perspective (duration gap analysis).

Earnings perspective (traditional gap analysis) : measures the sensitivity of net interest income to changes in interest rate over the next 12 months. It involves bucketing of rate sensitive assets, liabilities and off-balance sheet items as per residual maturity / re-pricing date in various time bands and computing change of income under 200 basis points upward and downward rate shocks over a one year horizon.

Economic value perspective (duration gap analysis) : calculates the change in the present value of the Bank's expected cash flows for a 200 basis point upward and downward rate shock.

The Bank undertakes periodic stress testing for its banking book based on stress scenarios. This provides a measure to assess the Bank's financial standing from extreme but plausible interest rate fluctuations. The stress testing framework is approved by the Board.

IRRBB is controlled through the use of 'limits' on the above risk measures. Limits are set under the RBI prescribed standard parallel rate shock of 200 basis points on the banking book as well as banking book & trading book. These limits on Earnings at Risk (EaR) and Market Value of Equity (MVE) for the above books are approved by both ALCO and Board.

Risk reporting :

Periodic risk reports are sent to senior management for review. A risk summary is also presented at ALCO meetings.

Quantification of IRRBB :

The increase / decline in earnings and economic value for an upward / downward rate shock of 200 basis points, broken down by currency, are as follows :

- Earnings perspective (impact on net interest income) : **(₹ lacs)**

Currency	If interest rate were to go down by 200 basis points		If interest rate were to go up by 200 basis points	
	March 31, 2012	**March 31, 2011**	**March 31, 2012**	**March 31, 2011**
INR	(1,004,88)	276,23	1,004,88	(276,23)
USD	(74,38)	(137,75)	74,38	137,75
Others	(5,52)	60	5,52	(60)
Total	**(1,084,78)**	**139,08**	**1,084,78**	**(139,08)**

- Economic value perspective (impact on market value of equity) : **(₹ lacs)**

Currency	If interest rate were to go down by 200 basis points		If interest rate were to go up by 200 basis points	
	March 31, 2012	**March 31, 2011**	**March 31, 2012**	**March 31, 2011**
INR	429,01	163,03	(429,01)	(163,03)
USD	(24,73)	(74,49)	24,73	74,49
Others	(5,48)	(25,49)	5,48	25,49
Total	**398,80**	**63,05**	**(398,80)**	**(63,05)**

During the year, the Bank has re-classified some of the balance sheet items as per RBI guidelines on banks' asset liability management framework - interest rate risk dated 4th November 2010 and this re-classification has contributed to the change in the IRRBB between March 2011 and March 2012.

Auditor's Report on the Consolidated Financial Statements of HDFC Bank Limited, its Subsidiaries and Associates

To the Board of Directors of HDFC Bank Limited

We have audited the accompanying consolidated Balance Sheet of HDFC Bank Limited ('the Bank'), its subsidiaries and associates (collectively known as 'the Group') as at 31 March 2012 and also the consolidated statement of Profit and Loss and the consolidated Cash Flow Statement of the Group for the year then ended, both annexed thereto. These financial statements are the responsibility of the Bank's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements and other financial information of the subsidiaries and an entity controlled by the Bank whose financial statements reflect total assets of ₹ 458,339.8 lacs as at 31 March 2012, total revenues of ₹ 65,306.5 lacs and cash flows of ₹ 16,340.1 lacs for the year then ended. These financial statements have been audited by other auditors, whose reports have been furnished to us and were relied upon by us for our opinion on the consolidated financial statements of the Group.

The financial statements also include ₹ 348.1 lacs being the Group's proportionate share in the profit of associates which has been recognised on the basis of the audited financial statements available with the Bank. These financial statements have been audited by other auditors, whose reports have been furnished to us and were relied upon by us for our opinion on the consolidated financial statements of the Group.

The financial statements also include ₹ 16.2 lacs being the Group's proportionate share in the profit of an associate which has been recognised on the basis of the unaudited financial statements available with the Bank.

We report that the consolidated financial statements have been prepared by the Bank's management in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements and Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements prescribed by the Companies (Accounting Standards) Rules, 2006.

The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211(1), (2) and (3C) of the Companies Act, 1956.

Based on our audit and to the best of our information and according to the explanations given to us and on the consideration of reports of other auditors on separate financial statements and on the consideration of the unaudited financial statements and on other relevant financial information of the components, we are of the opinion that the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India and guidelines issued by Reserve Bank of India in relation to preparation of consolidated financial statements:

(a) in the case of the consolidated Balance Sheet, of the state of affairs of the Group as at 31 March 2012;

(b) in the case of the consolidated statement of Profit and Loss, of the profit of the Group for the year ended on that date; and

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

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

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai
18 April, 2012

Consolidated Balance Sheet

As at March 31, 2012

₹ in '000

	Schedule	As at 31-Mar-12	As at 31-Mar-11
CAPITAL AND LIABILITIES			
Capital	1	**4,693,377**	4,652,257
Reserves and surplus	2	**297,411,054**	251,179,116
Minority interest	2A	**1,836,586**	1,216,620
Employees' stock options (grants) outstanding		**3,020**	29,135
Deposits	3	**2,465,395,768**	2,082,872,136
Borrowings	4	**263,341,540**	146,504,393
Other liabilities and provisions	5	**377,868,771**	293,175,692
	Total	**3,410,550,116**	2,779,629,349
ASSETS			
Cash and balances with Reserve Bank of India	6	**149,916,306**	251,008,860
Balances with banks and money at call and short notice	7	**61,835,314**	47,373,915
Investments	8	**967,951,088**	702,766,667
Advances	9	**1,988,375,303**	1,608,314,156
Fixed assets	10	**23,779,126**	22,009,412
Other assets	11	**218,692,979**	148,156,339
	Total	**3,410,550,116**	2,779,629,349
Contingent liabilities	12	**8,653,121,484**	5,751,594,661
Bills for collection		**186,924,956**	134,284,924
Significant accounting policies and notes to the financial statements	17 & 18		
The schedules referred to above form an integral part of the Balance Sheet			

As per our report of even date.

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

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai, 18 April, 2012

For and on behalf of the Board

C. M. Vasudev
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President (Legal) & Company Secretary

Harish Engineer
Executive Director

Paresh Sukthankar
Executive Director

A. N. Roy
Ashim Samanta
Bobby Parikh
Dr. Pandit Palande
Keki Mistry
Partho Datta
Renu Karnad
Directors

Consolidated Statement of Profit and Loss

For the year ended March 31, 2012

₹ in '000

		Schedule	Year Ended 31-Mar-12	Year Ended 31-Mar-11
I	**INCOME**			
	Interest earned	13	**276,055,632**	200,433,346
	Other income	14	**54,523,883**	45,850,454
		Total	**330,579,515**	246,283,800
II	**EXPENDITURE**			
	Interest expended	15	**151,061,242**	94,251,533
	Operating expenses	16	**88,071,176**	73,179,451
	Provisions and contingencies		**38,713,098**	38,675,885
		Total	**277,845,516**	206,106,869
III	**PROFIT**			
	Net profit for the year		**52,733,999**	40,176,931
	Less : Minority interest		**300,204**	322,397
	Add : Share in profits of associates		**36,423**	70,353
	Consolidated profit for the year attributable to the Group		**52,470,218**	39,924,887
	Balance of profit brought forward		**63,269,453**	46,252,340
		Total	**115,739,671**	86,177,227
IV	**APPROPRIATIONS**			
	Transfer to Statutory Reserve		**13,020,226**	9,869,002
	Proposed dividend		**10,095,236**	7,679,955
	Tax (including cess) on dividend		**1,638,937**	1,246,777
	Dividend (including tax / cess thereon) pertaining to previous year paid during the year		**21,240**	26,484
	Transfer to General Reserve		**5,167,091**	3,926,401
	Transfer to Capital Reserve		**-**	3,568
	Transfer to / (from) Investment Reserve Account		**(416,937)**	155,587
	Balance carried over to Balance Sheet		**86,213,878**	63,269,453
		Total	**115,739,671**	86,177,227
V	**EARNINGS PER EQUITY SHARE (Face value ₹ 2/- per share)**		₹	₹
	Basic		**22.45**	17.29
	Diluted		**22.24**	17.09
	Significant accounting policies and notes to the financial statements	**17 & 18**		
	The schedules referred to above form an integral part of the Statement of Profit and Loss			

As per our report of even date.

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

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai, 18 April, 2012

For and on behalf of the Board

C. M. Vasudev
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Managing Director

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Executive Vice President (Legal) & Company Secretary

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Executive Director

A. N. Roy
Ashim Samanta
Bobby Parikh
Dr. Pandit Palande
Keki Mistry
Partho Datta
Renu Karnad
Directors

Consolidated Cash Flow Statement

For the year ended March 31, 2012

₹ in '000

Particulars	Year Ended 31-Mar-12	Year Ended 31-Mar-11
Cash flows from operating activities		
Net profit before income tax	**76,411,249**	**59,320,108**
Adjustment for :		
Depreciation on fixed assets	5,541,628	5,091,107
(Profit) / loss on revaluation of investments	897,174	(310,616)
Amortisation of premia on held to maturity investments	783,012	2,268,463
Provision for non performing assets	6,846,673	7,811,699
Floating provisions	7,000,000	6,700,000
Provision for standard assets	1,573,393	31,600
Provision for wealth tax	5,617	6,127
Contingency provision	(1,587,646)	4,731,238
(Profit) / loss on sale of fixed assets	(12,420)	8,039
Provision for diminution in value of investment	934,030	-
	98,392,710	**85,657,765**
Adjustments for :		
(Increase) / decrease in investments	(267,769,643)	(119,641,751)
(Increase) / decrease in advances	(386,907,816)	(354,498,509)
Increase / (decrease) in borrowings (excluding subordinated debt, perpetual debt and upper Tier II instruments)	80,339,147	4,386,917
Increase / (decrease) in deposits	382,523,632	409,894,309
(Increase) / decrease in other assets	(66,454,847)	(83,485,414)
Increase / (decrease) in other liabilities and provisions	74,606,012	71,276,394
	(85,270,805)	**13,589,711**
Direct taxes paid (net of refunds)	(28,202,444)	(23,191,840)
Net cash flow from / (used in) operating activities	**(113,473,249)**	**(9,602,129)**
Cash flows from / (used in) investing activities		
Purchase of fixed assets	(6,886,199)	(5,596,588)
Proceeds from sale of fixed assets	45,052	91,794
Investment in subsidiaries and / or joint ventures	(28,994)	-
Net cash used in investing activities	**(6,870,141)**	**(5,504,794)**

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Consolidated Cash Flow Statement

For the year ended March 31, 2012

₹ in '000

Particulars	Year Ended 31-Mar-12	Year Ended 31-Mar-11
Cash flows from financing activities		
Increase in minority interest	619,965	457,751
Money received on exercise of stock options by employees	5,306,602	8,281,642
Proceeds from issue of upper and lower Tier II capital instruments	36,500,000	11,050,000
Redemption of subordinated debt	(2,000)	(620,000)
Dividend paid during the year	(7,716,703)	(5,519,403)
Tax on dividend	(1,247,276)	(912,305)
Net cash generated from financing activities	**33,460,588**	**12,737,685**
Effect of exchange fluctuation on translation reserve	**251,651**	**(29,922)**
Net increase / (decrease) in cash and cash equivalents	**(86,631,151)**	**(2,399,160)**
Cash and cash equivalents as at April 1st	**298,382,775**	**300,781,935**
Cash and cash equivalents as at March 31st	**211,751,624**	**298,382,775**

As per our report of even date.

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

N Sampath Ganesh
Partner
Membership No: 042554

Mumbai, 18 April, 2012

For and on behalf of the Board

C. M. Vasudev
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Renu Karnad
Directors

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As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
SCHEDULE 1 - CAPITAL			
Authorised capital			
275,00,00,000 (31 March, 2011 : 55,00,00,000 of ₹ 10/- each) Equity shares of ₹ 2/- each		**5,500,000**	5,500,000
Issued, subscribed and paid-up capital			
234,66,88,270 (31 March, 2011 : 46,52,25,684 of ₹ 10/- each) Equity shares of ₹ 2/- each		**4,693,377**	4,652,257
	Total	**4,693,377**	4,652,257
SCHEDULE 2 - RESERVES AND SURPLUS			
I Statutory reserve			
Opening balance		**40,228,045**	30,359,043
Additions during the year		**13,020,226**	9,869,002
	Total	**53,248,271**	40,228,045
II General reserve			
Opening balance		**14,235,625**	10,309,224
Additions during the year		**5,167,091**	3,926,401
	Total	**19,402,716**	14,235,625
III Balance in profit and loss account		**86,213,878**	63,269,453
IV Share premium account			
Opening balance		**119,484,158**	110,789,552
Additions during the year		**5,265,482**	8,694,606
	Total	**124,749,640**	119,484,158
V Amalgamation reserve			
Opening balance		**10,635,564**	10,635,564
Additions during the year		**-**	-
	Total	**10,635,564**	10,635,564
VI Capital reserve			
Opening balance		**2,954,677**	2,951,109
Additions during the year		**-**	3,568
	Total	**2,954,677**	2,954,677
VII Investment reserve account			
Opening balance		**416,937**	261,350
Additions during the year		**178**	155,620
Deductions during the year		**(417,115)**	(33)
	Total	**-**	416,937
VIII Foreign currency translation account			
Opening balance		**(45,343)**	(15,421)
Additions during the year		**251,651**	(29,922)
	Total	**206,308**	(45,343)
	Total	**297,411,054**	251,179,116

As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
SCHEDULE 2 A - MINORITY INTEREST			
Minority interest at the date on which parent subsidiary relationship came into existence		**276,029**	276,029
Subsequent increase		**1,560,557**	940,591
	Total	**1,836,586**	1,216,620
Includes reserves of Employee Welfare Trust of ₹ 51,50 lacs (previous year ₹ Nil)			
SCHEDULE 3 - DEPOSITS			
A I Demand deposits			
(i) From banks		**9,122,028**	10,184,754
(ii) From others		**443,916,968**	452,724,016
	Total	**453,038,996**	462,908,770
II Savings bank deposits		**739,974,624**	634,477,904
III Term deposits			
(i) From banks		**13,839,859**	14,267,601
(ii) From others		**1,258,542,289**	971,217,861
	Total	**1,272,382,148**	985,485,462
	Total	**2,465,395,768**	2,082,872,136
B I Deposits of branches in India		**2,456,037,952**	2,080,229,036
II Deposits of branches outside India		**9,357,816**	2,643,100
	Total	**2,465,395,768**	2,082,872,136
SCHEDULE 4 - BORROWINGS			
I Borrowings in India			
(i) Reserve Bank of India		**400,000**	1,200,000
(ii) Other banks		**28,689,710**	9,614,347
(iii) Other institutions and agencies		**33,062,425**	9,270,356
(iv) Upper and lower Tier II capital and innovative perpetual debt		**105,969,000**	69,471,000
	Total	**168,121,135**	89,555,703
II Borrowings outside India*		**95,220,405**	56,948,690
	Total	**263,341,540**	146,504,393
** Includes upper Tier II debt of ₹ 508,75 lacs (previous year : ₹ 445,95 lacs)*			
Secured borrowings included in I & II above : ₹ 2,302,97 lacs (previous year : ₹ 256,38 lacs)			
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS			
I Bills payable		**54,657,302**	56,361,491
II Interest accrued		**52,150,518**	27,934,178
III Others (including provisions)		**250,118,897**	192,318,804
IV Contingent provisions against standard assets		**9,207,881**	7,634,487
V Proposed dividend (including tax on dividend)		**11,734,173**	8,926,732
	Total	**377,868,771**	293,175,692

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As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA			
I	Cash in hand (including foreign currency notes)	**43,075,004**	29,980,245
II	Balances with Reserve Bank of India in :		
	(a) Current accounts	**104,841,302**	220,028,615
	(b) Other accounts	**2,000,000**	1,000,000
	Total	**106,841,302**	221,028,615
	Total	**149,916,306**	251,008,860
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE			
I	**In India**		
	(i) Balances with banks :		
	(a) In current accounts	**1,635,807**	2,323,701
	(b) In other deposit accounts	**20,891,080**	11,415,609
	Total	**22,526,887**	13,739,310
	(ii) Money at call and short notice :		
	(a) With banks	**2,700,000**	10,700,000
	(b) With other institutions	**2,157,684**	1,250,000
	Total	**4,857,684**	11,950,000
	Total	**27,384,571**	25,689,310
II	**Outside India**		
	(i) In current accounts	**1,534,618**	4,637,720
	(ii) In other deposit accounts	**4,070,000**	2,452,725
	(iii) Money at call and short notice	**28,846,125**	14,594,160
	Total	**34,450,743**	21,684,605
	Total	**61,835,314**	47,373,915
SCHEDULE 8 - INVESTMENTS			
A	Investments in India in		
	(i) Government securities	**762,178,489**	536,512,756
	(ii) Other approved securities	**4,919**	4,906
	(iii) Shares*	**1,018,356**	1,100,044
	(iv) Debentures and bonds	**9,636,860**	5,356,072
	(v) Joint venture*	**479,483**	450,489
	(vi) Others (units, CD / CP, PTC, security receipts and NABARD deposits)	**194,626,948**	158,458,091
	Total	**967,945,055**	701,882,358
** Includes goodwill net of capital reserves, on account of investment in associates, amounting to ₹ 14,88 lacs (previous year : ₹ 13,77 lacs).*			
B	Investments outside India in		
	Other investments		
	(a) Shares	**6,033**	6,033
	(b) Debentures and bonds	-	878,276
	Total	**6,033**	884,309
	Total	**967,951,088**	702,766,667

HDFC BANK
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As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
C Investments			
(i) Gross value of investments			
(a) In India		**970,214,373**	702,307,007
(b) Outside India		**6,033**	884,309
	Total	**970,220,406**	703,191,316
(ii) Provision for depreciation			
(a) In India		**2,269,318**	424,649
(b) Outside India		-	-
	Total	**2,269,318**	424,649
(iii) Net value of investments			
(a) In India		**967,945,055**	701,882,358
(b) Outside India		**6,033**	884,309
	Total	**967,951,088**	702,766,667

SCHEDULE 9 - ADVANCES

		As at 31-Mar-12	As at 31-Mar-11
A (i) Bills purchased and discounted		**122,124,431**	97,111,818
(ii) Cash credits, overdrafts and loans repayable on demand		**686,271,861**	331,779,112
(iii) Term loans		**1,179,979,011**	1,179,423,226
	Total	**1,988,375,303**	1,608,314,156
Loans with tenor of less than one year are classified under A (ii) above Previous year's figures have accordingly been regrouped			
B (i) Secured by tangible assets*		**1,449,166,862**	1,180,143,751
(ii) Covered by bank / government guarantees		**55,552,871**	33,137,271
(iii) Unsecured		**483,655,570**	395,033,134
	Total	**1,988,375,303**	1,608,314,156
** Including advances against book debts*			
C I Advances in India			
(i) Priority sector		**643,340,467**	553,610,381
(ii) Public sector		**70,538,519**	54,001,024
(iii) Banks		**3,714,239**	286,035
(iv) Others		**1,211,566,378**	953,881,294
	Total	**1,929,159,603**	1,561,778,734
II Advances outside India			
(i) Due from banks		**18,418,646**	13,809,946
(ii) Due from others			
a) Bills purchased and discounted		**35,333**	1,074,676
b) Syndicated loans		**13,166,585**	10,579,336
c) Others		**27,595,136**	21,071,464
	Total	**59,215,700**	46,535,422
Advances are net of provisions	**Total**	**1,988,375,303**	1,608,314,156

As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
SCHEDULE 10 - FIXED ASSETS			
A **Premises** (including land)			
Gross block			
At cost on 31 March of the preceding year		**10,272,964**	9,797,080
Additions during the year		**262,354**	667,766
Deductions during the year		**(15,646)**	(191,882)
	Total	**10,519,672**	10,272,964
Depreciation			
As at 31 March of the preceding year		**2,106,522**	1,777,823
Charge for the year		**394,596**	397,220
On deductions during the year		**(12,242)**	(68,521)
	Total	**2,488,876**	2,106,522
Net block		**8,030,796**	8,166,442
B **Other fixed assets** (including furniture and fixtures)			
Gross block			
At cost on 31 March of the preceding year		**38,468,673**	33,432,510
Additions during the year		**7,084,005**	5,476,805
Deductions during the year		**(370,235)**	(440,642)
	Total	**45,182,443**	38,468,673
Depreciation			
As at 31 March of the preceding year		**24,625,703**	20,039,330
Charge for the year		**5,148,998**	4,954,325
On deductions during the year		**(340,588)**	(367,952)
	Total	**29,434,113**	24,625,703
Net block		**15,748,330**	13,842,970
C **Assets on lease** (plant and machinery)			
Gross block			
At cost on 31 March of the preceding year		**4,546,923**	4,546,923
Additions during the year		**-**	-
	Total	**4,546,923**	4,546,923

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As at March 31, 2012

₹ in '000

		As at 31-Mar-12	As at 31-Mar-11
Depreciation			
As at 31 March of the preceding year		**4,104,467**	4,026,245
Charge for the year		**-**	78,222
	Total	**4,104,467**	4,104,467
Lease adjustment account			
As at 31 March of the preceding year		**442,456**	442,456
Charge for the year		**-**	-
	Total	**442,456**	442,456
Unamortised cost of assets on lease		**-**	-
	Total	**23,779,126**	22,009,412

SCHEDULE 11 - OTHER ASSETS

			As at 31-Mar-12	As at 31-Mar-11
I	Interest accrued		**32,014,775**	22,932,409
II	Advance tax / tax deducted at source (net of provisions)		**12,131,614**	10,128,582
III	Stationery and stamps		**165,891**	221,712
IV	Non banking assets acquired in satisfaction of claims		**311**	5,934
V	Security deposit for commercial and residential property		**3,771,693**	3,424,674
VI	Others*		**170,608,695**	111,443,028
		Total	**218,692,979**	148,156,339

** Includes deferred tax asset (net) of ₹ 1,465,34 lacs (previous year : ₹ 1,189,30 lacs) and goodwill net of capital reserve on account of acquistion is ₹ 3,817 lacs (previous year : ₹ 4,611 lacs)*

SCHEDULE 12 - CONTINGENT LIABILITIES

			As at 31-Mar-12	As at 31-Mar-11
I	Claims against the bank not acknowledged as debts - taxation		**13,569,384**	12,192,884
II	Claims against the bank not acknowledged as debts - others		**2,884,893**	1,320,294
III	Liability on account of outstanding forward exchange contracts		**5,648,764,494**	3,014,172,486
IV	Liability on account of outstanding derivative contracts		**2,626,390,521**	2,439,713,427
V	Guarantees given on behalf of constituents			
	- In India		**133,170,215**	112,672,890
	- Outside India		**436,144**	354,073
VI	Acceptances, endorsements and other obligations		**209,182,124**	154,406,109
VII	Other items for which the bank is contingently liable		**18,723,709**	16,762,498
		Total	**8,653,121,484**	5,751,594,661

For the year ended March 31, 2012

₹ in '000

			Year Ended 31-Mar-12	Year Ended 31-Mar-11
SCHEDULE 13 - INTEREST EARNED				
I	Interest / discount on advances / bills		**208,372,328**	151,880,324
II	Income from investments		**65,061,806**	46,756,481
III	Interest on balance with RBI and other inter-bank funds		**1,540,385**	1,582,683
IV	Others		**1,081,113**	213,858
		Total	**276,055,632**	200,433,346
SCHEDULE 14 - OTHER INCOME				
I	Commission, exchange and brokerage		**44,844,260**	38,491,642
II	Profit / (loss) on sale of investments (net)		**(1,061,376)**	(836,318)
III	Profit / (loss) on revaluation of investments (net)		**(897,174)**	310,616
IV	Profit / (loss) on sale of building and other assets (net)		**12,420**	(8,039)
V	Profit on exchange transactions (net)		**12,653,760**	9,208,434
VI	Income earned by way of dividends etc. from subsidiaries / companies and / or joint ventures abroad / in India		**11,655**	4,468
VII	Miscellaneous income		**(1,039,662)**	(1,320,349)
		Total	**54,523,883**	45,850,454
SCHEDULE 15 - INTEREST EXPENDED				
I	Interest on deposits		**126,846,290**	80,261,798
II	Interest on RBI / inter-bank borrowings		**22,087,761**	13,786,419
III	Other interest		**2,127,191**	203,316
		Total	**151,061,242**	94,251,533
SCHEDULE 16 - OPERATING EXPENSES				
I	Payments to and provisions for employees		**35,730,909**	29,771,439
II	Rent, taxes and lighting		**7,342,370**	6,438,193
III	Printing and stationery		**2,349,491**	2,244,858
IV	Advertisement and publicity		**1,548,342**	1,618,618
V	Depreciation on property		**5,541,628**	5,091,107
VI	Directors' fees, allowances and expenses		**5,103**	5,256
VII	Auditors' fees and expenses		**11,725**	12,034
VIII	Law charges		**317,465**	315,037
IX	Postage, telegram, telephone etc.		**3,660,226**	3,126,813
X	Repairs and maintenance		**6,257,576**	5,154,504
XI	Insurance		**2,421,945**	1,989,839
XII	Other expenditure*		**22,884,396**	17,411,753
		Total	**88,071,176**	73,179,451

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

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2012.

A BACKGROUND

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

B PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank, its subsidiaries and associates, which together constitute the 'Group'.

The Bank consolidates its subsidiaries in accordance with Accounting Standard ('AS') 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India ('ICAI') on a line-by-line basis by adding together the like items of assets, liabilities, income and expenditure. Capital reserve / Goodwill on consolidation represent the difference between the Bank's share in the net worth of the subsidiary and the cost of acquisition at the time of making the investment in the subsidiary. Further, the Bank accounts for investments in associates under equity method of accounting in accordance with AS-23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by the ICAI.

C BASIS OF PREPARATION

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

Use of estimates :

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

HDB Financial Services Limited is a non-banking financial company and a subsidiary of the Bank. HDFC Securities Limited is a financial services provider along with broking as core product and a subsidiary of the Bank.

The consolidated financial statements present the accounts of HDFC Bank Limited with its following subsidiaries and associates :

Name	Relation	Country of incorporation	Ownership interest***
HDFC Securities Limited	Subsidiary	India	63.0%
HDB Financial Services Limited	Subsidiary	India	97.4%
Atlas Documentary Facilitators Company Private Limited	Associate	India	29.0%
International Asset Reconstruction Company Private Limited	Associate	India	29.4%
Centillion Solutions and Services Private Limited*	Associate	India	Nil
HBL Global Private Limited	Associate	India	Nil
HDB Employee Welfare Trust	**	India	

* *Centillion Solutions and Services Private Limited ceased to be an associate in December 2011 on account of sale of Bank's Stake in the company.*

** *The accounts of HDB Employee Welfare Trust, a trust established for providing general welfare measures such as medical relief and educational assistance to the employees of the Bank and their dependants have been entirely consolidated.*

*** *Denotes HDFC Bank's direct interest.*

During the year ended March 31, 2012, the Bank increased its stake-holding in HDFC Securities Limited from 58.7% to 63.0%. During the previous year ended March 31, 2011, the Bank increased its stake-holding in HDB Financial Services Limited from 95.2% to 97.6%.

Further during the year ended March 31, 2012 the stockholding in HDB Financial Services Limited has decreased from 97.50% to 97.42% on account of 90,000 stock options exercised and allotted by Minority Stakeholders.

The audited financial statements of the subsidiary companies, entity controlled by the Bank, associates and the unaudited financial statements of an associate have been drawn up to the same reporting date as that of the Bank, i.e. March 31, 2012.

D. PRINCIPAL ACCOUNTING POLICIES

1 Investments

HDFC Bank Limited

Classification :

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

The Bank follows 'Settlement Date' accounting for recording purchase and sale of transactions in securities except in case of equity shares where 'Trade Date' accounting is followed.

Basis of classification :

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

Investments which the Bank intends to hold till maturity, are classified as HTM securities. Investments in the equity of subsidiaries / joint ventures are categorized as "Held to Maturity" in accordance with the RBI guidelines.

Investments which are not classified in the above categories, are classified under "Available for Sale" category.

Acquisition cost :

In determining acquisition cost of an investment:

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

Disposal of investments :

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

Short sale :

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

Valuation :

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

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

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

The valuation of other unquoted fixed income securities (viz. State government securities, Other approved securities, Bonds and debentures) wherever linked to the YTM rates, is computed with a mark-up (reflecting associated credit and liquidity risk) over the YTM rates for government securities published by FIMMDA. Special bonds such as Oil bonds, Fertilizer bonds etc. which are directly issued by Government of India ('GOI') that do not qualify for SLR are also valued by applying the mark up above the corresponding yield on GOI securities. Unquoted equity shares are valued at the break-up value, if the latest Balance Sheet is available or at ₹ 1 as per the RBI guidelines. Units of mutual funds are valued at the latest repurchase price / net asset value declared by the mutual fund. Treasury bills, commercial papers and certificate of deposits being discounted instruments, are valued at carrying cost.

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

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

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

Repo and reverse repo transactions :

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

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

HDFC Securities Limited

Investments that are readily realisable and are intended to be held for not more than one year from the date, on which such investments are made, are classified as current investments. All other investments are classified as long term investments. Current investments are carried at cost or fair value, whichever is lower. Long-term investments are carried at cost. However, provision for diminution is made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

HDB Financial Services Limited

Investments which are long term in nature are stated at cost. Provisions are made only in case of diminution, which is other than temporary, in the value of investment. Current investments are valued at lower of cost and net realizable value.

HDB Employees Welfare Trust

Investments which are long term in nature are stated at cost. Provisions are made only in case of diminution, which is other than temporary, in the value of investment. Current investments are valued at lower of cost and net realizable value.

2 Advances

HDFC Bank Limited

Classification :

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

Provisioning :

Specific loan loss provisions in respect of non-performing advances are made based on management's assessment of the degree of impairment of wholesale and retail advances, subject to the minimum provisioning level prescribed by the RBI. The specific provision levels for retail non-performing assets are also based on the nature of product and delinquency levels.

The Bank maintains general provision for standard assets including credit exposures computed as per the current marked to market value of interest rate and foreign exchange derivative contracts and gold at levels stipulated by RBI from time to time. Provision for the standard assets held by the Bank is not reversed. In the case of overseas branches, general provision on standard advances is maintained at the higher of the levels stipulated by the respective overseas regulator or RBI. Provision for standard assets is included under Schedule 5 - “Other Liabilities”.

Provisions made in excess of these regulatory requirements or provisions which are not made with respect to specific non-performing assets are categorised as floating provisions. Creation of further floating provisions is considered by the Bank up to a level approved by the Board of Directors. Floating provisions are not reversed by credit to the Statement of Profit and Loss and can be used only for contingencies under extraordinary circumstances for making specific provisions towards impaired accounts after obtaining Board approval and with prior permission of RBI. Floating provisions have been included under Schedule 5 - “Other Liabilities”.

In accordance with the RBI guidelines, the Bank makes provision for the entire amount of overdue and future receivables relating to positive marked to market value of non performing derivative contracts.

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

In addition to the above, the Bank on a prudential basis makes provisions on advances or exposures which are not NPAs, but has reasons to believe on the basis of the extant environment or specific information, the possible slippage of a specific advance or a group of advances or exposures or potential exposures. These are classified as contingent provisions and included under Schedule 5 - “Other Liabilities”.

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

HDB Financial Services Limited

Advances are classified into performing and non-performing advances (NPAs) as per the RBI guidelines. Interest on non-performing advances is transferred to an interest in suspense account and not recognized in the Profit and Loss Account until received.

3 Securitization and transfer of assets

HDFC Bank Limited

The Bank securitises out its receivables to Special Purpose Vehicles (‘SPVs’) in securitisation transactions. Such securitised-out receivables are de-recognised in the Balance Sheet when they are sold (true sale criteria being fully met with) and consideration is received by the Bank. Sales / transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings.

In respect of receivable pools securitised-out, the Bank provides liquidity and credit enhancements, as specified by the rating agencies, in the form of cash collaterals / guarantees and / or by subordination of cash flows. The Bank also acts as a servicing agent for receivable pools securitised-out.

The RBI has issued guidelines on securitization of standard assets vide its circular dated February 1, 2006. Pursuant to these guidelines, the Bank amortises any profit / premium arising on account of sale of receivables over the life of the securities sold out while any loss arising on account of sale of receivables is recognized in the Statement of Profit and Loss for the period in which the sale occurs.

The Bank also enters into securitised-out transactions through the direct assignment route, which are similar to asset-backed securitization transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by Pass through Certificates (‘PTCs’). The Bank amortises any profit / premium arising on account of sale of receivables through the direct assignment route over the tenure of the loans sold out while any loss arising on account of sale of receivables is recognized in the Statement of Profit and Loss for the period in which the sale occurs.

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

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

The Bank also invests in PTCs and buys loans through the direct assignment route. These are accounted for at the deal value. The PTCs are classified as investments and loan assignments are classified as advances.

4 Fixed assets and depreciation

HDFC Bank Limited

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

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

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

Improvements to lease hold premises are charged off over the remaining primary period of lease.

Items (excluding staff assets) costing less than ₹ 5,000 and point of sale terminals are fully depreciated in the year of purchase.

All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.

For assets purchased and sold during the year, depreciation is provided on pro rata basis by the Bank.

The Bank undertakes assessment of the useful life of an asset at periodic intervals taking into account changes in environment, changes in technology, the utility and efficacy of the asset in use etc. Whenever there is a revision of the estimated useful life of an asset, the unamortized depreciable amount is charged over the revised remaining useful life of the said asset.

HDFC Securities Limited

Tangible assets are stated at acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost comprises purchase price and expenses directly attributable to bringing the asset to its working condition for the intended use. Subsequent expenditure related to an item of fixed asset are added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance.

Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements.

Gains or losses arising from disposal or retirement of tangible fixed assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised net, within “Other Income” or “Other Expenses”, as the case maybe, in the Statement of Profit and Loss in the year of disposal or retirement.

Depreciation is provided on a pro-rata basis using the straight-line method over the estimated useful lives of the assets or at the rates prescribed under Schedule XIV of the Companies Act, 1956, whichever is higher, as follows :

Asset	**Estimated useful life**
Computer hardware - Personal computers	3 years
Computer hardware - Others	4 years
Office equipments	6 years
Furniture and fixture	15 years
Vehicles	4 years

Leasehold improvements are charged off over the primary period of lease.

All tangible assets costing less than ₹ 5,000 individually are fully depreciated in the year of purchase.

Depreciation methods and useful lives are reviewed at each financial year end and adjusted if appropriate.

Intangible assets are stated at acquisition cost, net of accumulated amortisation and accumulated impairment losses, if any.

Cost of an intangible asset includes purchase price, non-refundable taxes and duties and any other directly attributable expenditure on making the asset ready for its intended use and net of any trade discounts and rebates. Subsequent expenditure on an intangible asset is charged to the Statement of Profit and Loss as an expense unless it is probable that such expenditure will enable the intangible asset increase the future benefits from the existing asset beyond its previously assessed standard of performance and such expenditure can be measured and attributed to the intangible asset reliably, in which case, such expenditure is capitalised.

Intangible assets are amortised on a straight-line basis over their estimated useful lives. A rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use is considered by the management. The amortisation period and the amortisation method are reviewed at least at each reporting date. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period is changed accordingly.

Gains or losses arising from the retirement or disposal of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised as income or expense in the Statement of Profit and Loss in the year of disposal.

The estimated useful lives of intangible assets used for amortisation are :

Asset	**Estimated useful life**
Computer software licenses	5 years
Electronic trading platform	5 years
Bombay stock exchange card	10 years

HDB Financial Services Limited

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

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The rates of depreciation for certain key fixed assets used in arriving at the charge for the year are as under :

Asset	**Depreciation rate per annum**
Office equipments	16.21%
Computers	33.33%
Motor cars	20.00%
Immovable property	1.63%
Software and system development expenditure	33.33%

Improvements to lease hold premises are charged off over the primary period of lease or its useful life, whichever is shorter.

Items costing less than ₹ 5,000 are fully depreciated in the year of purchase.

All other assets are depreciated as per the rates specified in Schedule XIV of the Companies Act, 1956.

For assets purchased and sold during the year, depreciation is being provided on pro rata basis by the Company.

5 Impairment of assets

Group

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

6 Transactions involving foreign exchange

HDFC Bank Limited

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

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

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

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

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

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

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

7 Derivative contracts

HDFC Bank Limited

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

Derivative contracts designated as hedges are not marked to market unless their underlying transaction is marked to market. In respect of derivative contracts that are marked to market, changes in the market value are recognized in Statement of the Profit and Loss in the relevant period. Gains or losses arising from hedge ineffectiveness, if any, are recognised in the Statement of the Profit and Loss.

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

8 Revenue and expense recognition

HDFC Bank Limited

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

Interest income is recognized net of commission paid to sales agents (net of non-volume based subvented income from dealers, agents and manufacturers) - (hereafter called “net commission”) for originating fixed tenor retail loans. Net commission paid to sales agents for originating other retail loans is expensed in the year in which it is incurred.

Interest income on investments in PTCs and loans bought out through the direct assignment route is recognised at their effective interest rate.

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

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

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

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

HDFC Securities Limited

Income from services rendered as a brokerage is recognised as the related services are performed. Commissions are recorded on a trade date basis as the securities transactions occur.

Fees for subscription based services are received periodically but are recognised as earned on a pro-rata basis over the term of the contract.

Commissions from distribution of financial products are recognised upon allotment of the securities to the applicant or as the case may be, issue of the insurance policy to the applicant.

Commissions and fees recognised as aforesaid are exclusive of service tax, securities transaction tax, stamp duties and other levies by SEBI and stock exchanges.

Other income

Interest income is recognised on a time proportion basis taking into account the amount outstanding on the financial instrument and the rate applicable.

Dividend income is recognised when the right to receive the dividend is established.

HDB Financial Services Limited

Interest income is recognised in the profit or loss account on an accrual basis. Income including interest / discount or any other charges on Non-Performing Assets (NPA) is recognised only when it is realised. Any such income recognised before the asset became non-performing and remaining unrealised is reversed.

Fee based income and other financial charges are recognised on an accrual basis, except in case of cheque bouncing charges, late payment charges, foreclosure charges and application money, which are accounted as and when received.

Income from dividend is recognised in Statement of Profit and Loss when the right to receive is established.

Interest on borrowings is recognised in Statement of Profit and Loss on an accrual basis.

Costs associated with borrowings are grouped under financial charges along with the interest costs.

HDB Employees Welfare Trust

Interest income is recognized in the Income and Expenditure Account on an accrual basis.

Income from dividend is recognised in Income and Expenditure Account when the right to receive is established.

9 Employee benefits

HDFC Bank Limited

Employee Stock Option Scheme (ESOS)

The Employee Stock Option Scheme ('the Scheme') provides for the grant of equity shares of the Bank to its employees. The Scheme provides that employees are granted an option to acquire equity shares of the Bank that vests in a graded manner. The options may be exercised within a specified period. The Bank follows the intrinsic value method to account for its stock-based employees compensation plans. Compensation cost is measured by the excess, if any, of the fair market price of the underlying stock over the exercise price on the grant date as determined under the option plan. The fair market price is the latest available closing price, prior to the date of grant, on the stock exchange on which the shares of the Bank are listed. Compensation cost, if any is amortised over the vesting period.

Gratuity

The Bank provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on resignation, retirement, death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Bank makes contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. In respect of erstwhile Lord Krishna Bank ('eLKB') employees, the Bank makes contribution to a fund set up by eLKB and administered by the board of trustees. The defined gratuity benefit plans are valued by an independent actuary as at the Balance Sheet date using the projected unit credit method as per the requirement of AS-15 (Revised 2005), Employee benefits to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations, which include assumptions about demographics, early retirement, salary increases and interest rates. Actuarial gain or loss is recognised in the Statement of the Profit and Loss.

Superannuation

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

Provident fund

In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund.

The Bank contributes an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary). Of this, the Bank contributes an amount of 8.33% of employee's basic salary upto a maximum salary level of ₹ 6,500 per month to the Pension Scheme administered by the Regional Provident Fund Commissioner ('RPFC').

The balance amount is contributed to a fund set up by the Bank and administered by a board of trustees. In respect of eCBoP employees, employer's and employee's share of contribution to Provident Fund till March 2009, was administered by RPFC and from April 2009 onwards, the same is transferred to fund set up by the Bank and administered by a board of trustees. In respect of eLKB employees, the Bank contributes to a fund set up by eLKB and administered by the board of trustees. The Bank recognises such contributions as an expense in the year in which it is incurred. Interest payable to the members of the trust shall not be lower than the statutory rate of interest declared by the Central government under the Employees Provident Funds and Miscellaneous Provisions Act 1952 and shortfall, if any, shall be made good by the Bank. The guidance note on implementing AS 15 (revised 2005), Employee Benefits, states that benefits involving employer established provident funds, which requires interest shortfalls to be provided, are to be considered as defined benefit plans. Actuarial valuation of this Provident Fund interest shortfall has been done as per the guidance note issued during the year in this respect by the Actuarial Society of India and provision towards this liability has been made.

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

Leave encashment / compensated absences

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

Pension

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

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

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

HDFC Securities Limited

Short term

Short term employee benefits include salaries and performance incentives. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or informal obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. These costs are recognised as an expense in the Statement of Profit and Loss at the undiscounted amount expected to be paid over the period of services rendered by the employees to the Company.

Long term

The Company offers its employees long term benefits by way of defined-contribution and defined-benefit plans, of which some have assets in special funds or securities. The plans are financed by the Company and in the case of some defined contribution plans by the Company along with its employees.

Defined-contribution plans

These are plans in which the Company pays pre-defined amounts to separate funds and does not have any legal or informal obligation to pay additional sums. These comprise of contributions to the employees' provident fund, family pension fund and superannuation fund. The Company's payments to the defined-contribution plans are reported as expenses during the period in which the employees perform the services that the payment covers.

Defined-benefit plans

Expenses for defined-benefit gratuity plan are calculated as at the Balance Sheet date by an independent actuary in a manner that distributes expenses over the employee's working life. These commitments are valued at the present value of the expected future payments, with consideration for calculated future salary increases, using a discount rate corresponding to the interest rate estimated by the actuary having regard to the interest rate on government bonds with a remaining term that is almost equivalent to the average balance working period of employees. The fair values of the plan assets are deducted in determining the net liability. When the fair value of plan assets exceeds the commitments computed as aforesaid, the recognised asset is limited to the net total of any cumulative past service costs and the present value of any economic benefits available in the form of reductions in future contributions to the plan.

Actuarial losses or gains are recognised in the Statement of Profit and Loss in the year in which they arise.

Other employee benefits

Compensated absences which accrue to employees and which can be carried to future periods but are expected to be availed in twelve months immediately following the year in which the employee has rendered service are reported as expenses during the year in which the employees perform the services that the benefit covers and the liabilities are reported at the undiscounted amount of the benefits.

Where there are restrictions on availment of such accrued benefit or where the availment is otherwise not expected to wholly occur in the next twelve months, the liability on account of the benefit is actuarially determined using the projected unit credit method.

Share-based payment transactions

Equity settled stock options granted under the Company's Employee Stock Option Schemes are accounted for as per the accounting treatment prescribed by the Guidance Note on Employee Share-based Payments issued by the Institute of Chartered Accountants of India. The intrinsic value of the option being excess of fair value of the underlying share immediately prior to date of grant over its exercise price is recognised as deferred employee compensation with a credit to employee stock option outstanding account. The deferred employee compensation is charged to Statement of Profit and Loss on straight line basis over the vesting period of the option. The options that lapse are reversed by a credit to employee compensation expense, equal to the amortised portion of value of lapsed portion and credit to deferred employee compensation expense equal to the unamortised portion.

HDB Financial Services Limited

Short term employee benefits

Short term employees benefits are recognised as an expense at the undiscounted amounts in the profit & loss account for the year in which the related services are rendered.

Long term employee benefits

Gratuity

The Company provides for gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on resignation, retirement, on death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. Vesting occurs upon completion of five years of service. The Company makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The defined gratuity benefit plans are valued by an independent external actuary as at the Balance Sheet date using the projected unit credit method to determine the present value of defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations, which include assumptions about demographics, early retirement, salary increases and interest rates. Actuarial gain or loss is recognized in the Profit and Loss Account.

Provident fund

In accordance with law, all employees of the Company are entitled to receive benefits under the provident fund. The Company contributes an amount, on a monthly basis, at a determined rate (currently 12% of employee's basic salary) to the Pension Scheme administered by the Regional Provident Fund Commissioner (RPFC) and the Company has no liability for future provident fund benefits other than its annual contribution. The contributions are accounted for on an accrual basis and recognized in the Profit and Loss Account, being a defined contribution plan.

Compensated absences

The Company does not have a policy of encashment of unavailed leaves for its employees. The Company provides for compensated absences in accordance with AS 15 (revised 2005) Employee Benefits. The provision is based on an independent external actuarial valuation at the Balance Sheet date.

10 Debit and credit cards reward points

HDFC Bank Limited

The Bank estimates the probable redemption of debit and credit card reward points and cost per point using an actuarial method by employing an independent actuary. Provision for the said reward points is then made based on the actuarial valuation report as furnished by the said independent actuary.

11 Bullion

HDFC Bank Limited

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

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

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

12 Lease accounting

Group

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

13 Income tax

Group

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

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

14 Earnings per share

Group

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

15 Segment information - basis of preparation

Group

The segmental classification to the respective segments is in accordance with AS-17, Segment Reporting, issued by the ICAI. Business segments have been identified and reported taking into account, the target customer profile, the nature of products and services, the differing risks and returns, the organization structure, the internal business reporting system and the guidelines prescribed by RBI. The Group operates in the following segments :

(a) Treasury

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

(b) Retail banking

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

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

(c) Wholesale banking

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

(d) Other banking business

This segment includes income from para banking activities such as credit cards, debit cards, third party product distribution, primary dealership business and the associated costs. This segment also includes Bank's subsidiaries viz. HDFC Securities Limited and HDB Financial Services Limited.

(e) Unallocated

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

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

Geographic segments

Since the Group does not have material earnings emanating outside India, the Group is considered to operate in only the domestic segment.

16 Accounting for provisions, contingent liabilities and contingent assets

Group

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

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

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

17 Cash and cash equivalents

Group

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

For the year ended March 31, 2012

SCHEDULE 18 - NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2012.

1 Sub-division of equity shares

The shareholders of the Bank at the 17th Annual General Meeting held on July 6, 2011 approved sub-division (split) of one equity share of the Bank from nominal value of ₹ 10/- each into five equity shares of nominal value of ₹ 2/- each. All shares and per share information in the financial statements reflect the effect of sub-division (split) retrospectively.

2 Earnings per equity share

Basic and Diluted earnings per equity share have been calculated based on the net profit after taxation of ₹ 5,247,02 lacs (previous year : ₹ 3,992,49 lacs) and the weighted average number of equity shares outstanding during the year was 233,67,04,062 (previous year : 230,90,34,888) (previous year numbers are restated, refer note 1 to schedule18)

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

Particulars	For the year ended (₹)	
	March 31, 2012	March 31, 2011
Nominal value per share	2.00	2.00
Basic earnings per share	22.45	17.29
Effect of potential equity shares (per share)	(0.21)	(0.20)
Diluted earnings per share	22.24	17.09

Basic earnings per equity share have been computed by dividing net profit after taxation by the weighted average number of equity shares outstanding for the year. Diluted earnings per equity share have been computed by dividing net profit after taxation by the weighted average number of equity shares and dilutive potential equity shares outstanding during the year

There is no impact of dilution on profits in the current year and previous year

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

Particulars	For the year ended	
	March 31, 2012	March 31, 2011
Weighted average number of equity shares used in computing basic earnings per equity share	233,67,04,062	230,90,34,888
Effect of potential equity shares outstanding	2,16,25,067	2,72,75,584
Weighted average number of equity shares used in computing diluted earnings per equity share	235,83,29,129	233,63,10,472

3 Reserves and surplus

Draw down from reserves

There has been no draw down from reserves during the year ended March 31, 2012 and year ended March 31, 2011.

General reserve

The Bank has made an appropriation of ₹ 516,71 lacs (previous year : ₹ 392,64 lacs) out of profits for the year ended March 31, 2012 to General Reserve pursuant to Companies (Transfer of Profits to Reserves) Rules, 1975.

Investment reserve account

During the year, the Bank has transferred ₹ 41,69 lacs (net) from Investment reserve account to Statement of Profit and Loss. In the previous year, the Bank transferred ₹ 15,56 lacs (net) from Statement of Profit and Loss to Investment reserve account.

4 Accounting for employee share based payments

HDFC Bank Limited

The shareholders of the Bank approved grant of equity share options under Plan "A" in January 2000, Plan "B" in June 2003, Plan "C" in June 2005, Plan "D" in June 2007 and Plan "E" in June 2010. Under the terms of each of these Plans, the Bank may issue Equity Stock Options ('ESOPs') to employees and directors of the Bank, each of which is convertible into one equity share. All the plans were framed in accordance with the SEBI (Employee Stock Option Scheme & Employee Stock Purchase Scheme) Guidelines, 1999 as amended from time to time.

Plan A provides for the issuance of options at the recommendation of the Compensation Committee of the Board (the “Compensation Committee”) at an average of the daily closing prices on the Bombay Stock Exchange Limited during the 60 days preceding the date of grant of options.

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

Such options vest at the discretion of the Compensation Committee. These options are exercisable for a period following vesting at the discretion of the Compensation Committee, subject to a maximum of five years, as set forth at the time of grant. Modifications, if any, made to the terms and conditions of ESOPs as approved by the Compensation Committee are disclosed separately.

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

1) Key ESOP

2) General ESOP

The outstanding options granted under each of the above Schemes and the grant prices were converted into equivalent HDFC Bank options and prices in the swap ratio of 1:29 i.e. 1 stock option of HDFC Bank for every 29 stock options granted and outstanding of eCBoP as on May 23, 2008, the effective date of the amalgamation, in accordance with Clause 9.9 of the Scheme of Amalgamation of eCBoP with the Bank. The vesting dates for the said stock options granted in various tranches were revised as per Clause 9.9 of the Scheme. All the aforesaid stock options are exercisable within a period of 5 years from the date of vesting. Key Options were granted at an exercise price, which was less than the then fair market price of the shares. General Options were granted at the fair market price. The fair market price was the latest available closing price, prior to the date of meeting of the Board of Directors in which options were granted or shares were issued, on the stock exchange on which the shares of the Bank were listed. If the shares were listed on more than one stock exchange, then the stock exchange where there was highest trading volume on the said date was considered.

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

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

Method used for accounting for shared based payment plan

The Bank has elected to use intrinsic value method to account for the compensation cost of stock options to employees and directors of the Bank. Intrinsic value is the amount by which the quoted market price of the underlying share exceeds the exercise price of the option. Following is the activity in the options outstanding under the Employee Stock Options Plan as at March 31, 2012 and as at March 31, 2011. These tables reflect an adjustment effected in the current year to include the effect of options forfeited / lapsed in respect of resigned employees.

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

Particulars	**Options**	**Weighted average exercise price (₹)**
Options outstanding, beginning of year	8,59,24,615	325.27
Granted during the year	3,56,03,250	468.67
Exercised during the year	2,05,59,850	257.91
Forfeited / lapsed during the year	10,95,275	381.23
Options outstanding, end of year	9,98,72,740	389.52
Options exercisable	5,64,15,090	332.53

Activity in the options outstanding under the employee stock options plan as at March 31, 2011

Particulars	Options	Weighted average exercise price (₹)
Options outstanding, beginning of year	9,23,47,270	241.54
Granted during the year	3,29,67,500	440.16
Exercised during the year	3,74,12,060	221.36
Forfeited / lapsed during the year	19,78,095	296.38
Options outstanding, end of year	8,59,24,615	325.27
Options exercisable	5,31,32,115	254.36

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

Plan	Range of exercise price (₹)	Number of shares arising out of options	Weighted average life of options (in years)	Weighted average exercise price (₹)
Plan A	73.26	-	-	-
Plan B	71.72 to 219.74	19,50,300	1.16	207.68
Plan C	126.12 to 219.74	34,21,500	0.93	191.41
Plan D	219.74 to 340.96	2,64,89,250	2.12	276.03
Plan E	440.16 to 508.23	6,62,70,250	1.84	203.86
Key ESOP	23.2	33,595	1.04	23.20
General ESOP	88.45 to 251.72	17,07,845	1.88	202.65

Following summarises the information about stock options outstanding as at March 31, 2011

Plan	Range of exercise price (₹)	Number of shares arising out of options	Weighted average life of options (in years)	Weighted average exercise price (₹)
Plan A	73.26	49,500	0.69	73.26
Plan B	71.72 to 219.74	36,86,000	1.95	197.67
Plan C	126.12 to 219.74	67,15,500	1.72	182.98
Plan D	219.74 to 340.96	4,00,13,250	3.09	275.63
Plan E	440.16	3,27,92,500	4.97	440.16
Key ESOP	23.2	77,595	2.04	23.2
General ESOP	88.45 to 251.72	25,90,270	2.85	201.92

Fair value methodology

The fair value of options used to compute proforma net income and earnings per equity share have been estimated on the dates of each grant using the binomial option-pricing model. The Bank estimated the volatility based on the historical share prices. The various assumptions considered in the pricing model for the ESOPs granted during the year ended March 31, 2012 are :

Particulars	March 31, 2012	March 31, 2011
Dividend yield	0.65% to 0.70%	0.55%
Expected volatility	29.35%	30%
Risk-free interest rate	8.04% to 8.22%	7.53% to 7.62%
Expected life of the option	1 to 6 years	1 to 6 years

Impact of fair value method on net profit and earnings per share ('EPS')

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

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Net profit (as reported)	5,167,09	3,926,40
Add : Stock-based employee compensation expense included in net income	-	-
Less : Stock based compensation expense determined under fair value based method (proforma)	377,83	223,21
Net profit (proforma)	4,789,26	3,703,19
	(₹)	(₹)
Basic earnings per share (as reported)	22.11	17.00
Basic earnings per share (proforma)	20.50	16.04
Diluted earnings per share (as reported)	21.91	16.81
Diluted earnings per share (proforma)	20.31	15.85

HDFC Securities Limited

The Shareholders of the Company approved a stock option scheme (viz. ESOS-001) in February, 2010 ("Company Options"). Under the terms of the scheme, the Company issues stock options to Employees, Whole Time Director, Managing Director and Directors of the Company, each of which is convertible into one equity share. Scheme ESOS-001 provides for the issuance of options at the recommendation of the Compensation Committee of the Board (the "Compensation Committee") at a price of ₹ 135 per share, being the fair market value of the share arrived by a Category 1 merchant banker. Further, the Company had issued shares to its Employee Welfare Trust as per an old ESOP plan ("EWT Options"), in terms of which the trust grants options to its employees. Such options vest at a definitive date, save for specific incidents, prescribed in the scheme as framed / approved by the Compensation Committee. Such options are exercisable for a period following the vesting at the discretion of the Compensation Committee, subject to a maximum of two years from the date of vesting.

Method used for accounting for shared based payment plan

The Company uses the intrinsic value method to account for the compensation cost of stock options to employees of the Company.

Activity in the options outstanding under the employees stock options plan as at March 31, 2012

Particulars	EWT options	Company options	Weighted average exercise price (₹)
Options outstanding, beginning of year	1,00,212	4,42,550	135.00
Granted during the year	-	-	-
Exercised during the year	1,00,212	61,050	135.00
Forfeited during the year	-	5,600	135.00
Lapsed during the year	-	4,500	135.00
Options outstanding, end of year	-	3,71,400	135.00
Options exercisable	-	1,72,300	135.00

Activity in the options outstanding under the employees stock options plan as at March 31, 2011

Particulars	EWT options	Company options	Weighted average exercise price (₹)
Options outstanding, beginning of year	2,25,020	5,42,750	131.48
Granted during the year	-	-	-
Exercised during the year	1,09,808	67,700	119.76
Forfeited during the year	15,000	32,500	135.00
Lapsed during the year	-	-	-
Options outstanding, end of year	1,00,212	4,42,550	135.00
Options exercisable	-	88,525	135.00

For the year ended March 31, 2012

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

Plan	Range of exercise price (₹)	Number of shares arising out of options	Weighted average life of unvested options (in years)	Weighted average exercise price (₹)
Company options	135.00	3,71,400	2.28	135.00
EWT options	-	-	-	-

Following summarises the information about stock options outstanding as at March 31, 2011

Plan	Range of exercise price (₹)	Number of shares arising out of options	Weighted average life of unvested options (in years)	Weighted average exercise price (₹)
Company options	135.00	4,42,550	3.14	135.00
EWT options	135.00	1,00,212	0.50	135.00

Fair value methodology

The fair value of options used to compute proforma net income and earnings per equity share have been estimated on the dates of each grant using the Black and Scholes model. The shares of the Company are not listed on any stock exchange. Accordingly, the Company has considered the volatility of the Company's stock price as an average of the historical volatility of similar listed enterprises for the purpose of calculating the fair value to reduce any company specific variations. The various assumptions considered in the pricing model for the stock options granted by the company during the year ended March 31, 2010 are :

Particulars	EWT options	Company options
Dividend yield	Nil	Nil
Expected volatility	73.56% to 79.04%	71.53% to 72.67%
Risk-free interest rate	6.53% to 8.19%	6.22% to 7.18%
Expected life of the option	0-2 years	0-5 years

Impact of fair value method on net profit and EPS

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

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Net profit (as reported)	54,09	77,16
Add : Stock-based employee compensation expense included in net income	-	-
Less : Stock- based compensation expense determined under fair value based method (proforma)	(83)	(1,98)
Net profit (proforma)	53,26	75,18
	(₹)	(₹)
Basic and diluted earnings per share (as reported)	35.87	51.43
Basic and diluted earnings per share (proforma)	35.32	50.11

HDB Financial Services Limited

The shareholders of the Company approved stock option schemes ESOS–1 and ESOS–2 in April 2008, ESOS–3 in October 2009, ESOS–4 in October, 2010 and ESOS-5 in July 27, 2011. Under the term of the schemes, the Company may issue stock options to employees and directors of the Company, each of which is convertible into one equity share.

Shares under ESOS-2, ESOS-3 and part of ESOS-4 have vested during the year and have been duly exercised.

ESOS–5 provides for the issuance of options at the recommendation of the Compensation Committee of the Board at a price of ₹ 25 per share.

Such options vest at a definitive date, save for specific incidents, prescribed in the scheme as framed / approved by the Compensation Committee. Such options are exercisable for a period following vesting at the discretion of the Compensation Committee, subject to a maximum of two years from the date of vesting.

Method used for accounting for shared based payment plan

The Company has elected to use intrinsic value to account for the compensation cost of stock options to employees of the Company.

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

Particulars	Options	Weighted average exercise price (₹)
Options outstanding, beginning of year	6,23,500	10.00
Granted during the year	1,54,500	25.00
Exercised during the year	3,41,600	10.00 & 17.50
Forfeited / lapsed during the year	13,500	17.50
Options outstanding, end of year	4,22,900	19.89

Activity in the options outstanding under the employee stock options plan as at March 31, 2011

Particulars	Options	Weighted average exercise price (₹)
Options outstanding, beginning of year	4,70,000	10.00
Granted during the year	3,38,500	17.50
Exercised during the year	1,25,000	10.00
Forfeited / lapsed during the year	60,000	10.00
Options outstanding, end of year	6,23,500	14.07

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

Plan	Range of exercise price (₹)	Number of shares arising out of options	Weighted average remaining contractual life of options (in years)	Weighted average exercise price (₹)	Vesting conditions
ESOS - 4	17.50	2,61,800	3.03	17.50	2 years service
ESOS - 5	25.00	1,54,500	3.03	25.00	2 years service

Following summarises the information about stock options outstanding as at March 31, 2011

Plan	Range of exercise price (₹)	Number of shares arising out of options	Weighted average remaining contractual life of options (in years)	Weighted average exercise price (₹)	Vesting conditions
ESOS - 2	10.00	90,000	3.01	10.00	3 years service
ESOS - 3	10.00	1,95,000	3.50	10.00	2 years service
ESOS - 4	17.50	3,38,500	3.03	17.50	2 years service

Fair value methodology

The fair value of options used to compute proforma net income and earnings per equity share have been estimated on the dates of each grant using the Black-Scholes model. The shares of Company are not listed on any stock exchange. Accordingly, the Company has considered the volatility of the Company's stock price as zero, since historical volatility of similar listed enterprise was not available. The various assumptions considered in the pricing model for the stock options granted by the Company during the year ended March 31, 2012 are :

Particulars	March 31, 2012	March 31, 2011
Dividend yield	Nil	Nil
Expected volatility	Nil	Nil
Risk-free interest rate	8.38%	7.67%
Expected life of the option	1 to 5 years	1 to 5 years

Impact of fair value method on net profit and EPS

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

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Net profit (as reported)	51,11	15,81
Add : Stock-based employee compensation expense included in net income	-	-
Less : Stock-based compensation expense determined under fair value based method (proforma)	14	5
Net profit (proforma)	50,97	15,75
	(₹)	**(₹)**
Basic earnings per share (as reported)	1.25	0.88
Basic earnings per share (proforma)	1.24	0.88
Diluted earnings per share (as reported)	1.25	0.88
Diluted earnings per share (proforma)	1.24	0.88

Impact of fair value method on net profit and EPS of the Group

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

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Net profit (as reported)	5,247,02	3,992,49
Add : Stock-based employee compensation expense included in net income	-	-
Less : Stock-based compensation expense determined under fair value based method (proforma)	378,80	225,24
Net profit (proforma)	4,868,22	3,767,25
	(₹)	**(₹)**
Basic earnings per share (as reported)	22.45	17.29
Basic earnings per share (proforma)	20.83	16.31
Diluted earnings per share (as reported)	22.24	17.09
Diluted earnings per share (proforma)	20.64	16.12

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

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

6 Upper & lower Tier II capital and innovative perpetual debt instruments

Subordinated debt (lower Tier II capital), upper Tier II capital and innovative perpetual debt instruments outstanding as at March 31, 2012 are ₹ 6,981,00 lacs (previous year : ₹ 3,331,20 lacs), ₹ 3,924,65 lacs (previous year : ₹ 3,861,85 lacs) and ₹ 200,00 lacs (previous year : ₹ 200,00 lacs) respectively.

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

Particulars	Date of allotment	Coupon rate (%)	Tenure	Amount (₹ lacs)
Lower Tier II bonds	May 12, 2011	9.48%	15 Years[1]	3,650,00

Note : (1) Call option exercisable on May 12, 2021 at par with the prior approval of RBI.

The details of the bonds raised during the year ended March 31, 2011 are given below :

Particulars	Date of allotment	Coupon rate (%)	Tenure	Amount (₹ lacs)
Upper Tier II bonds	July 7, 2010	8.70%[1]	15 Years[2]	1,105,00

Note :

(1) Coupon rate of 8.70% per annum payable for first 10 years and stepped-up coupon rate of 9.20% per annum for next 5 years if call option is not exercised at the end of 10 years from the date of allotment.

(2) Call option exercisable on July 7, 2020 at par with the prior approval of RBI.

7 Investments

- Investments include securities of Face Value (FV) aggregating ₹ 1,345,00 lacs (previous year : FV ₹ 820,00 lacs) which are kept as margin for clearing of securities and of FV ₹ 5,732,27 lacs (previous year : FV ₹ 2,150,00 lacs) which are kept as margin for Collateral Borrowing and Lending Obligation (CBLO) with the Clearing Corporation of India Ltd.
- Investments include securities of FV aggregating ₹ 6,00 lacs (previous year : FV ₹ 6,00 lacs) which are kept as margin with National Securities Clearing Corporation of India Ltd. (NSCCIL) and of FV ₹ 5,00 lacs (previous year : FV ₹ 5,00 lacs) which are kept as margin with MCX-SX Clearing Corporation Ltd.
- Investments having FV amounting to ₹ 25,631,20 lacs (previous year : FV ₹ 30,556,80 lacs) are kept as margin with the RBI towards Real Time Gross Settlement (RTGS).
- Other investments include certificate of deposits : ₹ 4,382,09 lacs (previous year : ₹ 4,854,46 lacs), commercial paper : ₹ 1,039,11 lacs (previous year : ₹ 1,161,17 lacs), investment in debt mutual fund units : ₹ 897,28 lacs (previous year : ₹ Nil), pass through certificates ₹ 338,86 lacs (previous year : ₹ 516,72 lacs), security receipts issued by reconstruction companies : ₹ 50,78 lacs (previous year : ₹ 25,04 lacs), deposits with National Bank of Agriculture and Rural Development ('NABARD') under the RIDF Deposit Scheme : ₹ 9,115,48 lacs (previous year : ₹ 6,503,04 lacs), deposits with Small Industries Development Bank of India ('SIDBI) and NHB under the Priority / Weaker Sector Lending Schemes : ₹ 3,639,09 lacs (previous year : ₹ 2,755,38 lacs).
- The Bank has made investments in certain companies wherein it holds more than 25% of the equity shares of those companies. Such investments do not fall within the definition of a joint venture as per AS-27, Financial Reporting of Interest in Joint Ventures, issued by the ICAI, and the said accounting standard is thus not applicable. However, pursuant to RBI Circular No. DBOD. No. BP.BC.3/21.04.141/2002, dated July 11, 2002, the Bank has classified these investments as joint ventures.

8 Other fixed assets (including furniture and fixtures)

Other fixed assets includes amount capitalized on software, website cost and Bombay Stock Exchange Card. Details regarding the same are as follows : **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Cost		
As at March 31 of the previous year	727,99	630,81
Additions during the year	126,84	97,71
Deductions during the year	-	(53)
Total (a)	**854,83**	**727,99**
Depreciation		
As at March 31 of the previous year	475,37	376,75
Charge for the year	108,77	99,12
On deductions during the year	-	(50)
Total (b)	**584.14**	**475.37**
Net value as at March 31 of the current year (a-b)	**270.69**	**252.62**

9 Other assets

- Other Assets include deferred tax asset (net) of ₹ 1,465,34 lacs (previous year : ₹ 1,189,30 lacs)

  The breakup of the same is as follows **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Deferred tax asset arising out of		
Loan loss provisions	939,63	689,62
Employee benefits	66,30	56.48
Others	520,90	519,07
Total (a)	**1,526,83**	**1,265,17**
Deferred tax liability arising out of depreciation	(61,49)	(75,87)
Total (b)	**(61,49)**	**(75,87)**
Deferred tax asset (net) (a-b)	**1,465,34**	**1,189,30**

  HDB Financial Services Limited has deferred tax asset amounting to ₹ 14,17 lacs (previous year : ₹ 78 lacs). During the previous year the Company has not recognised such asset in its books by virtue of not having virtual / reasonable certainty that there will be sufficient future taxable income against which such deferred tax assets can be realised.

- Other assets includes deposits of ₹ 2,11 lacs (previous year : ₹ 2,11 lacs) maintained by HDFC Securities Limited with the stock exchange.

10 Provision, contingent liabilities and contingent assets

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

a) Movement in provision for credit card and debit card reward points (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Opening provision for reward points	59,33	34,00
Provision for reward points made during the year	55,10	47,07
Utilisation / write back of provision for reward points	(22,10)	(18,37)
Effect of change in rate for accrual of reward points	(6,53)	1,78
Effect of change in cost of reward points	-	(5,15)
Closing provision for reward points	85,80	59,33

b) Movement in provision for legal and other contingencies (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Opening provision	316,60	271,28
Movement during the year (net)	(30,57)	45,32
Closing provision	286,03	316,60

c) Description of contingent liabilities

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

**Also refer Schedule 12 - Contingent Liabilities*

11 Commission, exchange and brokerage income

Commission, exchange and brokerage income is net of correspondent bank charges and brokerage paid on purchase and sale of investments.

12 The break-up of 'Provisions and Contingencies' included in the Statement of Profit and Loss is given below : (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Provision for income tax - Current	2,670,13	2,284,68
- Deferred	(276,04)	(345,15)
Provision for wealth tax	56	61
Provision for NPAs	684,67	781,17
Provision for diminution in value of non performing investments	93,40	-
Provision for standard assets	157,34	3,16
Other provisions and contingencies*	514,24	1,143,12
Total	**3,871,30**	**3,867,59**

** Includes (write-back) / provisions for : tax, legal and other contingencies ₹ (164,49) lacs (previous year : ₹ 474,90 lacs), floating provisions ₹ 700,00 lacs (previous year : ₹ 670,00 lacs), securitised-out assets ₹ 9,84 lacs (previous year : ₹ 2,59 lacs) restructured assets ₹ (4,13) lacs (previous year : ₹ (4,40) lacs), and doubtful assets ₹ 2 lacs (Previous Year ₹ 3 lacs)*

13 Employee benefits

Gratuity (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Reconciliation of opening and closing balance of the present value of the defined benefit obligation		
Present value of obligation as at April 1	**137,63**	**100,10**
Interest cost	11,70	7,87
Current service cost	29,00	27,47
Benefits paid	(9,19)	(8,22)
Actuarial (gain) / loss on obligation :		
Experience adjustment	1,22	9,94
Assumption change	(1,76)	47
Present value of obligation as at March 31	**168,60**	**137,63**
Reconciliation of opening and closing balance of the fair value of the plan assets		
Fair value of plan assets as at April 1	66,51	52,23
Expected return on plan assets	6,37	2,40
Contributions	30,55	20,10
Benefits paid	(9,19)	(8,22)
Actuarial gain / (loss) on plan assets :		
Experience adjustment	(95)	-
Assumption change	3	-
Fair value of plan assets as at March 31	**93,32**	**66,51**
Amount recognised in Balance Sheet		
Fair value of plan assets as at March 31	93,32	66,51
Present value of obligation as at March 31	(168,60)	(137,63)
Asset / (liability) as at March 31	**(75,28)**	**(71,12)**
Expenses recognised in Statement of Profit and Loss		
Interest cost	11,70	7,87
Current service cost	29,00	27,47
Expected return on plan assets	(6,37)	(2,39)
Net actuarial loss recognised in the year	38	10,42
Net Cost	**34,71**	**43,37**
Actual return on plan assets	5,45	2,40
Estimated contribution for the next year	41,91	17,61
Assumptions (HDFC Bank Limited)		
Discount rate	8.8% per annum	8.2% per annum
Expected return on plan assets	8.0% per annum	8.0% per annum
Salary escalation rate	9.0% per annum	8.5% per annum
Assumptions (HDFC Securities Limited)		
Discount rate	8.5% per annum	8.5% per annum
Expected return on plan assets	8.6% per annum	8.0% per annum
Salary escalation rate	6.0% per annum	5.0% per annum
Assumptions (HDB Financial Services Limited)		
Discount rate	8.28% per annum	8.2% per annum
Expected return on plan assets	8.0% per annum	8.0% per annum
Salary escalation rate :		
General	5.0% per annum	5.0% per annum
Others	5.0% per annum	5.0% per annum

Experience adjustment (₹ lacs)

Particulars	Year ended March 31, 2012	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2009	Year ended March 31, 2008
Plan assets	93,32	66,51	52,24	45,67	22,54
Defined benefit obligation	168,60	137,63	100,10	73,19	38,42
Surplus / (deficit)	(75,28)	(71,12)	(47,86)	(27,52)	(15,88)
Experience adjustment gain / (loss) on plan assets	(95)	-	7,42	(3,68)	(1,03)
Experience adjustment (gain) / loss on plan liabilities	1,22	9,94	(5,05)	4,83	6,50

Pension (₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Reconciliation of opening and closing balance of the present value of the defined benefit obligation		
Present value of obligation as at April 1	57,38	40,70
Interest cost	4,61	3,05
Current service cost	1,51	1,76
Benefits paid	(10,09)	(6,99)
Actuarial (gain) / loss on obligation :		
Experience adjustment	1,36	18,50
Assumption change	2,08	36
Present value of obligation as at March 31	**56,85**	**57,38**
Reconciliation of opening and closing balance of the fair value of the plan assets		
Fair value of plan assets as at April 1	43,35	38,78
Expected return on plan assets	3,78	3,28
Contributions	15,39	5,43
Benefits paid	(10,09)	(6,99)
Actuarial gain / (loss) on plan assets :		
Experience adjustment	(1,29)	2,85
Assumption change	-	-
Fair value of plan assets as at March 31	**51,14**	**43,35**
Amount recognised in Balance Sheet		
Fair value of plan assets as at March 31	51,14	43,35
Present value of obligation as at March 31	(56,85)	(57,38)
Asset / (liability) as at March 31	**(5,71)**	**(14,03)**
Expenses recognised in Statement of Profit and Loss		
Interest cost	4,61	3,05
Current service cost	1,51	1,76
Expected return on plan assets	(3,78)	(3,28)
Net actuarial (gain) / loss recognised in the year	4,73	16,01
Net cost	**7,07**	**17,54**
Actual return on plan assets	2,49	6,13
Estimated contribution for the next year	6,28	35
Assumptions		
Discount rate	8.8% per annum	8.2% per annum
Expected return on plan assets	8.0% per annum	8.0% per annum
Salary escalation rate	9.0% per annum	8.5% per annum

Expected rate of return on investments is determined based on the assessment made by the Group at the beginning of the year with regard to its existing portfolio. The Group's investments have been made in insurance funds and securities.
The Group does not have any unfunded defined benefit plan. The Group contributed ₹ 122,01 lacs (previous year : ₹ 95,85 lacs) to the provident fund and ₹ 32,74 lacs (previous year : ₹ 25,86 lacs) to the superannuation plan.

Experience adjustment* (₹ lacs)

Particulars	Year ended March 31, 2012	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2009
Plan assets	51,14	43,35	38,78	36,90
Defined benefit obligation	56,85	57,38	40,70	34,60
Surplus / (deficit)	(5,71)	(14,03)	(1,92)	2,30
Experience adjustment gain / (loss) on plan assets	(1,29)	2,85	2,78	(2,69)
Experience adjustment (gain) / loss on plan liabilities	1,36	18,50	2,12	(8,06)

** Pension liability relates to employees of eLKB which was merged with eCBOP. Since eCBOP was merged with the bank in the year ended March 31, 2009, there are no figures for the year ended March 31, 2008.*

Provident fund

The guidance note on AS-15 (Employee Benefits), states that employer established provident funds, where interest is guaranteed are to be considered as defined benefit plans and the liability has to be valued. The Actuary Society of India (ASI) has issued a guidance note on valuation of interest rate guarantees on exempt provident funds. The actuary has accordingly valued the same and the Bank has made a provision of ₹ 9,77 lacs towards the present value of the guaranteed interest benefit obligation. The actuary has followed deterministic approach as prescribed by the guidance note.

Assumptions :

Discount rate (GOI security yield)	8.8% per annum
Expected guaranteed interest rate	8.3% (1 year) & Average 8.6% thereafter

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

Compensated absences

The actuarial liability of compensated absences of accumulated privileged and sick leaves of the employees of the Group as of March 31, 2012 is given below : **(₹ lacs)**

Particulars	March 31, 2012	March 31, 2011
Privileged leave	173,23	133,95
Sick leave	34,98	26,36
Total actuarial liability	208,21	160,31
Assumptions (HDFC Bank Limited)		
Discount rate	8.8% per annum	8.2% per annum
Salary escalation rate	9.0% per annum	8.5% per annum
Assumptions (HDFC Securities Limited)		
Discount rate	8.5% per annum	8.5% per annum
Salary escalation rate	6.0% per annum	5.0% per annum
Assumptions (HDB Financial Services Limited)		
Discount rate	8.28% per annum	8.2% per annum
Salary escalation rate :		
General staff	5.0% per annum	5.0% per annum
Others	5.0% per annum	5.0% per annum

14 Segment reporting

Segment reporting for the year ended March 31, 2012 is given below : **(₹ lacs)**

S. No.	Particulars	Treasury	Retail banking	Wholesale banking	Other banking operations	Total
1	Segment revenue	7,823,56	26,529,26	15,804,29	3,429,28	53,586,39
2	Unallocated revenue					95,89
3	Less : Inter-segment revenue					20,624,33
4	Income from operations (1) + (2) - (3)					33,057,95
5	Segment results	381,99	3,486,82	3,271,85	1,432,47	8,573,13
6	Unallocated expenses					905,63
7	Income tax expense (including deferred tax)					2,394,10
8	Net profit (5) - (6) - (7) (net profit before minority interest and earnings from associates)					5,273,40
9	Segment assets	121,349,00	112,840,91	92,710,51	1,063,770	337,538,12
10	Unallocated assets					3,516,89
11	Total assets (9) + (10)					341,055,01
12	Segment liabilities	26,142,72	189,990,26	76,404,04	3,843,31	296,380,33
13	Unallocated liabilities					14,750,30
14	Total liabilities (12) + (13)					311,130,63
15	Capital employed (9) - (12) (Segment assets - segment liabilities)	95,206,28	(77,149,35)	16,306,47	6,794,39	41,157,79
16	Unallocated (10) - (13)					(11,233,41)
17	Total (15) + (16)					29,924,38
18	Capital expenditure	43,29	539,74	78,93	72,68	734,64
19	Depreciation	36,54	365,44	75,09	77,09	554,16

HDFC BANK
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Segment reporting for the year ended March 31, 2011 is given below : **(₹ lacs)**

S. No.	Particulars	Treasury	Retail banking	Wholesale banking	Other banking operations	Total
1	Segment revenue	5,391,16	19,505,03	11,612,89	2,849,94	39,359,02
2	Unallocated revenue					(1,23)
3	Less : Inter-segment revenue					14,729,41
4	Income from operations (1) + (2) - (3)					24,628,38
5	Segment results	96,12	3,014,57	2,423,31	1,158,15	6,692,15
6	Unallocated expenses					734,94
7	Income tax expense (including deferred tax)					1,939,52
8	Net profit (5) - (6) - (7) (net profit before minority interest and earnings from associates)					4,017,69
9	Segment assets	95,392,16	88,065,88	85,074,76	5,877,28	274,410,08
10	Unallocated assets					3,552,86
11	Total assets (9) + (10)					277,962,94
12	Segment liabilities	15,369,43	147,061,74	75,414,37	1,086,31	238,931,85
13	Unallocated liabilities					13,654,73
14	Total liabilities (12) + (13)					252,586,58
15	Capital employed (9) - (12) (Segment assets - segment liabilities)	80,022,73	(58,995,86)	9,660,39	4,790,97	35,478,23
16	Unallocated (10) - (13)					(10,101,87)
17	Total (15) + (16)					2,537,636
18	Capital expenditure	60,73	423,87	90,04	39,82	614,46
19	Depreciation	53,98	324,36	87,52	43,25	509,11

An amount of ₹ 5,003,64 lacs pertaining to grossed up unrealised gain on foreign exchange and derivatives contracts has been reclassified from 'Unallocated' to 'Treasury' segment in the Segmental capital employed (asset - liabilities) as at March 31, 2011.

15 Related party disclosures

As per AS-18, related party disclosure, issued by the ICAI, the Bank's related parties are disclosed below :

Promoter

Housing Development Finance Corporation Limited

Enterprises under common control of the promoter

HDFC Asset Management Company Limited

HDFC Standard Life Insurance Company Limited

HDFC Developers Limited

HDFC Holdings Limited

HDFC Investments Limited

HDFC Trustee Company Limited

GRUH Finance Limited

HDFC Realty Limited

HDFC ERGO General Insurance Company Limited

HDFC Venture Capital Limited

HDFC Ventures Trustee Company Limited

HDFC Sales Private Limited

HDFC Property Ventures Limited

HDFC Asset Management Company (Singapore) Pte. Limited

Griha Investments

Credila Financial Services Private Limited

HDFC Education and Development Services Private Limited

Associates

Atlas Documentary Facilitators Company Private Limited

HBL Global Private Limited

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

International Asset Reconstruction Company Private Limited

Key management personnel

Aditya Puri, Managing Director

Paresh Sukthankar, Director

Harish Engineer, Director

Related parties to key management personnel

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

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

The significant transactions between the Bank and related parties for year ended March 31, 2012 are given below. A specific related party transaction is disclosed as a significant related party transaction wherever it exceeds 10% of all related party transactions in that category :

- Purchase of fixed assets : HBL Global Private Limited ₹ 20 lacs (previous year : ₹ 10 lacs).
- Sale of fixed assets : Atlas Documentary Facilitators Company Private Limited ₹ 13 lacs (previous year : ₹ Nil).
- Interest paid : Housing Development Finance Corporation Limited ₹ 7,55 lacs (previous year : ₹ 4,88 lacs); HDFC ERGO General Insurance Company Limited ₹ 2,04 lacs (previous year : ₹ Nil); Atlas Documentary Facilitators Company Private Limited ₹ 4,04 lacs (previous year : ₹ 2,05 lacs).
- Rendering of services : Housing Development Finance Corporation Limited ₹ 106,97 lacs (previous year : ₹ 96,47 lacs); HDFC Standard Life Insurance Company Limited ₹ 456,37 lacs (previous year : ₹ 669,64 lacs); HDFC ERGO General Insurance Company Limited ₹ 110,44 lacs (previous year : ₹ 77,99 lacs)
- Receiving of services : HBL Global Private Limited ₹ 360,40 lacs (previous year : ₹ 290,19 lacs); Atlas Documentary Facilitators Company Private Limited ₹ 324,43 lacs (previous year : ₹ 266,66 lacs).
- Dividend paid : Housing Development Finance Corporation Limited ₹ 129,76 lacs (previous year : ₹ 94,37 lacs); HDFC Investments Limited ₹ 49,50 lacs (previous year : ₹ 36,00 lacs);

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

Items / Related party	Promoter	Enterprises under common control of the promoter	Associates	Key management personnel	Total
Deposits taken	2,110,77	360,10	45,71	10,83	2,527,41
	(2,110,77)	(360,10)	(45,71)	(10,83)	(2,527,41)
Deposits placed	15	-	30,95	2,22	33,32
	(15)	-	(77,60)	(2,22)	(79,97)
Advances given	-	-	27,90	73	28,63
	-	-	(34,36)	(73)	(35,09)
Fixed assets purchased from	-	-	20	-	20
Fixed assets sold to	-	-	13	-	13
Interest paid to	7,55	2,36	4,15	43	14,49
Interest received from	-	-	1,39	3	1,42
Income from services rendered to	106,97	619,73	20,93	-	747,63
Expenses for receiving services from	24,79	36,62	685,50	60	747,51
Equity / other investments	-	-	66,13	-	66,13
	-	-	(66,58)	-	(66,58)
Dividend paid to	129,76	49,50	-	-	179,26
Dividend received from	-	-	1	-	1
Receivable from	13,65	77,32	-	-	90,97
	(13,65)	(77,32)	(7,15)	-	(98,12)
Payable to	8,35	-	50,89	-	59,24
	(8,35)	-	(63,32)	-	(71,67)
Remuneration paid	-	-	-	9,98	9,98
Loans purchased from	4,977,62	-	-	-	4,977,62

Figures in bracket indicate maximum balance outstanding during the year based on comparison of the total outstanding balances at each quarter-end.

Remuneration paid excludes value of employee stock options exercised during the year.

The Bank being an authorised dealer, deals in foreign exchange and derivative transactions with certain parties which includes the promoter and related group companies. The foreign exchange and derivative transactions are undertaken in line with the RBI guidelines. The notional principal amount of foreign exchange and derivative contracts transacted with the promoter that were outstanding as on March 31, 2012 is ₹ 250,00 lacs (previous year : ₹ 250,00 lacs). The contingent credit exposure pertaining to these contracts computed in line with the extant RBI guidelines on exposure norms is ₹ 15,23 lacs (previous year : ₹ 11,08 lacs).

The Group's related party balances and transactions for the year ended March 31, 2011 are summarized as follows : **(₹ lacs)**

Items / Related party	Promoter	Enterprises under common control of the promoter	Associates	Key management personnel	Total
Deposits taken	1,619,82	192,42	45,59	7,21	1,865,04
	(1,619,82)	(320,00)	(53,26)	(12,88)	(2,005,96)
Deposits placed	15	34	30,60	2,22	33,31
	(15)	(34)	(32,55)	(2,22)	(35,26)
Advances given	-	-	-	73	73
	-	-	-	(73)	(73)
Fixed assets purchased from	-	-	10	-	10
Interest paid to	4,88	1,00	2,08	18	8,14
Interest received from	-	-	-	4	4
Income from services rendered to	96,47	794,50	20,98	-	911,95
Expenses for receiving services from	17,48	31,29	559,02	60	608,39
Equity / other investments	-	-	40,15	-	40,15
	-	-	(42,64)	-	(42,64)
Dividend paid to	94,37	36,00	-	-	130,37
Receivable from	8,29	53,14	-	-	61,43
	(9,59)	(122,56)	(4,30)	-	(136,45)
Payable to	-	-	38,52	-	38,52
	-	-	(63,21)	-	(63,21)
Remuneration paid	-	-	-	8,27	8,27
Loans purchased	4,378,97	-	-	-	4,378,97
Financial assets sold to securitization / reconstruction company	-	-	10,75	-	10,75

Figures in bracket indicate maximum balance outstanding during the year based on comparison of the total outstanding balances at each quarter end.

Remuneration paid excludes value of employee stock options exercised during the year.

16 Leases

Operating leases primarily comprise office premises, staff residences and ATMs, which are renewable at the option of the Bank. The details of maturity profile of future operating lease payments are given below :

(₹ lacs)

Particulars	March 31, 2012	March 31, 2011
Not later than one year	527,21	453,45
Later than one year and not later than five years	1,785,11	1,531,54
Later than five years	750,84	662,22
Total	**3,063,16**	**2,647,21**
The total of minimum lease payments recognized in the profit and loss account for the year	549,51	479,60
Total of future minimum sub-lease payments expected to be received under non-cancellable subleases	66,82	74,60
Sub-lease payments recognized in the Statement of Profit and Loss for the year	24,17	18,18

During the previous year, the Bank has entered into an operating lease agreement with a counter-party for leasing certain assets. These are in the process of being deployed. The future lease payment for this lease is linked to volume of usage of the leased assets and accordingly, the future minimum lease payments cannot be estimated at this stage.

The Bank has sub-leased certain of its properties taken on lease. There are no provisions relating to contingent rent.

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

17 Penalties levied by the RBI

The RBI issued a show cause notice in October 2010 to the Bank for having contravened the guidelines issued by the RBI and provisions of Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulation 2000 in respect of derivative deals done by the Bank as observed in its annual financial inspection of the Bank with respect to its financial position as at and for the years ended 31 March 2007 and 31 March 2008. Subsequently, the Bank, vide its letter dated October 19, 2010, submitted a detailed response to the RBI explaining the Bank's position and clarifying that the Bank was in compliance with the RBI guidelines. While RBI accepted some of the submissions made by the Bank, few other submissions made in the matter were not accepted by RBI. RBI, accordingly, imposed a penalty of ₹ 15 lacs for non-compliance of the RBI's directions and instructions in terms of Section 47A(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949. The stated amount was paid by the Bank during the fiscal year ended 2012.

18 Change in accounting estimates

HDFC Bank Limited

Useful life of fixed assets

During the previous year ended March 31, 2011, the Bank revised the estimated useful life of point of sale machines and certain information technology servers. Depreciation on these assets is charged prospectively over the revised useful life of the asset. Consequently, profit after tax for the previous year was lower by ₹ 39,05 lacs.

19 Small and micro industries

HDFC Bank Limited

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

HDFC Securities Limited

On the basis of the intimations received from suppliers regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 there are nine (previous year : eight) suppliers registered under the said Act, and there are no amounts unpaid to these suppliers as at the year end.

HDB Financial Services Limited

As per the confirmation received from the suppliers covered under the Micro, Small and Medium Enterprises Development Act, 2006, the amount unpaid as at March 31, 2012 was Nil. During the previous year the amount unpaid was ₹ 0.1 lacs.

For the year ended March 31, 2012

20 Additional disclosure

Additional statutory information disclosed in the separate financial statements of the Bank and subsidiaries have no material bearing on the true and fair view of the consolidated financial statements and the information pertaining to the items which are not material have not been disclosed in the consolidated financial statements.

21 Comparative figures

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

For and on behalf of the Board

C. M. Vasudev
Chairman

Aditya Puri
Managing Director

Sanjay Dongre
Executive Vice President (Legal) &
Company Secretary

Mumbai, 18 April, 2012

Harish Engineer
Executive Director

Paresh Sukthankar
Executive Director

A. N. Roy
Ashim Samanta
Bobby Parikh
Dr. Pandit Palande
Keki Mistry
Partho Datta
Renu Karnad
Directors

AUDITORS' CERTIFICATE ON COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE

To The Members of

HDFC Bank limited

We have examined the compliance of conditions of corporate governance of HDFC Bank Limited ("the Bank") for the year ended 31 March 2012 as stipulated in Clause 49 of the Listing Agreement of the Bank with the stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion, and to the best of our information and according to the explanations given to us, we certify that the Bank has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the management has conducted the affairs of the Bank.

For BSR & Co.
Chartered Accountants
Firm's Registration No: 101248W

N Sampath Ganesh
Partner
Membership No: 042554

Place : Mumbai
Date : 18 April 2012

[Report on Corporate Governance pursuant to Clause 49 of the Listing Agreement entered into with the Stock Exchanges and forming a part of the report of the Board of Directors]

PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

The Bank believes in adopting and adhering to the best recognised corporate governance practices and continuously benchmarking itself against each such practice. The Bank understands and respects its fiduciary role and responsibility to shareholders and strives hard to meet their expectations. The Bank believes that best board practices, transparent disclosures and shareholder empowerment are necessary for creating shareholder value.

The Bank has infused the philosophy of corporate governance into all its activities. The philosophy on corporate governance is an important tool for shareholder protection and maximisation of their long term values. The cardinal principles such as independence, accountability, responsibility, transparency, fair and timely disclosures, credibility, etc. serve as the means for implementing the philosophy of corporate governance in letter and spirit.

BOARD OF DIRECTORS

The composition of the Board of Directors of the Bank ("**Board**") is governed by the Companies Act, 1956, the Banking Regulation Act, 1949 and the listing requirements of the Indian Stock Exchanges where the securities issued by the Bank are listed. The Board has a strength of eleven (11) Directors as on March 31, 2012. All Directors, other than Mr. Aditya Puri, Mr. Harish Engineer and Mr. Paresh Sukthankar are non-executive directors. The Bank has six (6) independent directors and five (5) non-independent directors

None of the Directors on the Board is a member of more than ten (10) Committees and Chairman of more than five (5) Committees across all the companies in which he / she is a Director. All the Directors have made necessary disclosures regarding Committee positions occupied by them in other companies.

- Mr. Keki Mistry, Mrs. Renu Karnad, Mr. Aditya Puri, Mr. Harish Engineer and Mr. Paresh Sukthankar are non-independent Directors on the Board.
- Mr. C. M. Vasudev, Mr. Ashim Samanta, Mr. Partho Datta, Mr. Bobby Parikh, Mr. A. N. Roy and Dr. Pandit Palande are independent directors on the Board.
- Mr. Keki Mistry and Mrs. Renu Karnad represent HDFC Limited on the Board of the Bank.
- None of the directors are related to each other.

COMPOSITION AND PROFILE OF THE BOARD OF DIRECTORS

The composition and profile of the Directors of the Bank as on March 31, 2012 is as under:

Mr. C. M. Vasudev

Mr. C. M. Vasudev holds a Master's Degree in Economics and Physics. He joined the Indian Administrative Services in 1966. Mr. Vasudev has worked as an Executive Director of World Bank representing India, Bangladesh, Sri Lanka and Bhutan. Mr. Vasudev has extensive experience of working at policy making levels in the financial sector and was responsible for laying down policies and oversight of management at World Bank. He chaired the World Bank's committee on development effectiveness with responsibility of ensuring effectiveness of World Bank's operations.

Mr. Vasudev has also worked as Secretary, Ministry of Finance for more than 8 years and has undertaken various assignments, viz. Secretary, Department of Economic Affairs, Department of Expenditure, Department of Banking and Additional Secretary, Budget with responsibility for framing the fiscal policies and policies for economic reforms and for co-ordinating preparation of budgets of the Government of India and monitoring its implementation. He has previously been appointed as a Government nominee Director on the Boards of many companies in the financial sector including State Bank of India, IDBI, ICICI, IDFC, NABARD, National Housing Bank and also on the Central Board of the Reserve Bank of India. He was also member secretary of the Narasimham Committee on financial sector reforms. He also chaired a committee on reforms of the NBFC sector. He also worked as Joint Secretary of Ministry of Commerce with responsibility for state trading, trade policy including interface with WTO.

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

Mr. Vasudev does not hold any equity shares in the Bank as on March 31, 2012.

Mr. Aditya Puri

Mr. Aditya Puri holds a Bachelor's degree in Commerce from Punjab University and is an associate member of the Institute of Chartered Accountants of India.

Prior to joining the Bank, Mr. Puri was the Chief Executive Officer of Citibank, Malaysia from 1992 to 1994.

Mr. Puri has been the Managing Director of the Bank since September 1994. He has nearly 38 years of experience in the banking sector in India and abroad.

Mr. Puri has provided outstanding leadership as the Managing Director and has contributed significantly to enable the Bank scale phenomenal heights under his stewardship.

The numerous awards won by Mr. Puri and the Bank are a testimony to the tremendous credibility that he has built for himself and the Bank over the years.

The Bank has made good progress on key parameters like balance sheet size, total deposits, net revenues, earnings per share and net profit during Mr. Puri's tenure. The rankings achieved by the Bank amongst all Indian banks with regard to market capitalization, profit after tax and balance sheet size remains amongst the top 10.

Mr. Puri has led one of the biggest mergers of the Indian banking industry in recent times with the merger of Centurion Bank of Punjab with the Bank. The subsequent integration has been smooth and seamless under his inspired leadership.

Mr. Puri is not a Director on the Board of Directors of any other company.

Mr. Puri holds 16,89,765 equity shares in the Bank as on March 31, 2012.

Mr. Keki Mistry

Mr. Keki Mistry was appointed as an additional director of the Bank during the year. He has obtained a Bachelor's Degree in Commerce from the Mumbai University. He is a Fellow Member of the Institute of Chartered Accountants of India. Mr. Mistry is also a member of the Michigan Association of Certified Public Accountants, USA.

Mr. Mistry started his career with The Indian Hotels Company Limited, one of the largest chain of hotels in India.

In the year 1981, Mr. Mistry joined Housing Development Finance Corporation Limited (HDFC). He was inducted on to the Board of Directors of HDFC as an Executive Director in the year 1993 and was elevated to the post of Managing Director with effect from November 2000. In October 2007, Mr. Mistry was appointed as Vice Chairman & Managing Director of HDFC and became the Vice Chairman & CEO in January 2010.

Mr. Mistry is a Director on the Boards of HDFC, HDFC Asset Management Company Limited, HDFC Standard Life Insurance Company Limited, HDFC ERGO General Insurance Company Limited, GRUH Finance Limited, Infrastructure Leasing & Financial Services Limited, Sun Pharmaceutical Industries Limited, The Great Eastern Shipping Co Limited, Greatship (India) Limited, Next Gen Publishing Limited, Shrenuj & Company Limited, Torrent Power Limited and BSE Limited. Mr. Mistry is also a member on the India Advisory Board at PriceWaterhouse Coopers.

Mr. Mistry is the Chairman of the Audit Committee of Great Eastern Shipping Limited, Greatship (India) Limited, Sun Pharmaceuticals Industries Limited and Torrent Power Limited. He is a member of the Audit Committee of HDFC Standard Life Insurance Company Limited, HDFC ERGO General Insurance Company Limited, HDFC Asset Management Company Limited, GRUH Finance Limited, Infrastructure Leasing & Financial Services Limited and Shrenuj & Company Limited.

He is a member of the Compensation Committee of GRUH Finance Limited, Infrastructure Leasing & Financial Services Limited and Greatship (India) Limited.

He is the Chairman of the Nomination Committee of Greatship (India) Limited and a member of the Nomination Committee of Infrastructure Leasing & Financial Services Limited and Torrent Power Limited.

Mr. Mistry holds 2,91,915 equity shares in the Bank as on March 31, 2012.

Mrs. Renu Karnad

Mrs. Renu Karnad is a law graduate and also holds a Masters Degree in Economics from Delhi University. She is a Parvin Fellow-Woodrow Wilson School of International Affairs, Princeton University, U.S.A.

Mrs. Karnad is a Director on the Boards of BOSCH Limited, Credit Information Bureau (India) Limited, GRUH Finance Limited, Housing Development Finance Corporation Limited, HDFC Asset Management Company Limited, HDFC ERGO General Insurance Company Limited, HDFC Standard Life Insurance Company Limited, AKZO Nobel India Limited, Indraprastha Medical Corporation Limited, EIH Limited, Feedback Infrastructure Services Private Limited, G4S Corporate Services (India) Private Limited, Value and Budget Housing Corporation (India) Private Limited, Lafarge India Private Limited, Transunion LLC- Chicago and HDFC PLC – Maldives. Mrs. Renu Karnad is Chairperson on the Boards of Directors of HDFC Property Ventures Limited, Credila Financial Services Private Limited, HDFC Sales Private Limited, HDFC Education and Development Services Private Limited.

Mrs. Karnad is the Chairperson of the Audit Committee of AKZO Nobel India Private Limited, Credit Information Bureau (India) Limited and Bosch Limited. She is a member of the Audit Committee of HDFC ERGO General Insurance Company Limited and a member of Investor Grievance committee of BOSCH Limited. She is the Chairperson of the Remuneration Committee of AKZO Nobel India Limited as well as the Chairperson of Compensation Committee of HDFC Standard Life Insurance Company Private Limited. She is also a member of the Investment Committee, Compensation Committee, Compensation-ESOS Committee, Committee of Directors of GRUH Finance Limited; Customer Service Committee and Risk Management Committee of HDFC Asset Management Company Limited; Remuneration Committee of Credit Information Bureau (India) Limited; Investment Sub Committee and Property Sub Committee of BOSCH Limited; Allotment Committee of HDFC Education and Development Services Private Limited.

Mrs. Karnad holds 2,94,620 equity shares in the Bank as on March 31, 2012.

Mr. Ashim Samanta

Mr. Ashim Samanta holds a Bachelor of Commerce degree from University of Mumbai and has a wide and extensive business experience for nearly 37 years. He has vast experience in the field of bulk drugs and fine chemicals.

He is a Director of Samanta Organics Private Limited, Nautilus Trading & Leasing Private Limited, Ashish Rang Udyog Private Limited, Shakti Cine Studios Private Limited and Samanta Movies Private Limited. Mr. Samanta has also been engaged in setting up and running of a film mixing, editing and dubbing studio.

Mr. Samanta holds 3000 equity shares in the Bank as on March 31, 2012.

Dr. Pandit Palande

Dr. Pandit Palande has a Ph.D. degree in Business Administration and has completed an Advanced Course in Management from the Oxford University and the Warwick University in UK. Dr. Palande has been working as a director of the School of Commerce and Management for 20 years in Yashwantrao Chavan Maharashtra Open University ("**YCMOU**"). Dr. Palande is a former Pro-Vice Chancellor of YCMOU.

Dr. Palande has extensive experience of working in the fields of business administration, management and agriculture. Under the guidance of Dr. Palande, YCMOU has become one of the green universities in India. As a Project Director of Indian Space Research Organisation ("**ISRO**") GAP-3 of YCMOU, Dr. Palande has been serving the academic and agriculture community on a large scale

Dr. Palande is neither a Chairman nor a Director of any other company.

Dr. Palande is liable to retire by rotation and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

Dr. Palande does not hold equity shares in the Bank as on March 31, 2012.

Mr. Partho Datta

Mr. Partho S. Datta is an associate member of the Institute of Chartered Accountants of India (ICAI). He joined Indian Aluminum Company Limited (INDAL) and was with INDAL and its parent company in Canada for 25 years and held positions as its Treasurer, Chief Financial Officer and Director Finance during his tenure. Thereafter, he joined the Chennai based Murugappa Group as the head of Group Finance and was a member of the Management Board of the Group, as well as a Director in several Murugappa Group companies. Post retirement from the Murugappa Group, Mr. Datta was an advisor to the Central Government appointed Board of Directors of Satyam Computers Services Limited during the restoration process and has also been engaged in providing business / strategic and financial consultancy on a selective basis.

Mr. Datta is a Director of Peerless Funds Management Company Limited, IRIS Business Services Limited and Endurance Technologies Private Limited. He is the Chairman of the Audit Committee and a member of the Risk Management Committee, Investment Committee and Remuneration Committee of Peerless Funds Management Company Limited. He is also the Chairman of the Audit Committee and a member of the Investor Grievance Committee of Endurance Technologies Private Limited. He is a member of the Audit Committee and the Board Committee of IRIS Business Services Limited.

Mr. Datta has a rich and extensive experience in various Financial and Accounting matters including financial management, investor relations, foreign exchange risk management, international financing, international tax, mergers and acquisitions and strategic planning. Mr. Datta is one of the financial experts on the Audit & Compliance Committee of the Bank.

Mr. Datta is liable to retire by rotation and being eligible offers himself for re-appointment at the ensuing Annual General Meeting.

Mr. Datta does not hold any equity shares in the Bank as on March 31, 2012.

Mr. Bobby Parikh

Mr. Bobby Parikh has a Bachelor's degree in Commerce from the Mumbai University and has qualified as a Chartered Accountant in 1987. Mr. Parikh is a Senior Partner with BMR & Associates and leads its financial services practice. Prior to joining BMR & Associates, he was the Chief Executive Officer of Ernst & Young in India and held that responsibility until December 2003. Mr. Parikh worked with Arthur Andersen for over 17 years and was its Country Managing Partner, until the Andersen practice combined with that of Ernst & Young in June 2002.

Over the years, Mr. Parikh has had extensive experience in advising clients across a range of industries. India has witnessed significant deregulation and a progressive transformation of its policy framework. An area of focus for Mr. Parikh has been to work with businesses, both Indian and Multinational, in interpreting the implications of the deregulation as well as the changes to India's policy framework, to help businesses better leverage opportunities that have become available and to address challenges that resulted from such changes. Mr. Parikh has led teams that have advised clients in the areas of entry strategy (MNCs into India and Indian companies into overseas markets), business model identification, structuring a business presence, mergers, acquisitions and other business reorganizations. Mr. Parikh works closely with regulators and policy formulators, in providing inputs to aid in the development of new regulations and policies, and in assessing the implications and efficacy of these and providing feedback for action. Mr. Parikh led the Financial Services industry practice at Arthur Andersen and then also at Ernst & Young, and has advised a number of banking groups, investment banks, brokerage houses, fund managers and other financial services intermediaries in establishing operations in India, mergers and acquisitions and in developing structured financial products, besides providing tax and business advisory and tax reporting services.

Mr. Parikh has been a member of a number of trade and business associations and their management or other committees, as well as on the advisory or executive boards of non-Governmental and not-for-profit organizations.

Mr. Parikh is a Director of BMR Advisors Private Limited, Tax and Advisors Private Limited, BMR Managed Services Private Limited, BMR Advisors Pte Limited, BMR & Associates, Aviva Life Insurance Company India Limited, Green Infra Limited, Indostar Capital Finance Limited and Birla Sun Life Asset Management Company Limited.

He is the Chairman of the Audit Committee and a member of Investment Committee, Asset Liability Management Committee and Remuneration Committee of Aviva Life Insurance Company India Limited. He is the Chairman of the Audit Committee and a member of the Compensation Committee of Green Infra Limited. He is also a member of the Audit Committee and Risk Management Committee of Indostar Capital Finance Limited. Mr. Parikh is one of the financial experts on the Audit and Compliance Committee of the Bank.

Mr. Parikh holds 7,840 equity shares in the Bank as on March 31, 2012.

Mr. A. N. Roy

Mr. A N Roy is an M.A., M. Phil and a distinguished retired civil servant. During his long career of 38 years in the prestigious Indian Police Service (IPS), he handled with great distinction a range of assignments including some of the most prestigious, challenging and sensitive ones, both in the state of Maharashtra as well as Government of India. He retired in the year 2010 as the Director General of Police (DGP), Maharashtra.

His areas of specialisation include policy planning, budget, recruitment, training and other finance and administration functions in addition to all operational matters.

A firm believer of technology in Police for providing solutions to a variety of complex problems or citizen facilitation and as 'force-multiplier', Mr. Roy brought in technology in a very big way in the Police department with full co-operation and support of the entire IT Industry. He also held the position of Director General of the Anti-Corruption Bureau, in which capacity he initiated a policy document on vigilance matters for Government of Maharashtra.

Mr. Roy has wide knowledge and experience of security and intelligence matters at the state and national level. Having handled multifarious field and staff assignments, Mr. Roy has a rich and extensive experience of functioning of the government at various levels and of problem solving.

Mr. Roy has also completed many training courses on very important areas of Public Administration in some prestigious institutions in India and abroad.

Mr. Roy is a Director on the Board of India Ventures Advisors, Glaxo SmithKline Pharmaceuticals Limited and Planet Retail Holdings Limited. He is the Chairman of Vandana Foundation, a non-profit company registered under section 25 of the Companies Act, 1956.

Mr. Roy does not hold equity shares in the Bank as on March 31, 2012

Mr. Harish Engineer

Mr. Harish Engineer is an Executive Director in whole-time employment of the Bank. He is a Science Graduate from Mumbai University and holds a Diploma in Business Management from Hazarimal Somani College, Mumbai. Mr. Engineer has been associated with the Bank since 1994 in various capacities and is responsible for Wholesale Banking at present. Mr. Engineer has over 41 years experience in the fields of finance and banking. Prior to joining the Bank, Mr. Engineer worked with Bank of America for 26 years in various areas including operations and corporate credit management.

Mr. Engineer is neither a Chairman nor a Director of any other company.

Mr. Engineer holds 1,42,500 equity shares in the Bank as on March 31, 2012.

Mr. Paresh Sukthankar

Mr. Paresh Sukthankar is an Executive Director in whole-time employment of the Bank. He has done his Masters in Management Studies (MMS) from Jamnalal Bajaj Institute (Mumbai) and the Advanced Management Program (AMP) from the Harvard Business School. Mr. Sukthankar has been with the Bank since its inception in 1994. Mr. Sukthankar has overall approval, supervision and control responsibilities for the Bank's Credit and Risk Management function – covering the corporate and retail credit portfolios as well as the treasury activities. Mr. Sukthankar also has supervisory responsibility for the Finance and Human Resources functions and leads various strategic initiatives of the Bank.

Prior to joining the Bank, Mr. Sukthankar worked in Citibank for around 9 years, in various departments including corporate banking, risk management, financial control and credit administration. He has been a member of various committees formed by Reserve Bank of India and Indian Banks' Association.

Mr. Sukthankar is neither a Chairman nor a Director of any other company.

Mr. Sukthankar holds 5,51,255 equity shares in the Bank as on March 31, 2012.

BOARD MEETINGS

During the year under review, six (6) Board Meetings were held. The meetings were held on April 18, 2011; July 06, 2011; July 19, 2011; October 19, 2011; January 19, 2012 and March 01, 2012.

Details of attendance at the Board Meetings held during the year under review, directorship, membership and chairmanship in other companies for each director of the Bank are as follows:

Name of Director	Attendance at the Bank's Board Meetings	Directorship of other Indian Public Limited Companies	Membership of Other Companies' Committees	Chairmanship of Other Companies' Committees
Mr. C. M. Vasudev	6	5	2	Nil
Mr. Aditya Puri	6	Nil	Nil	Nil
Mr. Keki Mistry[1]	2	13	10	4
Mrs. Renu Karnad	6	11	5	3
Mr. Ashim Samanta	5	Nil	Nil	Nil
Dr. Pandit Palande	5	Nil	Nil	Nil
Mr. Partho Datta	6	2	4	2
Mr. Bobby Parikh	6	4	3	2
Mr. A. N. Roy	6	2	Nil	Nil
Mr. Harish Engineer	5	Nil	Nil	Nil
Mr. Paresh Sukthankar	5	Nil	Nil	Nil

[1] *Inducted on 19.01.2012*

Note: As per Clause 49 of the Listing Agreement, the memberships / chairmanships of directors in the Audit Committee and the Shareholders' / Investors' Committee have been considered.

ATTENDANCE AT LAST AGM

All the directors of the Bank attended the previous Annual General Meeting held on July 6, 2011, other than Mr. Keki Mistry who was appointed as a director on January 19, 2012.

REMUNERATION OF DIRECTORS

Mr. C. M. Vasudev, Chairman

During the year, Mr. C. M. Vasudev was paid remuneration of ₹ 15,00,000/-. Mr. Vasudev is also paid sitting fees for attending Board and Committee meetings. The remuneration of the Chairman has been approved by the Reserve Bank of India.

Managing Director and other Executive Directors:

The details of the remuneration paid to Mr. Aditya Puri, Managing Director; Mr. Harish Engineer and Mr. Paresh Sukthankar, Executive Directors during the year 2011-12 are as under:

(Amount in Rupees)

Particulars	Aditya Puri	Harish Engineer	Paresh Sukthankar
Basic	1,72,50,000.00	89,78,502.00	89,78,502.00
Allowances & Perquisites*	1,18,76,288.92	2,56,15,554.38	77,73,900.00
Provident Fund	20,70,000.00	10,77,420.00	10,77,420.00
Superannuation	25,87,500.00	13,46,775.00	13,46,775.00
Performance Bonus	1,51,20,512.00	62,83,274.00	62,83,274.00
No. of Stock Options granted during the year	9,00,000	4,50,000	4,50,000

* Perquisites include housing, consessional loans, car, reimbursement of Gas / Electricity / Water, use of movable assets and ESOPs.

The remuneration of the Managing Director and the Executive Directors has been approved by the Reserve Bank of India (RBI) and the members. Stock options granted as above to the Directors were granted under Employee Stock Option Scheme (ESOP) XVIII of the Bank and have been approved by the RBI. The said options have not been vested in them during the year under review.

The Bank provides for gratuity in the form of lump-sum payment on retirement or on death while in employment or on termination of employment of an amount equivalent to 15 (Fifteen) days basic salary payable for each completed year of service. The Bank makes annual contributions to funds administered by trustees and managed by insurance companies for amounts notified by the said insurance companies. The Bank accounts for the liability for future gratuity benefits based on an independent external actuarial valuation carried out annually.

Perquisites (evaluated as per Income Tax Rules, 1962 wherever applicable and at actual cost to the Bank otherwise) such as the benefit of the Bank's furnished accommodation, gas, electricity, water and furnishings, club fees, personal accident insurance, use of car and telephone at residence, medical reimbursement, leave and leave travel concession, provident fund, super annuation and gratuity are provided in accordance with the rules of the Bank in this regard.

No sitting fees are paid to Mr. Puri, Mr. Engineer and Mr. Sukthankar for attending the meetings of the Board and / or its Committees.

DETAILS OF REMUNERATION / SITTING FEES PAID TO DIRECTORS

All the non-executive directors other than the Chairman receive remuneration only by way of sitting fees for each meeting of the Board and its various committees. No stock options are granted to any of the non-executive directors.

Sitting fees @ ₹ 20,000/- per meeting are paid for attending each meeting of the Board and its various Committees except for the Investor Grievance (Share) Committee for which sitting fees @ ₹ 10,000/- for each meeting are paid to the directors.

The details of sitting fees paid to the non-executive directors during the year are as under:

Name of the Director	Sitting Fees (₹)
Mr. C.M. Vasudev	6,20,000
Mr. Keki Mistry[1]	60,000
Mrs. Renu Karnad	5,20,000
Mr. Ashim Samanta	6,70,000
Dr. Pandit Palande	4,80,000
Mr. Partho Datta	5,00,000
Mr. Bobby Parikh	6,40,000
Mr. A. N. Roy	3,30,000

[1] *Inducted w.e.f. 19.01.2012*

COMPOSITION OF COMMITTEES OF DIRECTORS AND ATTENDANCE AT THE MEETINGS

The Board has constituted various Committees of Directors to take informed decisions in the best interest of the Bank. These Committees monitor the activities falling within their terms of reference. Various Committees of the Board were reconstituted during the year.

The Board's Committees are as follows :

Audit and Compliance Committee

The Audit and Compliance Committee of the Bank comprises Mr. C. M. Vasudev, Mr. Ashim Samanta, Dr. Pandit Palande, Mr. Bobby Parikh and Mr. Partho Datta. The Committee is chaired by Mr. C. M. Vasudev. Mr. Sanjay Dongre, the Company Secretary of the Bank, acts as the secretary of the Committee.

The Committee met seven (7) times during the year. The meetings of the Committee were held on April 18, 2011, May 13, 2011, July 18, 2011, September 21, 2011, October 18, 2011, January 18, 2012 and March 1, 2012.

The terms of reference of the Audit Committee are in accordance with Clause 49 of the Listing Agreement entered into with the Stock Exchanges in India and include the following :

a) Overseeing the Bank's financial reporting process and ensuring correct, adequate and credible disclosure of financial information;

b) Recommending the appointment and removal of external auditors and fixing of their fees;

c) Reviewing with management the annual financial statements before submission to the Board with special emphasis on accounting policies and practices, compliance with accounting standards and other legal requirements concerning financial statements;

d) Reviewing the adequacy of the Audit and Compliance functions, including their policies, procedures, techniques and other regulatory requirements; and

e) Any other terms of reference as may be included from time to time in Clause 49 of the listing agreement.

The Board has also adopted a Charter for the Audit Committee in accordance with certain United States regulatory standards as the Bank's securities are also listed on the New York Stock Exchange.

Compensation Committee

The Compensation Committee reviews the overall compensation structure and policies of the Bank with a view to attract, retain and motivate employees, considers grant of stock options to employees and reviews compensation levels of the Bank's employees vis-à-vis other banks and industries in general.

The Bank's compensation policy provides a fair and consistent basis for motivating and rewarding the employees appropriately according to their job profile / role size, performance, contribution, skill and competence.

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

The Committee met thrice during the year.

Investor Grievance (Share) Committee

The Investor Grievance Committee approves and monitors transfer, transmission, splitting and consolidation of shares, and considers requests for dematerialization of shares. Allotment of shares to the employees on exercise of stock options granted under the various Employees Stock Option Schemes which are made in terms of the powers delegated by the Board in this regard, are placed before the Committee for ratification. The Committee also monitors the redressal of complaints from shareholders relating to transfer of shares, non-receipt of Annual Report, dividends etc.

The Committee consists of Mr. Ashim Samanta, Mr. A. N. Roy, Mr. Aditya Puri and Mr. Paresh Sukthankar. The Committee is chaired by Mr. Ashim Samanta. The powers to approve share transfers and dematerialization requests have been delegated to executives of the Bank to avoid delays that may arise due to non-availability of the members of the Committee.

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

During the year ended March 31, 2012, 1836 complaints were received from the shareholders. All the complaints were attended to and as on March 31, 2012 no complaints remained unattended or pending. Besides, 11,444 letters were received from the shareholders relating to change of address, nomination requests, email id and contact details updation, IFSC / MICR code updation, ECS / NECS Mandates, claim of shares from Unclaimed Suspense account, queries relating to the annual reports, Sub- division of shares and amalgamation, request for revalidation of dividend and other investor related matters. These letters have also been responded to.

The Committee met 5 (five) times during the year.

Risk Policy and Monitoring Committee

The Risk Policy and Monitoring Committee has been formed as per the guidelines of Reserve Bank of India on the Asset Liability Management / Risk Management Systems. The Committee develops the Bank's credit and market risk policies and procedures, verifies adherence to various risk parameters and prudential limits for treasury operations and reviews its risk monitoring system. The Committee also ensures that the Bank's credit exposure to any one group or industry does not exceed the internally set limits and that the risk is prudentially diversified.

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

The Committee met 5 (five) times during the year.

Credit Approval Committee

The Credit Approval Committee approves credit exposures, which are beyond the powers delegated to the executives of the Bank. This facilitates quick response to the needs of the customers and speedy disbursement of loans.

As on March 31, 2012, the Committee consists of Mr. Ashim Samanta, Mr. Bobby Parikh, Mr. Aditya Puri, Mr. Harish Engineer and Mr. Keki Mistry (inducted w.e.f. 01.03.2012)

The Committee met sixteen (16) times during the year.

Premises Committee

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

The Committee met five (5) times during the year.

Nomination Committee

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

- Academic qualifications, previous experience, track record, and :
- Integrity of the candidates.

For assessing the integrity and suitability, features like criminal records, financial position, civil actions undertaken to pursue personal debts, refusal of admission to and expulsion from professional bodies, sanctions applied by regulators or similar bodies and previous questionable business practice are considered.

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

The Committee met twice during the year.

Fraud Monitoring Committee

Pursuant to the directions of RBI, the Bank has constituted a Fraud Monitoring Committee, exclusively dedicated to the monitoring and following up of cases of fraud involving amounts of ₹ 1,00,00,000/- (Rupees One Crore) and above. The objectives of this Committee are the effective detection and immediate reporting of the frauds and actions taken against the perpetrators of frauds to the concerned regulatory and enforcement agencies. The terms of reference of the Committee are as under :

a. Identify the systemic lacunae, if any, that facilitated the perpetration of fraud and put in place measures to plug the same;

b. Identify the reasons for delay in detection, if any, reporting to top management of the Bank and RBI;

c. Monitor progress of Central Bureau of Investigation / Police Investigation and recovery position;

d. Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time;

e. Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls; and

f. Put in place any other measures as may be considered relevant to strengthen preventive measures against frauds.

The members of the Committee are Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. Partho Datta, Mr. A. N. Roy, Mr. Aditya Puri and Mr. Keki Mistry (inducted w.e.f. 01.03.2012).

The Committee met four (4) times during the year.

Customer Service Committee

The Customer Service Committee monitors the quality of services rendered to the customers and also ensures the implementation of directives received from the RBI in this regard. The terms of reference of the Committee are to formulate a comprehensive deposit policy incorporating the issues arising out of the demise of a depositor for operation of his account, the product approval process, the annual survey of depositor satisfaction and the triennial audit of such services.

The members of the Committee are Mr. C. M. Vasudev, Dr. Pandit Palande, Mr. A. N. Roy, Mr. Aditya Puri and Mr. Keki Mistry (inducted w.e.f. 01.03.2012) .

The Committee met four (4) times during the year.

COMPOSITION OF COMMITTEES OF DIRECTORS AND THE ATTENDANCE AT THE MEETINGS

Audit & Compliance Committee
[Total seven meetings held]

Name	No. of meetings attended
Mr. C. M. Vasudev	7
Mr. Ashim Samanta	6
Dr. Pandit Palande	5
Mr. Partho Datta	7
Mr. Bobby Parikh	7

Compensation Committee
[Total three meetings held]

Name	No. of meetings attended
Mr. C. M. Vasudev	3
Dr. Pandit Palande	3
Mr. Partho Datta	3
Mr. Bobby Parikh	3

Customer Service Committee
[Total four meetings held]

Name	No. of meetings attended
Mr. C. M. Vasudev	4
Dr. Pandit Palande	3
Mr. A. N. Roy	4
Mr. Aditya Puri	4
Mr. Keki Mistry[2]	Nil

Credit Approval Committee
[Total sixteen meetings held]

Name	No. of meetings attended
Mrs. Renu Karnad[1]	10
Mr. Ashim Samanta	14
Mr. Bobby Parikh	16
Mr. Aditya Puri	12
Mr. Harish Engineer	14
Mr. Keki Mistry[2]	1

Risk Policy & Monitoring Committee
[Total five meetings held]

Name	No. of meetings attended
Mr. C. M. Vasudev	5
Mr. Aditya Puri	5
Mrs. Renu Karnad	5
Mr. Partho Datta	5
Mr. Paresh Sukthankar	4

Fraud Monitoring Committee
[Total four meetings held]

Name	No. of meetings attended
Mr. C. M. Vasudev	4
Mr. Aditya Puri	4
Mr. Partho Datta	4
Mr. A. N. Roy	4
Dr. Pandit Palande	3
Mr. Keki Mistry[2]	Nil

Premises Committee
[Total five meetings held]

Name	No. of meetings attended
Mrs. Renu Karnad	5
Mr. Ashim Samanta	4
Mr. Aditya Puri	5
Dr. Pandit Palande	4

Nomination Committee
[Total two meeting held]

Name	No. of meetings attended
Mr. C. M. Vasudev	2
Mr. Ashim Samanta	2
Dr. Pandit Palande	1

Investor Grievance (Share) Committee
[Total five meetings held]

Name	No. of meetings attended
Mr. Ashim Samanta	5
Mr. A. N. Roy	5
Mr. Paresh Sukthankar	4
Mr. Aditya Puri	5

[1] *Ceased to be a member of the Committee w.e.f March 1, 2012*

[2] *Inducted as a member of the Committee w.e.f. March 1, 2012*

OWNERSHIP RIGHTS

Certain rights that a shareholder in a company enjoys are as follows:

- To transfer shares and receive share certificates upon transfer within the period prescribed in the Listing Agreement.
- To receive notices of general meetings, annual report, the balance sheet and profit and loss account and the auditors' report.
- To appoint a proxy to attend and vote at the general meetings. In case the member is a body corporate, to appoint a representative to attend and vote at the general meetings of the company on its behalf.
- To attend and speak in person at general meetings. A proxy cannot vote on show of hands but can vote on a poll. In case of vote on poll, the number of votes of a shareholder is proportionate to the number of equity shares held by him.
- To demand a poll along with other shareholder(s) who collectively hold 25,000 shares or are not less than 1/10th of the total voting power in respect of any resolution. As per the Banking Regulation Act, 1949, the voting rights on a poll of a shareholder of a banking company are capped at 10% of the total voting rights of all the shareholders of the banking company.

- To requisition an extraordinary general meeting of any company by shareholders who collectively hold not less then 1/10th of the total paid-up capital of the company.
- To move amendments to resolutions proposed at meetings
- To receive dividend and other corporate benefits like rights, bonus shares etc. as and when declared / announced.
- To inspect various registers of the company, minute books of general meetings and to receive copies thereof after complying with the procedure prescribed in the Companies Act, 1956.
- To make nominations in respect of shares held by the shareholder.

  The rights mentioned above are prescribed in the Companies Act, 1956 and Banking Regulation Act, 1949, wherever applicable, and should be followed only after a careful reading of the relevant sections. These rights are not necessarily absolute.

GENERAL BODY MEETINGS

(During previous three financial years)

Meeting	Date and Time	Venue	No. of Special Resolutions passed
17th AGM	July 6, 2011 at 2.30 p.m.	Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020	1
16th AGM	June 30, 2010 at 2.30 p.m.	Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020	1
15th AGM	July 14, 2009 at 2.30 p.m.	Ravindra Natya Mandir, Sayani Road, Prabhadevi, Mumbai 400 025	3

POSTAL BALLOT

During the year under review, no resolutions were passed through postal ballot and no special resolution is proposed to be conducted through postal ballot.

DISCLOSURES

During the year, the Bank has not entered into any materially significant transactions, which could have a potential conflict of interest between the Bank and its promoters, directors, management and / or their relatives, etc. other than the transactions entered into in the normal course of business. The senior management of the Bank has made disclosures to the Board confirming that there are no material, financial and / or commercial transactions between them and the Bank which could have a potential conflict of interest with the Bank at large. Details of related party transactions entered into during the year ended March 31, 2012 are given in Schedule 18 Note No. 23 forming part of 'Notes to Accounts'.

During the year 2011-12, the RBI imposed a penalty of ₹ 15 lakhs on the Bank under the Banking Regulation Act, 1949. This was in relation to few specific derivative transactions entered into with different counterparties in the year 2007.

The Bank has been offering derivative products to its customers over the last 10 years. The Bank has been following the regulatory guidelines advised by the RBI from time to time. The RBI came out with detailed comprehensive guidelines for derivatives in April, 2007 which pertain to the rupee derivatives and in absence of any specific guideline, the Bank adopted the same even for the foreign currency derivatives. The guidelines were more broad based and the banking industry had offered products which in its view were in line with the guidelines.

The Bank also believed that it had followed all the given regulations while entering into the derivative transactions. In view of the stressed economic environment, RBI interpreted its guidelines in a manner different from what the banking industry had interpreted. This resulted in several banks, including the Bank, being penalized.

The RBI has issued revised guidelines on derivatives last year, which has ensured that the complexity of derivatives is reduced significantly and allows transactions in only plain vanilla derivatives and a combination of vanilla derivatives.

The Bank has improved its risk monitoring system since then and has reworked on its offerings in line with the revised guidelines to its clients and hence now faces a lower risk profile as compared to the earlier period.

During the years 2009-10 and 2010-11, no penalty was levied on the Bank by regulatory authorities in relation to depository activities carried out.

Other than the above, no penalties or strictures were imposed on the Bank by any of the Stock Exchanges or any statutory authority on any matter relating to capital markets, during the last three (3) years.

COMPLIANCE WITH MANDATORY REQUIREMENTS

The Bank has complied with all the mandatory requirements of the Code of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India.

COMPLIANCE WITH NON-MANDATORY REQUIREMENTS

a) Board of Directors

The Bank maintains the expenses relating to the office of the non-executive Chairman of the Bank and reimburses all the expenses incurred in performance of his duties. Pursuant to Section 10-A(2A) of the Banking Regulation Act, 1949, none of the director, other than the Chairman and / or whole-time directors, is permitted to hold office continuously for a period exceeding 8 (eight) years. All the independent directors of the Bank possess the requisite qualifications and experience which enable them to contribute effectively to the Bank.

b) Remuneration Committee

The Bank has set up a Compensation Committee of the Directors to determine the Bank's policy on remuneration packages for all executive directors and employees. The Committee consists of independent directors. Mr. C. M. Vasudev is the Chairman of the Committee.

c) Shareholder's Rights

The Bank publishes its results on its website at **www.hdfcbank.com** which is accessible to the public at large. Besides, the same are also available at **www.corpfiling.co.in**. The Bank's results for each quarter are published in an English newspaper having a wide circulation and in a Marathi newspaper having a wide circulation in Maharashtra. Hence, a half-yearly declaration of financial performance including a summary of the significant events is presently not being sent separately to the household of each shareholder.

d) Audit Qualifications

During the period under review, there is no audit qualification in the Bank's financial statements. The Bank continues to adopt the best practices to ensure a regime of unqualified financial statements.

e) Training of Board Members

The Bank's Board consists of professionals with expertise in their respective fields and industry. The Directors endeavour to keep themselves updated with changes in the global economy and legislation. They attend various workshops and seminars to keep themselves abreast with the changes in the business environment.

f) Mechanism for evaluating non-executive Board Members

The Nomination Committee evaluates the non-executive Board members every year. The performance evaluation of the members of the Nomination Committee is conducted by the Board excluding the Directors being evaluated.

g) Whistle Blower Policy

The Bank has adopted the Whistle Blower Policy pursuant to which employees of the Bank can raise their concerns relating to fraud, malpractice or any other activity or event which is against the interest of the Bank or society as a whole. Details of the complaints received and action taken are reviewed by the Audit and Compliance Committee. The functioning of the Whistle Blower mechanism is reviewed by the Audit and Compliance Committee from time to time. None of the bank's personnel have been denied access to the Audit and Compliance Committee.

SHAREHOLDERS HOLDING MORE THAN 1% OF THE SHARE CAPITAL OF THE BANK AS AT MARCH 31, 2012

Sr. No.	Name of the Shareholder	No. of shares held	% to share capital
1	J P MORGAN CHASE BANK (Depository for ADS)*	393784146	16.78%
2	HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED	393211100	16.76%
3	HDFC INVESTMENTS LIMITED	150000000	6.39%
4	LIFE INSURANCE CORPORATION OF INDIA	142236554	6.06%
5	EUROPACIFIC GROWTH FUND	55666095	2.37%
6	ICICI PRUDENTIAL LIFE INSURANCE COMPANY LIMITED	54933837	2.34%
7	ABU DHABI INVESTMENT AUTHORITY- GULAB	44303767	1.89%
8	GOVERNMENT OF SINGAPORE	27221006	1.16%
9	SBI LIFE INSURANCE CO LIMITED	26078954	1.11%

* One (1) ADS represents Three (3) underlying equity shares of the Bank.

DISTRIBUTION OF SHAREHOLDING AS AT MARCH 31, 2012				
No. of equity shares held	**Folios**	**% to total holders**	**No of shares**	**% to total shares**
Upto 00500	387136	86.43	46790049	1.99
00501 to 01000	32185	7.19	27463907	1.17
01001 to 02000	14699	3.28	22751755	0.97
02001 to 03000	5861	1.31	14752518	0.63
03001 to 04000	1794	0.40	6412550	0.27
04001 to 05000	1336	0.30	6254211	0.27
05001 to 10000	1870	0.42	13329148	0.57
10001 to 50000	1785	0.40	39290546	1.67
50001 and above	1258	0.27	2169643586	92.46
TOTAL	**447924**	**100.00**	**2346688270**	**100.00**

- *369530 folios comprising 2320797910 equity shares forming 98.9 % of the share capital are in demat form*
- *78394 folios comprising 25890360 equity shares forming 1.1 % of the share capital are in physical form*

Sr. No.	CATEGORIES OF SHAREHOLDERS AS AT MARCH 31, 2012		
	Category	**No. of Shares**	**% to Share Capital**
1.	Promoters*	543216100	23.15
2.	ADS Depository (J P Morgan Chase Bank)	393784146	16.78
3.	GDR (Deutsche Bank Trust Co. Americas)	11845645	0.50
4.	Foreign Institutional Investors	720027157	30.68
5.	Overseas Corporate Bodies, Non-Resident Indians, Foreign Bodies & Foreign Nationals	20189537	0.86
6.	Banks, Mutual Funds & Financial Institutions	97602745	4.16
7.	Life Insurance Corporation of India	142236554	6.06
8.	GIC & its subsidiaries	6544200	0.28
9.	Indian Companies	204972487	8.73
10.	Others	206269699	8.80
	Total :	**2346688270**	**100.00**

* None of the equity shares held by the Promoter Group are under pledge.

GLOBAL DEPOSITORY RECEIPTS ("GDR")

The monthly high and low quotation of the Bank's GDRs traded on Luxembourg Stock Exchange are as under: **(in US$)**

Month	Apr-11	May-11	Jun-11	1-13 Jul-11	14-31 Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
High	27.040	26.510	28.000	28.875	5.771	5.535	5.295	5.022	4.925	4.556	4.964	5.410	5.269
Low	25.895	24.710	25.665	27.740	5.515	4.752	4.547	4.446	4.082	3.851	4.007	5.052	4.908

2 GDRs represent one underlying equity share of the Bank

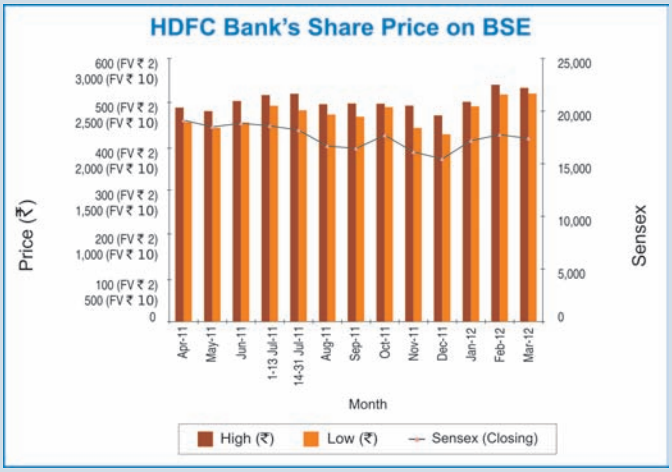
SHARE PRICE / CHART

The monthly high and low quotation of Bank's equity shares traded on Bombay Stock Exchange Ltd (BSE) and National Stock Exchange of India Ltd (NSE) during FY 2011-12 and its performance vis-à-vis BSE SENSEX and S&P CNX NIFTY respectively is as under:

The shareholders of the bank at the AGM held on July 6, 2011 approved the sub-division of One (1) equity share having a face value of ₹ 10/- each into Five (5) equity shares having a face value of ₹ 2/- each. The same was effected in the month of July, 2011.

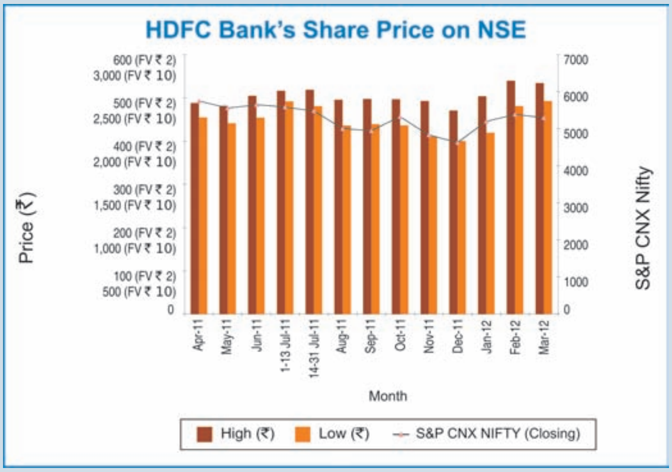
Bombay Stock Exchange Limited

Month / Date	High (₹) FV (₹) 10	High (₹) FV (₹) 2	Low (₹) FV (₹) 10	Low (₹) FV (₹) 2	Sensex (Closing)
Apr-11	2440.00		2275.00		19,135.96
May-11	2400.00		2210.00		18,503.28
Jun-11	2515.00		2270.00		18,845.87
1-13 Jul-11	2582.50		2461.60		18,197.20
14-31 Jul-11		519.50		481.75	18,197.20
Aug-11		495.65		472.20	16,676.75
Sep-11		497.40		467.25	16,453.76
Oct-11		496.90		489.05	17,705.01
Nov-11		492.40		441.45	16,123.46
Dec-11		470.05		427.05	15,454.92
Jan-12		501.05		490.90	17,193.55
Feb-12		540.00		517.80	17,752.68
Mar-12		533.00		520.05	17,404.20



National Stock Exchange of India Limited

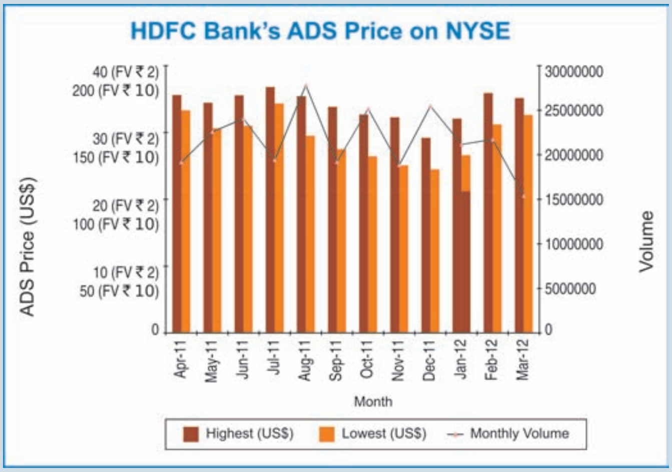
Month / Date	High (₹) FV (₹) 10	High (₹) FV (₹) 2	Low (₹) FV (₹) 10	Low (₹) FV (₹) 2	Nifty (Closing)
Apr-11	2441.05		2275.00		5749.50
May-11	2408.70		2207.80		5560.15
Jun-11	2524.95		2271.95		5647.40
1-13 Jul-11	2583.30		2460.20		5482.00
14-31 Jul-11		519.00		481.10	5482.00
Aug-11		495.95		436.15	5001.00
Sep-11		497.65		439.45	4943.25
Oct-11		497.00		436.55	5326.60
Nov-11		493.00		411.30	4832.05
Dec-11		470.90		400.25	4624.30
Jan-12		504.00		419.50	5199.25
Feb-12		539.90		481.35	5385.20
Mar-12		534.50		493.00	5295.55



The monthly high and low quotation and the volume of Bank's American Depository Shares (ADS) traded on New York Stock Exchange (NYSE) during FY 2011-12

NY Stock Exchange Limited

Month / Date	High ($) FV (₹)10	High ($) FV (₹) 2	Low ($) FV (₹) 10	Low ($) FV (₹) 2	Monthly Volume
Apr-11	178.00		166.50		19167000
May-11	172.16		153.03		22576000
Jun-11	177.78		155.00		24051500
1-22 Jul-11	183.49		172.36		19420000
23-31 Jul-11		36.80		34.33	19420000
Aug-11		35.42		29.50	27794700
Sep-11		33.82		27.50	19184500
Oct-11		32.68		26.42	25152400
Nov-11		32.27		25.07	18843500
Dec-11		29.20		24.47	25454600
Jan-12		32.07		26.60	21157800
Feb-12		35.89		31.21	21717700
Mar-12		35.15		32.61	15395400



Note: Other than the stock options granted to the employees of the Bank which will result in an addition to the equity capital of the Bank on the exercise of the stock options and subsequent allotment of equity shares, the Bank has no outstanding warrants or other convertible instruments as on March 31, 2012 which could have an impact on the equity capital of the Bank

FINANCIAL CALENDAR *[April 1, 2011 to March 31, 2012]*	
Board Meeting for consideration of accounts and recommendation of dividend	April 18, 2012
Posting of Annual Report	June 11, 2012 to June 16, 2012
Book closure for 18th Annual General Meeting	July 1, 2012 to July 13, 2012 (both days inclusive)
Last date of receipt of proxy forms	July 11, 2012 (upto 2.30 pm)
Date, Time and Venue of 18th AGM	July 13, 2012 ; 2.30 p.m.; Birla Matushri Sabhagar, 19, New Marine Lines, Mumbai 400 020
Dividend Declaration Date	July 13, 2012
Probable date of dispatch of dividend warrants	From July 14, 2012 onwards
Board Meetings for considering unaudited results for the first 3 quarters of FY 2012-13	Within 21 days of the end of each quarter.

CODE OF CONDUCT

The Bank has framed and adopted a Code of Conduct, which is approved by the Board. The code is applicable to all the directors and senior management personnel of the Bank. This code has been posted on the Bank's website **www.hdfcbank.com**. All the Directors and senior management personnel have affirmed their compliance with the Code of Conduct / Ethics as approved and adopted by the Board.

LISTING

Listing on Indian Stock Exchanges:

The equity shares of the Bank are listed at the following Stock Exchanges and the annual fees for 2012-13 have been paid:

Sr.No.	NAME AND ADDRESS OF THE STOCK EXCHANGE	STOCK CODE
1.	Bombay Stock Exchange Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 023	**500180**
2.	The National Stock Exchange of India Ltd, Exchange Plaza, 5th Floor, Bandra Kurla Complex, Bandra (East), Mumbai 400 051	**HDFCBANK**

Names of Depositories in India for dematerialisation of equity shares and its International Securities Identification Number (ISIN) :
• *National Securities Depository Limited (NSDL)* • *Central Depository Services (India) Limited (CDSL)* **(INE040A01026)**

Corporate Identification Number of the Bank (CIN) : L65920MH1994PLC080618

International Listing:

Sr. No.	Security description	Name & Address of the Stock Exchange	Name & Address of Depository
1	The American Depository shares **(ADS)** (CUSIP No. 40415F101)	The New York Stock Exchange (Ticker – HDB) 11, Wall Street, New York, N.Y. 11005	J P Morgan Chase Bank, N.A.4, New York Plaza, 13th Floor, New York, NY 10004
2	Global Depository Receipts **(GDRs)** (ISIN / Trading Code : US40415F2002)	Luxembourg Stock Exchange **Postal Address :** 11, av de la Porte-Neuve, L – 2227 Luxembourg. **Mailing Address :** B.P. 165, L – 2011, Luxembourg	Deutsche Bank Trust Company Americas, 2, Boulevard Konrad Adenauer, L – 1115 Luxembourg

The Depository for ADS is represented in India by: J. P. Morgan Chase Bank N.A. , India Sub Custody, J P Morgan Chase Bank NA, 6th Floor, Paradigm "B" Wing, Behind Toyota Showroom, Mindspace, Malad (West), Mumbai - 400 064.

The Depository for GDRs is represented in India by: ICICI Bank Limited, Bandra-Kurla Complex, Mumbai 400 051

SHARE TRANSFER PROCESS

The Bank's shares which are in compulsory dematerialised (demat) list are transferable through the depository system. Shares in physical form are processed by the Registrars and Share Transfer Agents, Datamatics Financial Services Limited and are approved by the Investor Grievance (Share) Committee of the Bank or authorised officials of the Bank. The share transfers are generally processed within a period of fifteen (15) days from the date of receipt of the transfer documents by Datamatics Financial Services Ltd.

MEANS OF COMMUNICATION

The quarterly and half-yearly audited / unaudited financial results are published in the Business Standard in English and Mumbai Sakal in Marathi (regional language). The results are also displayed on the Bank's web-site at **www.hdfcbank.com**. The shareholders can visit the Bank's web-site for financial information, shareholding information, dividend policy, key shareholders' agreements, if any, Memorandum and Articles of Association of the Bank, etc. The web-site also gives a link to **www.sec.gov** where the investors can view statutory filings of the Bank with the Securities and Exchange Commission, USA.

The information relating to the Bank's financial results and shareholding pattern are posted with Corporate Filing & Dissemination System (Corpfiling) at www.corpfiling.co.in through the Stock Exchanges.

Quarterly results, press releases and presentations etc. are regularly displayed on the Bank's website.

CODE FOR PREVENTION OF INSIDER TRADING

The Bank has adopted a share dealing code for the prevention of insider trading in the shares of the Bank. The share dealing code, *inter alia*, prohibits the purchase / sale of shares of the Bank by the employees while in possession of unpublished price sensitive information in relation to the Bank.

INVESTOR HELPDESK

Share transfers, dividend payments and all other investor related activities are attended to and processed at the office of the Registrars and Transfer Agents.

For the lodgement of transfer deeds and any other documents or for any grievances / complaints, the shareholders / investors may contact at the following address:

Ms. Manisha Parkar / Mr. C. R. Rao
Datamatics Financial Services Ltd., Plot No. B 5,
Part B Crosslane, MIDC, Marol, Andheri (East),
Mumbai 400 093, INDIA Tel: 022 - 66712213-14,
Fax: 022 - 28213404; E-mail: hdinvestors@dfssl.com

Counter Timings: 10:00 a. m. to 4:30 p. m.
(Monday to Friday except on public holidays)

For the convenience of investors, transfers upto 500 shares and complaints from investors are accepted at the Bank's Office at :

HDFC Bank Ltd., Legal & Secretarial Department
2nd Floor, Trade House, Kamala Mills Compound,
Senapati Bapat Marg, Lower Parel (West),
Mumbai 400 013, INDIA.

Investor Helpdesk Timings: 10:30 a. m. to 3.30 p. m.
Between Monday to Friday (except on Bank holidays)

Telephone: 022 - 2498 8484 Extn: 3463 & 3476
Fax: 022 - 2496 5235.
Email: shareholder.grievances@hdfcbank.com

Queries relating to the Bank's operational and financial performance may be addressed to :
shareholder.grievances@hdfcbank.com

Name of the Compliance Officer of the Bank :

Mr. Sanjay Dongre, Executive Vice President (Legal) & Company Secretary

Telephone: 022 - 2498 8484 Extn: 3473

BANKING CUSTOMER HELPDESK

In the event of any queries / complaints, the banking customers can directly approach the Branch Manager or can call / write to the Bank using the following contact details :

Location wise list of customer care numbers are available at **http://www.hdfcbank.com/personal/find-your-nearest/find-phone-banking**

Write to:

HDFC Bank Ltd., New Building,
"A" Wing, 2nd Floor, 26-A Narayan Property,
Chandivali Farm Road, Off Saki Vihar Road,
Chandivali, Andheri (East), Mumbai - 400 072
Email: support@hdfcbank.com

Contact us online:
Fill up the "Complaint Form" available at the following website link :
https://leads.hdfcbank.com/applications/webforms/apply/complaint_form.asp

For grievances other than Shareholder grievances please send your communication to the following email addresses:

Depository Services : **dphelp@hdfcbank.com**
Retail Banking / ATM/Debit Cards / Mutual Fund : **support@hdfcbank.com**
Loans; Advances / Advance against shares: **loansupport@hdfcbank.com**
Credit Cards : **customerservices.cards@hdfcbank.com**

COMPLIANCE CERTIFICATE OF THE AUDITORS

The Statutory Auditors have certified that the Bank has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges and the same is annexed to the Annual Report.

The Certificate from the Statutory Auditors will be sent to the Stock Exchanges along with the Annual Report of the Bank.

On behalf of the Board of Directors

C. M. Vasudev
Chairman

Mumbai, April 18, 2012

DECLARATION

I confirm that for the year under review, all the directors and senior management have affirmed their adherence to the provisions of the Code of Conduct.

Aditya Puri
Managing Director

Mumbai, April 18, 2012

A) DIVIDENDS:

Receipt of Dividends through Electronic mode:

The shareholders can avoid inconvenience and hardship in receiving dividends due to postal delays / loss in transit by opting for the receipt of dividend through electronic mode. The shareholders can opt for receiving the dividend credit directly in to their bank accounts by registration of their active Bank account details (including 9 digit MICR Code and IFSC code) with their Depository Participant (DP) in case of shareholding in demat mode or with the Registrar and Share Transfer Agent, viz. Datamatics Financial Services Limited in case of shareholding in physical mode.

To avail of this facility, the shareholders can approach their respective DPs or can request the Registrar and Share Transfer Agent by a letter signed by the first named shareholder, quoting Folio No. and attaching a copy of the cheque leaf where an active Bank account is being maintained and a self attested copy of the Pan card.

Various modes for making payment of Dividends under Electronic mode:

In case the shareholder has updated the complete and correct Bank account details (including 9 digit MICR Code and IFSC code) before the Book Closure fixed for the purpose of payment of dividend, then the Bank shall make the payment of dividend to such shareholder under any one of the following modes:

1. National Electronic Clearing Service (NECS) 2. Electronic Clearing Service (ECS) 3. National Electronic Fund Transfer (NEFT) 4. Real Time Gross Settlement (RTGS) 5. Direct credit in case the bank account is with HDFC Bank Limited.

In case dividend payment by electronic mode cannot be made for some reason, then the Bank will issue a dividend warrant and print the Bank account number available on its records on the said dividend warrant to avoid fraudulent encashment of the warrants.

The Register of Members and the Share Transfer Books shall remain closed from 1st July, 2012 to 13th July, 2012 (both days inclusive) for the purpose of dividend.

Unclaimed Dividends

In terms of the provisions of Section 205C of the Companies Act, 1956, the Bank is statutorily required to transfer to the Investor Education & Protection Fund (IEPF) all dividends remaining unclaimed for a period of 7 (Seven) years from the date they became due for payment. Once such amounts are transferred to IEPF, no claim of the shareholder shall lie against the Bank or the IEPF. Dividends for and up to the financial year ended 31st March 2004 have already been transferred to the IEPF. The details of unclaimed dividends for the financial year 2005-06 onwards and the last date for claiming such dividends are given below:

Dividend for the year ended	Date of Declaration of dividend	Last date for claiming dividend
31st March, 2006	1st June, 2006	30th May, 2013
31st March, 2007	17th June, 2007	16th June, 2014
31st March, 2008	11th June, 2008	10th June, 2015
31st March, 2009	15th July, 2009	14th July, 2016
31st March, 2010	1st July, 2010	30th June, 2017
31st March, 2011	6th July, 2011	5th July, 2018

B) UNCLAIMED SUSPENSE ACCOUNT

Pursuant to the amendments in Clause 5A of the Listing Agreement entered into with the Stock Exchanges, the Bank had sent three reminder letters to its shareholders in respect of unclaimed shares in the previous financial year 2010-11 with a request to respond with their claim on or before 30th April, 2011.

Further during the year 2011-12 the Bank carried out a similar exercise post sub division of shares by sending 3 reminders to the shareholders at the addresses available on the Bank's records as on 8th September, 2011, 15th October 2011 and 21st November, 2011 respectively in co-ordination with Datamatics Financial Services Limited, the Bank's Registrar & Share Transfer Agents. These shareholders were requested to respond with their claims on or before 15th February, 2012. After considering the requests received in this regard, the unclaimed shares were transferred to the 'Unclaimed Suspense Account.'

As on 31st March 2012, there were 26,26,990 shares which are lying unclaimed in the 'Unclaimed Suspense Account' as per the details given below:

Particulars	Folios	Shares (*)
Transferred to Unclaimed Suspense Account	7661	417310
Less: Claims received from the Shareholders	64	8400
Add: Transferred post Sub-Division (share certificates returned undelivered)	6612	2218080
Balance in Unclaimed Suspense Account as on 31st March, 2012	14209	2626990

(*) Equity Shares of the face value of ₹ 2/- each. In July, 2011 the shareholders of the Bank had approved sub division of 1 (One Only) equity share having face value of ₹ 10/- each to the face value of ₹ 2/- each.

HDFC BANK
We understand your world

Notes

Notes

M-powering lives
through MobileBanking solutions

HDFC Bank was the first Bank to launch MobileBanking in India on 1st January, 2000.

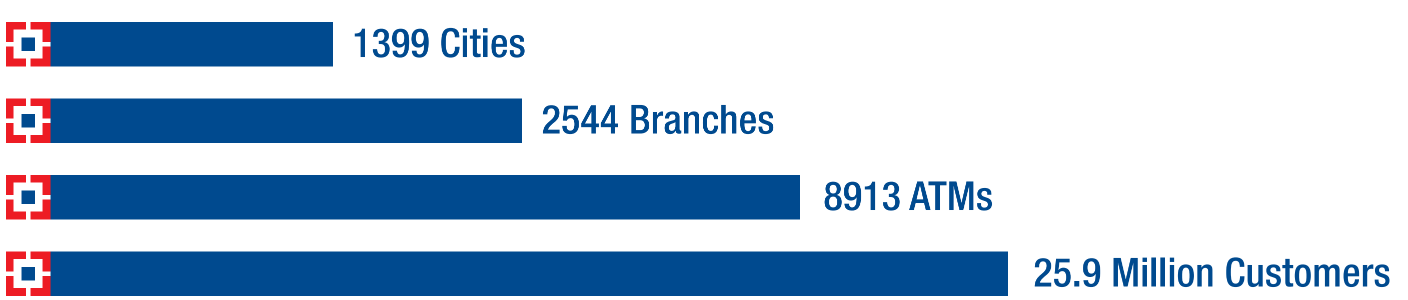
In keeping with our philosophy of leveraging technology to provide banking solutions, HDFC Bank has a slew of MobileBanking options for every segment, be it SMS based or GPRS enabled or capitalising on the launch of 3G services.

To support our Financial Inclusion objectives, HDFC Bank launched a mobile based service allowing customers to conduct banking transactions securely using mobile phones and a Business Correspondent network. Now Mukesh, working in Jaipur, can open an HDFC Bank MobileBank Account using the most basic mobile handset. His mobile account allows him to deposit and withdraw money as well as earn interest. Importantly, it helps him send money home to his family in nearby Sikar.

From the busy professional in Mumbai, balancing her work and home commitments, to the migrant worker in Rajasthan sending money to his family in the village, access to banking services through mobile phones continues to transform lives.

Scan to visit the HDFC Bank Mobile Website

HDFC BANK
We understand your world


1399 Cities
2544 Branches
8913 ATMs
25.9 Million Customers